Risk and Capital Management 2008

The Nykredit Realkredit Group

Nykredit

Contents

Foreword

2008 became a very turbulent year in financial markets. The international financial crisis had a much deeper impact in Denmark than expected, leaving its mark on the Danish financial markets.

The Danish mortgage system proved its strength in stormy 2008. Nykredit was able to issue bonds of DKK 227bn, DKK 116bn of which at the refinancing auctions, at fair prices for our customers for the very reason that the Danish mortgage system builds on sound, basic principles with a direct match between the loans and bonds issued.

By far the greater part of Nykredit's lending consists of match-funded mortgage loans secured on real property. Match-funded lending and the balance principle are the basic principles of Danish mortgage lending. In practice, this means that Nykredit's interest rate risk, liquidity risk and refinancing risk in connection with mortgage lending are negligible.

The strength of Nykredit's bond funding was emphasised by a new AAA rating by Standard & Poor's in November 2008.

Nykredit's credit quality remains high. Within mortgage lending, losses remain low in spite of the financial crisis and declining housing prices, partly because of the mortgage system as such, and partly the relatively low loan-to-value ratios and the requirements for borrowers laid down in our credit policy.

The financial crisis resulted in losses on and negative value adjustments of loans to Danish banks. Moreover, the investment portfolio generated a loss due to the widening of yield spreads and declining prices in equity markets.

Nykredit is alert to the gloomier prospects for the Danish economy and is ready to tackle any changes resulting from the changed economic climate. Owing to Nykredit's long-term credit policy of granting loans against a high degree of security, the Group is prepared for altered economic conditions.

Nykredit pursues a long-term and balanced capital policy to ensure the presence of adequate capital to offer our customers financial solutions at competitive prices, during both favourable and adverse economic trends.

Basel II has now been implemented in Danish legislation for two years. Nykredit has applied the most advanced approach to determine credit risk since the beginning of 2008. On transition from Basel I to Basel II, Nykredit's capital requirement was eased. However, the full effect on the capital requirement will not manifest itself until at the end of 2009 when the transitional rules lapse.

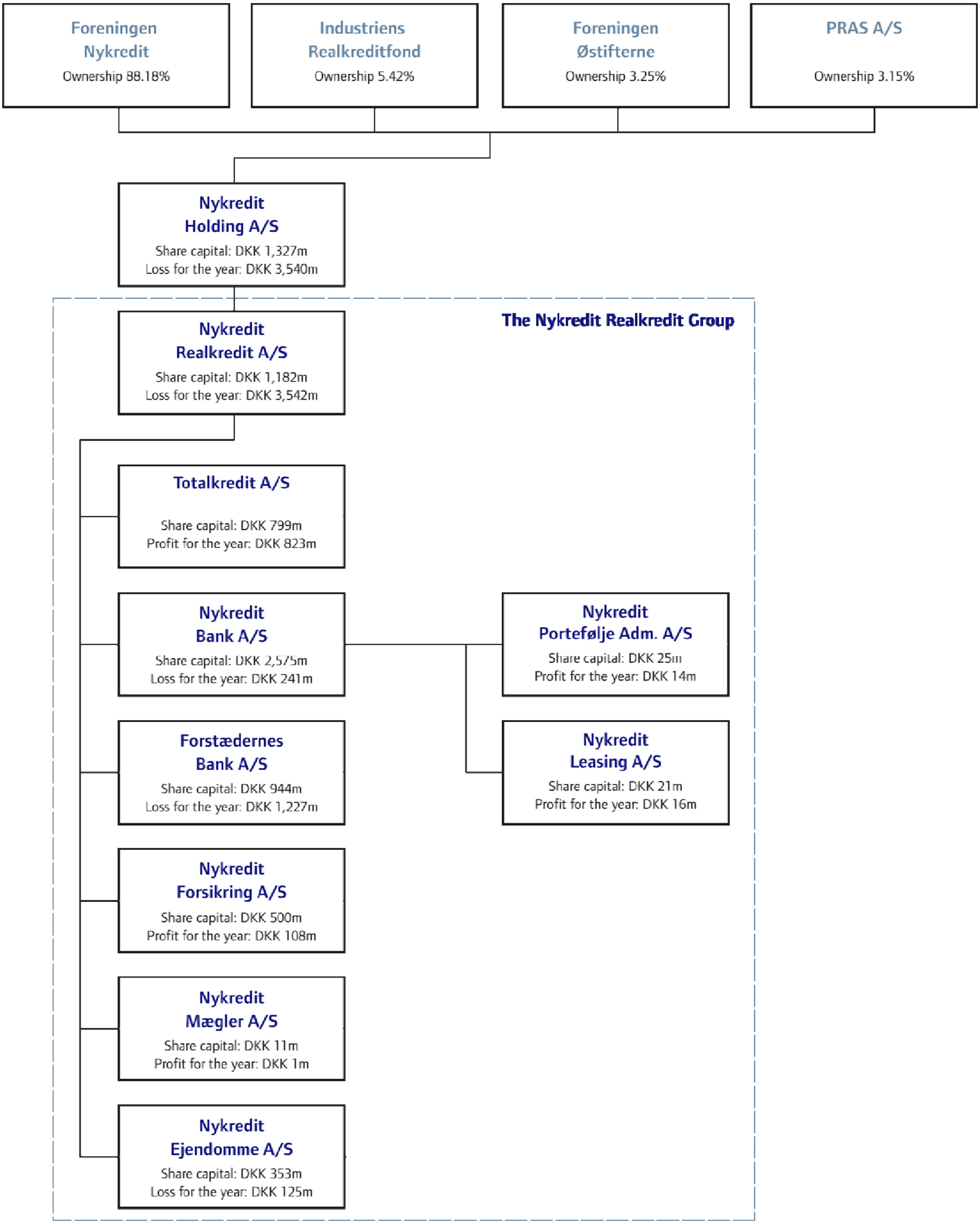
The application of advanced approaches has contributed to a strong risk management foundation, and it is a central element in the determination of our capital policy.

In October 2008, Nykredit acquired Forstædernes Bank. Efforts are made to implement the same risk management models in Forstædernes Bank as those applied in the rest of Nykredit.

Nykredit has a policy of openness about the Group's risk exposures. This report contributes to providing a detailed picture of the risks.

Peter Engberg Jensen
Group Chief Executive

Group chart


Foreningen Nykredit
Ownership 88.18%
Industriens Realkreditfond
Ownership 5.42%
Foreningen Østifterne
Ownership 3.25%
PRAS A/S
Ownership 3.15%
Nykredit Holding A/S
Share capital: DKK 1,327m
Loss for the year: DKK 3,540m
The Nykredit Realkredit Group
Nykredit Realkredit A/S
Share capital: DKK 1,182m
Loss for the year: DKK 3,542m
Totalkredit A/S
Share capital: DKK 799m
Profit for the year: DKK 823m
Nykredit Bank A/S
Share capital: DKK 2,575m
Loss for the year: DKK 241m
Nykredit Portefølje Adm. A/S
Share capital: DKK 25m
Profit for the year: DKK 14m
Forstædernes Bank A/S
Share capital: DKK 944m
Loss for the year: DKK 1,227m
Nykredit Leasing A/S
Share capital: DKK 21m
Profit for the year: DKK 16m
Nykredit Forsikring A/S
Share capital: DKK 500m
Profit for the year: DKK 108m
Nykredit Mægler A/S
Share capital: DKK 11m
Profit for the year: DKK 1m
Nykredit Ejendomme A/S
Share capital: DKK 353m
Loss for the year: DKK 125m

Special Events in 2008

NYKREDIT AND THE FINANCIAL CRISIS

The financial crisis caused Danish bank collapses for the first time in many years. Another consequence of the crisis was expanding yield spreads between high-rated mortgage bonds and government bonds – and plummeting prices of equities and corporate bonds.

Nykredit's core business – lending secured against mortgages on real property – was not significantly affected by the financial crisis, lower housing prices and incipient recession in Denmark. This was mainly due to the Danish mortgage system, which proved efficient in 2008, as losses were low and the funding climate stable. Throughout 2008, the ability to sell newly issued mortgage bonds was maintained, and daily bond sales were unchanged. The large bond auctions in December proceeded according to plan as well.

Credit losses

Notwithstanding the financial crisis and declining property prices, the Group's impairment losses on mortgage loans were only DKK 208m (0.02% of lending) and DKK 414m on other lending to non-financial customers, excluding Forstædernes Bank.

The extraordinary development in the financial markets – not least in Q4/2008 – had a substantial impact on the financial statements of the Nykredit Realkredit Group due to Nykredit's relationships with financial enterprises. The Group recorded a loss before tax of DKK 880m. Excluding Forstædernes Bank, the most important effects were:

- Impairment losses on guarantee obligations to the Private Contingency Association in respect of Roskilde Bank and EBH Bank of DKK 245m.
- Impairment losses on loans and advances relating to EBH of DKK 312m.
- Negative value adjustment of own positions, etc in Markets & Asset Management of DKK 753m, of which DKK 351m concerns ordinary own positions and DKK 402m Kalvebod notes (subordinate loan capital in Danish banks).

Investment portfolio income

The investment portfolio of the Nykredit Realkredit Group, excluding Forstædernes Bank, generated a loss of DKK 2,622m against an income of DKK 150m in 2007.

The loss on the investment portfolio chiefly derived from the widening yield spreads between mortgage and government bonds, as Nykredit has a large portfolio of mortgage bonds in respect of which the interest rate risk has been reduced through an offsetting sale of government bonds and swaps. Lower prices of high-rated bank bonds and equities also contributed to the negative investment portfolio income.

Owing to market trends, the investment portfolio of bonds, liquidity, and interest rate instruments saw a loss of DKK 1,966m of which some DKK 1,600m concerns mortgage bonds, approximately DKK 1,200m high-rated bank issues, and approximately DKK 800m income derived from falling interest rates, etc in 2008.

The value adjustment of equities and equity instruments through profit and loss was negative at DKK 656m.

Capital structure

Nykredit's strong capital structure was decisive for its performance in 2008.

Nykredit applies the IRB approaches in determining its capital requirement for credit risk. Consequently, the statutory capital adequacy requirement and required capital base increase as increasing losses and arrears are observed.

As a financial institution, Nykredit is subject to a capital requirement of 8%. According to Nykredit's estimates, the capital need is 9.8% during a mild recession, while the actual capital adequacy was 14.7% and the core capital ratio 13.5%.

Nykredit has an objective of being able to maintain its lending activities at an unchanged level regardless of economic trends, while keeping a high rating. To this end, Nykredit's equity must be sufficiently large to cover any increase in the statutory capital adequacy requirement and the required capital base in periods of severe recession – also without raising new subordinate loan capital.

Government guarantee scheme

In October 2008, the Danish government and the banking sector (the Private Contingency Association) introduced a guarantee scheme covering deposits with and unsecured claims against Danish banks. Nykredit Bank and Forstædernes Bank joined the agreement.

Exposures to banks covered by the guarantee scheme have a risk weighting of 0% in the capital requirement determination.

The Danish parliament adopted an extended version of the government guarantee scheme in January 2009. The second version offered the possibility of opting for a government guarantee for senior debt and junior covered bonds issued by banks or mortgage banks for up to three years. The guarantee scheme may be applied until the end of 2013.

Commercial and mortgage banks may also apply for a government contribution of hybrid core capital.

ACQUISITION OF FORSTÆDERNES BANK

Nykredit acquired Forstædernes Bank on 17 October 2008. Loans and advances in Forstædernes Bank amounted to DKK 22.3bn at end-2008. In comparison, loans and advances in Nykredit Bank amounted to DKK 75.4bn, while mortgage lending by the Nykredit Realkredit Group totalled DKK 895.5bn measured at fair value.

Impairment losses in Forstædernes Bank from the acquisition date to the turn of the year amounted to DKK 1,358m, of which DKK 1,094m related to impairment provisions for which adjustments were made in the opening balance sheet in connection with the acquisition of the bank. The financial statements of the Nykredit Realkredit Group are therefore only affected by the difference of DKK 264m. The total adjustment relating to impairment provisions in the opening balance sheet amounted to about DKK 1.5bn, of which some DKK 0.4bn remains for future credit losses in 2009 and onwards.

The statements in Risk and Capital Management 2008 are inclusive of Forstædernes Bank at end-2008, but not at end-2007.

The Nykredit Realkredit Group
Loans and advances

DKK million	2008
Lending governed by the balance principle (mortgage loans)	895,463
Other lending (bank loans) – excl reverse transactions	72,734
Total lending	**968,197**

Risk Management

GROUP CHARACTERISTICS

Nykredit's activities comprise mortgage and bank lending, trading in securities and financial instruments, debt capital, asset management, pension and insurance products. The business activities combined with the investment portfolio involve credit, market, liquidity, insurance and operational risk.

Nykredit strives to meet best international practice for risk management and to maintain openness about the Group's risk exposures at any time. Nykredit's advanced models for quantifying group risks are central elements of the Group's risk and capital management.

TYPES OF RISK

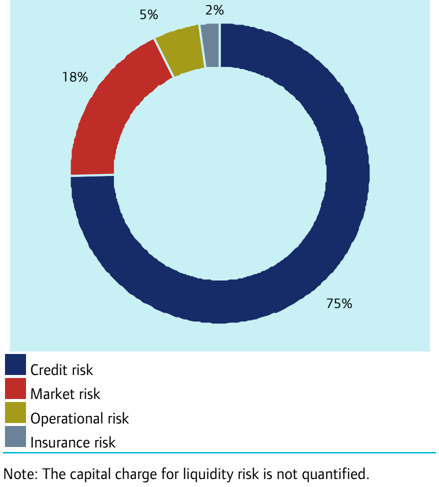
Risk management is the responsibility of the Board of Directors and the Executive Board and is a key element of the Nykredit Group's day-to-day operations. Through risk management, the Group seeks to ensure financially sustainable solutions in the short and long term. Nykredit focuses on balanced risk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

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:

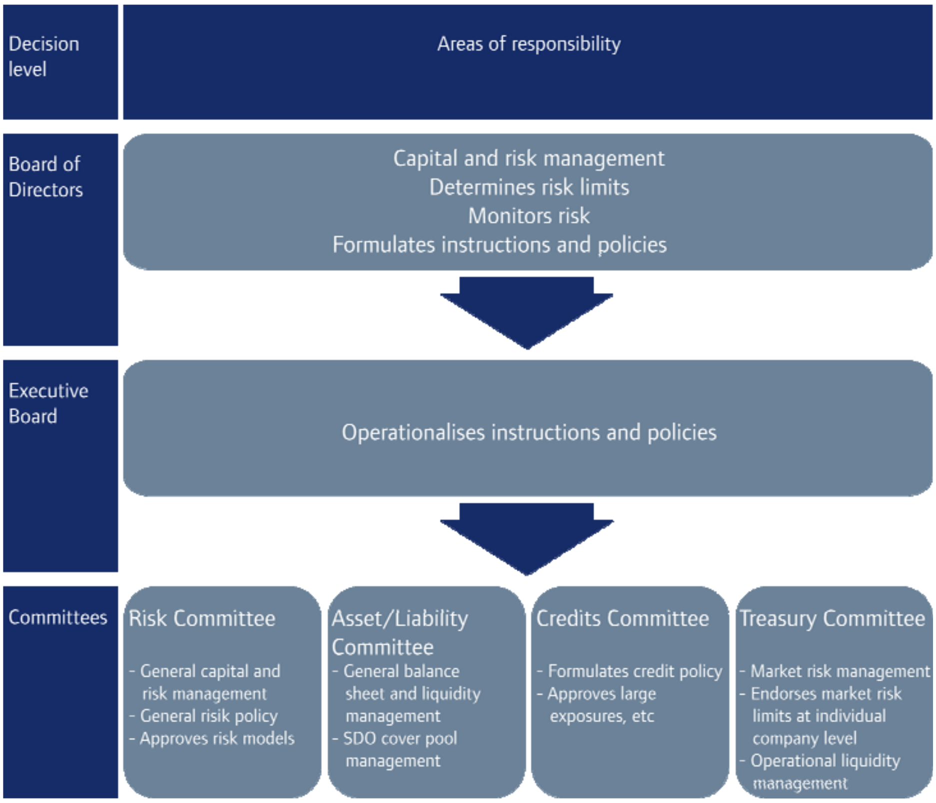
- *Credit risk* reflects the risk of loss following the non-performance of counterparties.
- *Market risk* reflects the risk of loss of market value as a result of movements in financial markets (interest rate, foreign exchange, equity price, volatility risks, etc).
- *Liquidity risk* reflects the risk of loss as a result of insufficient liquidity 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.

The Nykredit Realkredit Group
Risk in general



Note: The capital charge for liquidity risk is not quantified.

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 required capital base, capital need as well as the long-term capital requirement and risk policy
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/semi-annual reporting on key risk areas: ▪ Capital structure, required capital base and capital need ▪ Liquidity risk and SDO risk - Balance principle and investment rules - Liquidity position ▪ SDOs and compliance with statutory requirements ▪ Credit risk - Development in credit risk and parameters, and allocation of ratings - Concentration risk and exposures by size - Development in housing prices and LTV ratios - Loan impairment, arrears and recognised losses ▪ Market risk - Interest rate, foreign exchange and equity price risk (conventional measures and Value-at-Risk) - Credit risk of investment portfolios - Back tests and stress tests ▪ 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, the Credits Committee and the Treasury Committee.

The Risk Committee is charged with assessing all group risks and capital need as well as implementing the capital policy. Furthermore, the Risk Committee approves measurement methods and models 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 Committee lays down liquidity policies for the group companies.

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 reported to the Risk Committee for approval once a year.

Internal Audit reviews the Group's internal models and their application annually. The review includes an assessment of the organisational structure, the estimation of risk parameters and verification that the Group complies with the requirements of the Danish Executive Order on Capital Adequacy and the Danish 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 preceding 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 required capital base and future capital need
Models and methods	Review of analyses and model-related initiatives and changes, including
	▪ New models and risk assessment methods
	▪ Sensitivity analyses and stress tests
	▪ Validation and back tests
Risk reporting	Review and analysis of
	▪ Credit risk, including LTVs
	▪ Market risk
	▪ Liquidity risk
	▪ Operational risk
	▪ Other risk
Legislative measures	Assessment of amendments to financial rules from the Danish FSA and 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)
	Stress tests of free liquidity
Capital structure and balance sheet	Capital structure of group entities
	Current funding levels and funding capacity
SDOs	Assessment of development in prices of mortgaged properties
	Assessment of extent of interim loan guarantees
	Requirement of supplementary security and issuance of junior covered bonds
Business capital	Capital allocation and return
Credits Committee	
Credit policy	Maintenance and development of credit policies
Approval of selected exposures	Approval based on assessment factors such as:
	▪ 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 recommendations	Equity price, interest rate, foreign exchange and credit risk
	Scope for action
Market risk limits	Limits and utilisation of market risk limits in Group Treasury

Capital Requirements

DETERMINATION METHODS

Credit risk

The Nykredit Realkredit Group has been authorised by the Danish Financial Supervisory Authority (FSA) to use the advanced internal ratings-based (IRB) approaches to determine the capital requirement for credit risk in relation to:

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

The foundation IRB approach is applied to determine the capital requirement for credit risk in relation to:

- Commercial lending by Nykredit Bank A/S.

Nykredit is developing models in order that the part of the portfolio subject to the foundation IRB approach may also be determined using the advanced IRB approach in the long term.

The standardised approach is applied to determine the capital requirement for credit risk in relation to:

- Lending by Forstædernes Bank A/S
- Sovereign and credit institution exposures
- Individual minor portfolios.

In the longer term, the aim is to develop models for determining the credit risk relating to lending by Forstædernes Bank A/S according to the IRB approaches.

Market risk

For the determination of the capital requirement for market risk, Nykredit Realkredit A/S has obtained FSA approval to apply a Value-at-Risk model to estimate the general risk for equities and the general risk for instruments of debt and foreign exchange. Only assets in the trading book are included. Empirical correlations are applied across risk groups.

Nykredit Bank A/S has obtained FSA approval to apply a Value-at-Risk model to estimate the general risk for instruments of debt and foreign exchange. The Bank is authorised to apply its own correlations across risk groups.

For market risk in Totalkredit A/S, Forstædernes Bank A/S and 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

All group companies apply the basic indicator approach to determine the capital charge to cover operational risk.

The Nykredit Realkredit Group

Share of total exposure value covered by different approaches to credit risk determination

2008	Advanced IRB approach %	Foundation IRB approach %	Standardised approach %	Total %	Total exposures DKKm
Retail exposures	98.3	-	1.7	100.0	583,051
Of which					
- Mortgages on real property	*99.3*	-	*0.7*	*100.0*	*572,562*
- Revolving exposures, etc	*100.0*	-	-	*100.0*	*3,432*
- Other retail exposures	*16.7*	-	*83.3*	*100.0*	*7,056*
Commercial exposures	75.0	19.9	5.1	100.0	380,193
Credit institution exposures [1]	-	-	100.0	100.0	81,430
Sovereign exposures [2]	-	-	100.0	100.0	41,651
Equity exposures [3]	98.3	-	1.7	100.0	5,419
Assets with no counterparty	79.1	-	20.9	100.0	3,848
Total 2008	**79.1**	**6.9**	**14.0**	**100.0**	**1,095,591**
Total 2007 [4]	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 38.0bn.

[2] Sovereign exposures include government guarantees of a total of DKK 23.4bn.

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

[4] Excl Forstædernes Bank

CAPITAL BASE AND CAPITAL REQUIREMENTS

In 2008 Nykredit determined its capital base and risk-weighted items in accordance with the new capital requirement rules (Basel II). At 31 December 2008, the Group's capital requirement was DKK 28.4bn and risk-weighted items DKK 354.4bn. With the capital base at DKK 52.0bn, this corresponded to a capital adequacy ratio of 14.7%.

The Group's required capital base stood at DKK 34.8bn at end-2008, equal to a capital need of 9.8%. The determination of the required capital base covers the situation during a mild recession and is further described under "Capital management".

Under the transitional rules, the capital requirement may not decrease by more than 10% and 20% in 2008 and 2009, respectively, compared with the rules applied so far (Basel I). On applying the 10% limit, the Group's capital requirement amounted to DKK 47.7bn at 31 December 2008. As a result of the transitional rule, the capital adequacy ratio must be at least 13.5% of risk-weighted items.

The Nykredit Realkredit Group
Capital base

DKK million	31.12. 2008	01.01.2008[1]
Core capital	**50,931**	**54,200**
Statutory deductions from core capital		
Proposed dividend	-	(500)
Intangible assets, including goodwill, and deferred capitalised tax assets	(5,621)	(3,999)
Current loss for the year	(695)	-
Core capital after statutory deductions	**44,616**	**49,701**
Hybrid core capital	4,119	3,622
Core capital incl hybrid core capital after statutory deductions	**48,734**	**53,323**
Other deductions from core capital		
Deduction for insurance business	(175)	(177)
Equity investments, etc >10%	(118)	(169)
Sum of equity investments, etc >10%	-	(663)
Deduction for half the difference between IRB-calculated losses and impairments	(582)	(670)
Deduction for half the expected losses on equity investments	(42)	-
Core capital incl hybrid core capital after statutory deductions	**47,819**	**51,643**
Supplementary capital		
Subordinated debt	4,859	3,722
Revaluation reserves	141	247
Reserves in series	61	68
Total supplementary capital	**5,060**	**4,037**
Statutory deductions from capital base		
Statutory deduction for insurance business	(175)	(177)
Equity investments >10%	(118)	(169)
Sum of equity investments, etc >10%	-	(663)
Deduction for half the difference between IRB-calculated losses and impairments	(582)	(670)
Deduction for half the expected losses on equity investments	(42)	-
Total statutory deductions from capital base	**(916)**	**(1,680)**
Total capital base after statutory deductions	**51,963**	**54,000**

[1] Excl Forstædernes Bank

The Nykredit Realkredit Group
Loan capital

2008	Interest rate	Maturity	Amount, EURm
Hybrid core capital	4.9% until 22.09.2014, then floating	Perpetual	500
Subordinate loan capital	Floating	20.09.2013	500
Total			**1,000**

On applying the 20% limit, the Group's capital requirement amounted to DKK 42.4bn at 1 January 2009. Accordingly, the capital adequacy ratio must constitute at least 12.0% of risk-weighted items at 1 January 2009.

In accordance with section 139 of the Financial Business Act, the core capital and capital base are adjusted for the difference between the IRB-calculated loss and impairments on exposures subject to IRB approaches. In line with FSA guidelines, the IRB-calculated loss is determined based on the Basel parameter Loss Given Default (LGD) for the period 1991-1993, cf "IRB-calculated losses". IRB-calculated losses totalled DKK 2,382m and impairments for accounting purposes relating to IRB exposures totalled DKK 1,218m. Accordingly, total statutory deductions amounted to DKK 1,163m at end-2008. The IRB-calculated loss is a concept applied for regulatory purposes and does not correspond to Nykredit's own loss expectations.

The tables on this page and overleaf show the capital base, capital requirement and capital adequacy as at 31 December 2008 and 1 January 2008 according to Basel II.

Viewed separately, the inclusion of Forstædernes Bank in the consolidated financial statements caused an increase in the capital requirement of DKK 2.4bn.

Excluding Forstædernes Bank, the Group's capital requirement rose by DKK 1.9bn, or 7.9%, since the beginning of the year. The largest rise is attributable to increased market risk, which more than doubled as a result of the effects of the financial crisis.

CONSOLIDATION METHODS

The capital requirement 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
- Forstædernes Bank A/S

Enterprises in which the Nykredit Realkredit Group has 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 consolidated financial statements, but not in the determination of consolidated risk. Rather, the capital charge for Nykredit Forsikring A/S is deducted under the capital base.

Unexercised loan offers, credit and loan commitments, etc are included in exposures in the capital requirement determination. The same applies to guarantees.

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

The Nykredit Realkredit Group
Capital requirement and capital adequacy

DKK million	31.12.2008	01.01.2008[1]
Credit risk		
Retail exposures	6,246	4,793
Of which		
- Mortgages on real property	*5,810*	*4,642*
- Revolving exposures, etc	*34*	*39*
- Other retail exposures	*402*	*112*
Commercial exposures	13,508	11,156
Credit institution exposures	1,003	2,950
Sovereign exposures	0	0
Equity exposures	1,411	1,698
Assets with no counterparty	308	219
Settlement risk	0	0
Total credit risk	**22,475**	**20,817**
Market risk	**4,592**	**2,014**
Operational risk	**1,283**	**1,245**
Total capital requirement	**28,351**	**24,076**
Risk-weighted items	354,385	300,959
Capital base	51,963	54,000
Capital adequacy ratio, %	14.7	17.9
Basel II transitional rule		
Capital requirement under transitional rule [2]	**47,700**	**38,801**
Required capital adequacy ratio (under transitional rules), % [3]	**13.5**	**12.9**

[1] Excl Forstædernes Bank

[2] 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. The capital requirement must as a minimum constitute 90% in 2008 determined under Basel I and 80% in 2009 of the capital requirement.

[3] 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 under the transitional rule.

The Nykredit Realkredit Group
Capital ratios

% of risk-weighted items	31.12.2008	01.01.2008[1]
Capital adequacy requirement	8.0	8.0
Capital need during mild recession	9.8	10.1
Capital need during severe recession	12.5	14.2
Core capital ratio	13.5	17.2
Capital adequacy ratio	14.7	17.9
Required capital adequacy ratio (under transitional rules)	13.5	12.9

[1] Excl Forstædernes Bank

Capital Management

CAPITAL POLICY AND STRUCTURE

Nykredit has an objective of being able to maintain its lending activities at an unchanged level regardless of economic trends, while keeping a high rating. This means that Nykredit's equity must be sufficiently large to cover any increase in the statutory adequacy capital requirement and the required capital base in periods of severe recession – also without raising new subordinate loan capital.

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 application of the IRB approaches, the capital requirement will change as losses and arrears are observed since such changes will affect the estimated risk parameters.
In estimating the risk parameters, Nykredit applies long-term historical data covering all phases of an economic cycle. This ensures that the capital requirement becomes less sensitive to changes in the economy.

Nykredit's business capital corresponds to the statutory required capital base. It expresses the amount of capital required to cover the Group's risks in the medium term and to safeguard the interests of its investors. Nykredit determines the required capital base so that it may cover increased losses and 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 need is based on the ability to cover increased losses and capital requirements during a severe recession.

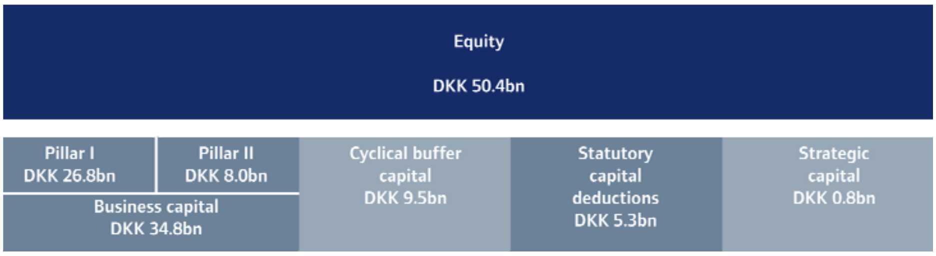
Group equity stood at DKK 50.4bn at end-2008.

Nykredit divides its equity into four elements.

- *Business capital* of DKK 34.8bn equal to the statutory required capital base. Nykredit's estimate of the required capital base is based on a mild recession.
- *Cyclical buffer* of DKK 9.5bn covering the expected rise in the required capital base should the economic climate change from mild to severe recession. The buffer is determined by means of stress tests and scenario analyses.
- *Statutory capital deductions (goodwill, etc)* relating to intangible assets of DKK 5.3bn.
- *Strategic capital* of DKK 0.8bn, the long-term capital maintained for strategic initiatives.

The strategic capital decreased from DKK 6.9bn at the beginning of 2008 to DKK 0.8bn at end-2008, the reasons being the acquisition of Forstædernes Bank, business growth and the negative 2008 results.

The Nykredit Realkredit Group
Capital structure, end-2008



Risks covered by the 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 the required capital base and capital need
Pillar I (confidence level: 99.97%, time horizon: 1 year)
Credit risk (IRB models with own correlations)
Market risk (internal Value-at-Risk model)
Operational risk (standardised approach)
Insurance risk (own 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)
Assessment of other factors, eg:
▪ Control risk
▪ Strategic risk
▪ External risks
▪ Other
Required capital base = Pillars I+II
Cyclical buffer - Pillars I and II during severe recession (stress tests and scenario analysis)
Long-term capital need = required capital base + cyclical buffer

REQUIRED CAPITAL BASE

Pursuant to the Danish Financial Business Act, it is the responsibility of the Board of Directors and Executive Board to ensure that Nykredit has the required capital base (capital adequacy). The required capital base is the minimum capital required in Management's opinion to cover all significant risk.

Nykredit's calculation of the required capital base 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 a 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, the required capital base 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 capital covers other risks as well as an increased capital charge for credit and market risk during a mild recession. The capital charge for credit and market risk during a mild recession is determined by means of stress tests and scenario analyses, cf "Stress tests and capital projection".

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 the required capital base.

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

As part of its capital policy, Nykredit changes and updates its stress tests on an ongoing basis to ensure that they are up to date and realistic in relation to the current economic situation. Any adjustment of scenarios and assumptions will, to a minor extent, affect the level of the required capital base.

STRESS TESTS AND CAPITAL PROJECTION

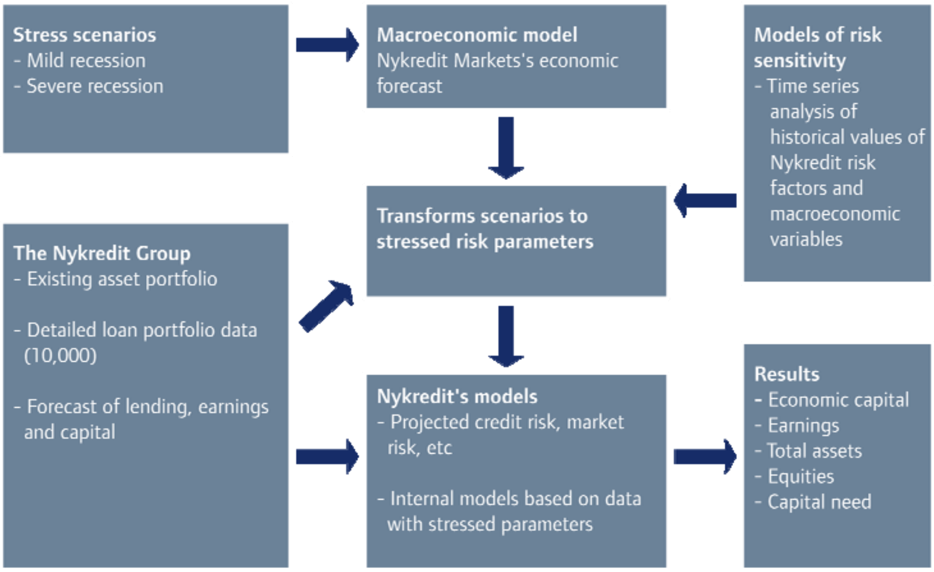
Nykredit uses a range of stress tests and scenario analyses in connection with the determination by the Board of Directors of the required capital base and long-term capital need. A special model has been developed for the purpose of this type of analysis.
The model uses input in the form of the development in a number of macroeconomic key figures as well as in Nykredit's arrears and recognised losses to predict the impact of macroeconomic trends on Nykredit's risk, earnings and capital requirement in two to three years' term. Positive effects in projected operating results are not offset in the determination of the capital requirement.

Nykredit draws on a panel of in-house macroeconomists who define scenarios that reflect conditions of special relevance to Nykredit on the basis of forecasts by Nykredit Markets, for example specific correlations between the development in interest rates and property prices. The scenarios may also include sensitivity tests where only one parameter, eg interest rates, is changed. Each scenario is assessed using different interest rate assumptions.

The results of the model include:

- Detailed risk projections of the development in PD, LGD, exposure volumes, LTVs, expected losses and capital need
- Projections of results, growth and the required capital base in business areas
- Projections of results, total assets, core capital, capital base, required capital base, cyclical buffer and strategic capital at group level.

Structure of models for stress tests and scenario analysis



Stress scenarios for assessment of capital requirement

Scenario	Description
Mild recession	GDP growth falls to a negative 2% in 2009, then rises to 0%
	Property prices drop by 9% in 2009, 6.8% in 2010 and 0% in 2011
	Share prices shed 5% annually
	Unemployment rate rises up to 4.5% in 2011
Severe recession	GDP growth falls to a negative 2.3% in 2009, a negative 1.0% in 2010 and a negative 0.5% in 2011
	Property prices drop by 15% in 2009, 15% in 2010 and 10% in 2011
	Share prices shed 10% in 2009, 10% in 2010 and 5% in 2011
	Unemployment rate rises up to 7.2% in 2011

EXPECTED LOSSES

Nykredit also uses models to simulate group losses under varying economic conditions or in case of a marked change in the economy. The expected loss is a measure of the effect on results to be expected if various scenarios occur.

The scenarios applied include one scenario for the estimated probable development in the economic conditions and one scenario involving severe recession.

In relation to the determination of capital adequacy, the IRB-calculated loss is based on the worst two years of the severe recession in the early 1990s. IRB-calculated losses included in the determination of capital adequacy amount to DKK 2,465bn, while expected losses for 2009 only amount to DKK 700m-1,400m as the current economic climate (unemployment, etc) is far better than was the case in the early 1990s.

The model-based losses are exclusive of Forstædernes Bank. In this regard it should be noted that provisions of approximately DKK 400m were made in the opening balance sheet in connection with the acquisition of Forstædernes Bank to cover expected losses for 2009-2010.

The size of the expected loss should be seen in the light of annual group earnings to the tune of DKK 4bn-5bn. During periods with large losses, the Group furthermore has the option of adjusting the administration margins of both new and existing mortgage loans. During the crisis in the early 1990s, margins of both new and existing loans doubled and have subsequently decreased.

The Nykredit Realkredit Group
Model-based annual expected losses excl Forstædernes Bank

DKK million	2009
Expected loss in probable scenario	
- at unemployment rate of 3%	700-1,400
Expected loss in scenario with severe recession	
- at unemployment rate of just below 5%	1,000-1,600

NYKREDIT'S RATINGS

Nykredit Realkredit A/S, Nykredit Bank A/S as well as the majority of the Group's bond issues are rated by the international rating agencies Moody's and Standard & Poor's.

The Group's bond issuance primarily concerns SDOs and ROs (Danish covered bonds). Furthermore, the Group has issued hybrid core capital and supplementary capital in Nykredit Realkredit, bonds for the funding of supplementary security issued in pursuance of section 33 e of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act (junior covered bonds) as well as bonds as part of the funding programme of Nykredit Bank. Only mortgage bonds used for the funding of index-linked loans and loans disbursed prior to September 1993 are not rated.

In November 2008, Nykredit's covered bonds were assigned a AAA rating by Standard & Poor's. The AAA rating – the highest rating achievable – emphasises Nykredit's good credit strength despite the global financial crisis. The rating confirms that Nykredit's covered bonds are of premium gilt-edged quality.

At the same time, Nykredit Realkredit, which already had a short-term, unsecured rating from Standard & Poor's of A-1, was assigned a long-term unsecured rating of A+, and Nykredit Bank was assigned a short-term deposit rating of A-1 and a long-term deposit rating of A+.

In January 2009, Nykredit Realkredit's junior covered bonds obtained a Aa2 rating from Moody's.

The government guarantee scheme implies that senior debt issued by Nykredit Bank and maturing on or before 30 September 2010 also has the highest possible rating.

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
SDOs, ROs and JCB		
Nykredit Realkredit A/S		
Capital Centre E (covered bonds, SDOs)	Aaa	AAA
Capital Centre E (junior covered bonds, JCBs)	Aa2	-
Capital Centre D (covered bonds, ROs)	Aaa	AAA
Capital Centre C (covered bonds, ROs)	Aa1	AAA
Nykredit In General (covered bonds, ROs)	Aa1	AAA
Totalkredit A/S		
Capital Centre C (covered bonds, ROs)	Aaa	AAA
Other ratings		
Nykredit Realkredit A/S		
Short-term unsecured rating	P-1	A-1
Long-term unsecured rating	Aa3	A+
Supplementary capital (Tier 2)	A1	-
Hybrid core capital (Tier 1)	A2	-
Nykredit Bank A/S		
Short-term deposit rating	P-1	A-1
Long-term deposit rating	Aa3	A+
Bank Financial Strength Rating	C+	
Euro MTN Programme		
- Short-term senior debt maturing on or before 30 September 2010	P-1	A-1+
- Short-term senior debt maturing after 30 September 2010	P-1	A-1
- Long-term senior debt maturing on or before 30 September 2010	Aaa	AAA
- Long-term senior debt maturing after 30 September 2010	Aa3	A+
- Supplementary capital (Tier 2)	A1	A-
- Hybrid core capital (Tier 1)	A2	A-
Euro Commercial Paper programme and Certificate of Deposit Programme		
- Short-term senior debt maturing on or before 30 September 2010	P-1	A-1+
- Short-term senior debt maturing after 30 September 2010	P-1	A-1

Credit Risk

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

By virtue of the Nykredit's size, the credit policy allows for the aim of a suitable market share and an objective of limited losses.
By virtue 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 credit policy has been formulated with a view to uncovering the risk which is affected by changes in economic trends occurring in the period between the granting of the exposures and their settlement.

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.

The granting of exposures over a specified amount is subject to approval by either the Group's Credits Committee or the Board of Directors of Nykredit Realkredit A/S.

At Nykredit Bank, exposures over DKK 50m must be approved by the Group's Credits Committee, while exposures over DKK 200m must be approved by the Board of Directors of Nykredit Realkredit A/S.

As from 1 January 2009, all exposures over DKK 40m at Forstædernes Bank are subject to approval by the Group's Credits Committee, while exposures over DKK 200m must be approved by the Board of Directors of Nykredit Realkredit A/S.

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

For all major customers, a specific unit is charged with the overall responsibility for the credit quality of the exposure, including the valuation of security.

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

As a main rule, mortgage loans to retail customers granted by banks are covered by a set-off agreement for recognised losses. The right of set-off applies to the part of a loan that exceeds 60% of the property value when the loan is issued and applies for the entire loan term. If a loan loss is observed, the Group is entitled subsequently to offset any recognised losses against the commissions paid to the banks for arranging the loan. Expectations are that the greater part of impairment losses in Totalkredit may subsequently be compensated for by a set-off against commission payments to the banks under the set-off agreement.

As a consequence of the set-off agreement, Totalkredit bears the full capital requirement for the loans. The capital charge for credit risk calculated for mortgage lending in Totalkredit came to DKK 4.0bn at 31 December 2008.

The Nykredit Bank Group
Credit exposures

DKK million	2008	2007
Retail exposures	16,386	17,339
Of which		
- Mortgages on real property [1]	11,777	9,570
- Revolving exposures, etc	3,432	3,090
- Other retail exposures	1,177	4,678
Commercial exposures	76,773	76,003
Credit institution exposures	27,960	18,530
Sovereign exposures	534	332
Equity exposures	88	24
Assets with no counterparty	293	99
Total	**122,033**	**112,328**

[1] Incl exposures covered by the set-off principle, cf the agreement with partnership banks.

DETERMINATION OF CREDIT RISK
Despite the international credit crisis in 2008, the Danish economy remains healthy and the credit quality of the Group's customers high. Impairment losses are still very low.

Nykredit is alert to the gloomier prospects for the Danish economy and is prepared to tackle any changes resulting from the changed economic climate. Owing to Nykredit's long-term credit policy of granting loans against a high degree of security, the Group is prepared for altered economic conditions. Coupled with a sturdy capital structure, this enables Nykredit to offer customers financial solutions also in the future.

In the determination of credit risk, exposures are calculated as the sum of the carrying value of actual loans and credit commitments 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 1,096bn at end-2008 (incl Forstædernes Bank) against DKK 1,062bn at end-2007 (excl Forstædernes Bank).

Guarantees issued by banks are recognised as credit institution exposures under mortgage lending. At 31 December 2008, such guarantees amounted to DKK 38.0bn.

Similarly, guarantees issued by sovereigns are recognised as sovereign exposures under mortgage lending. They amounted to DKK 23.4bn at end-2008.

Exposures to Danish banks that have joined the government guarantee scheme introduced in October 2008 to ensure financial stability have a risk weighting of 0% in the capital requirement determination.

Exposures arranged by the local banks were previously covered by guarantees, whereby a large part of the exposure in 2007 was entered under credit institution exposures. These exposures now fall within the set-off agreement and are therefore entered under retail exposures secured against real property.

Retail exposures in Forstædernes Bank are primarily entered under other retail exposures.

The Nykredit Realkredit Group
Credit exposures and capital requirement

2008 DKK million	Mortgage lending	Bank lending	Guarantees issued	Other	Total exposures	*Of which undrawn commitments*	Exposure-weighted average risk weight, %	Capital charge for credit risk
Retail exposures	558,580	21,189	3,282	-	583,051	*10,393*	13.4	6,246
Of which								
- Mortgages on real property	*558,580*	*12,429*	*1,554*	-	*572,562*	*5,920*	*12.7*	*5,810*
- Revolving exposures, etc	-	*3,432*	-	-	*3,432*	*1,509*	*12.4*	*34*
- Other retail exposures	-	*5,328*	*1,728*	-	*7,056*	*2,963*	*71.1*	*402*
Commercial exposures	285,737	83,138	11,318	-	380,193	*19,394*	44.4	13,508
Credit institution exposures	37,941	-	346	43,142	81,430	*2,604*	15.4	1,003
Sovereign exposures	23,480	-	180	17,992	41,651	*24*	-	-
Equity exposures	-	-	-	5,419	5,419	-	325.4	1,411
Assets with no counterparty	-	-	-	3,848	3,848	-	100.0	308
Total 2008	**905,738**	**104,327**	**15,126**	**70,400**	**1,095,591**	*32,416*	**25.6**	**22,475**
Total 2007	856,620	79,141	14,584	111,994	1,062,339	*41,220*	24.5	20,817

The Nykredit Realkredit Group
Credit exposures by maturity

2008 DKK million	Up to 1 year	1 year and up to 5 years	Over 5 years	Total exposure
Retail exposures	24,183	9,960	548,908	583,051
Of which				
- Mortgages on real property	*16,237*	*8,113*	*548,212*	*572,562*
- Revolving exposures, etc	*3,432*	-	-	*3,432*
- Other retail exposures	*4,513*	*1,847*	*696*	*7,056*
Commercial exposures	36,225	35,295	308,673	380,193
Credit institution exposures	43,316	19	38,094	81,430
Sovereign exposures	17,961	250	23,440	41,651
Equity exposures	-	-	5,419	5,419
Assets with no counterparty	3,848	-	-	3,848
Total 2008	**125,533**	**45,524**	**924,534**	**1,095,591**
Total 2007	165,021	31,338	865,980	1,062,339

The Nykredit Realkredit Group
Credit exposures by type of counterparty

2008 DKK million	Retail	Non-profit housing	Private rental housing	Office and retail	Agriculture	Industry and trades	Other	Total exposure
Retail exposures	545,554	408	6,100	5,218	7,357	18,415	-	583,051
Of which								
- Mortgages on real property	*535,201*	*407*	*6,068*	*5,207*	*7,272*	*18,408*	-	*572,562*
- Revolving exposures, etc	*3,407*	*1*	*14*	*3*	*7*	*1*	-	*3,432*
- Other retail exposures	*6,946*	*0*	*18*	*8*	*77*	*6*	-	*7,056*
Commercial exposures	-	22,884	119,496	63,877	58,471	115,464	-	380,193
Credit institution exposures	-	-	-	-	-	-	81,430	81,430
Sovereign exposures	-	-	-	-	-	-	41,651	41,651
Equity exposures	-	-	-	-	-	-	5,419	5,419
Assets with no counterparty	-	-	-	-	-	-	3,848	3,848
Total 2008	**545,554**	**23,291**	**125,596**	**69,095**	**65,828**	**133,880**	**132,347**	**1,095,591**
Total 2007	454,029	22,870	116,907	56,689	73,138	109,456	229,251	1,062,339

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.

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 the risk that a counterparty defaults on its obligations. Moreover, financial contracts with customers involve the risk that 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 counterparty risk. The contractual framework is mainly based on market standards such as ISDA or ISMA agreements.

Nykredit incurs risk on financial counterparties and customers. The largest counterparties and customers are required to provide additional security as their obligations increase.

Capital charges 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 a potential future credit exposure.

The exposure value of counterparty risk was DKK 21.7bn at 31 December 2008 and the capital charge DKK 0.9bn in the Group.

The Nykredit Realkredit Group
Large exposures by group company

2008	Number of large exposures (exposures >10% of capital base)	Sum of large exposures relative to capital base
Nykredit Realkredit A/S	0	0%
Totalkredit A/S	2	26%
Nykredit Bank A/S	8	94%
Forstædernes Bank A/S	6	85%

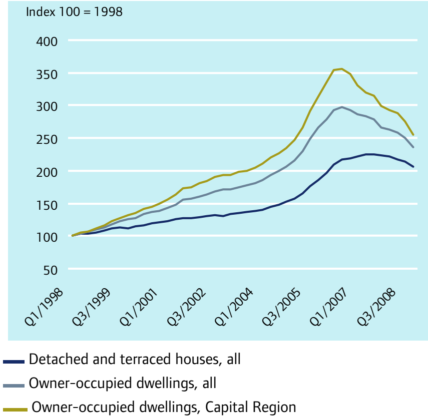
The Nykredit Realkredit Group
Exposures with counterparty risk

2008 DKKm	Market value after netting	Exposure value determined according to market value method	Capital requirement for counterparty risk
Interest rate contracts	864	15,769	636
Foreign exchange contracts	2,576	5,647	234
Equities	0	0	0
Credit derivatives	(135)	239	4
Total	**3,306**	**21,655**	**874**

The Nykredit Realkredit Group
Mortgage lending

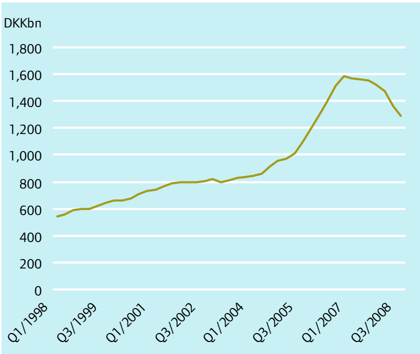
Fair value at 31 December 2008 DKK million	Owner-occupied dwellings	Non-profit housing	Private rental housing	Office and retail	Agriculture	Industry and trades	Other	Total, DKKm/ number
Mortgage loans								
- Bond debt outstanding	557,318	64,508	78,136	71,409	87,274	24,174	12,645	895,463
- Number of loans	641,493	22,928	20,323	18,005	44,774	3,368	2,989	753,880
Bond debt outstanding by loans involving								
- Public-authority guarantees	1	49,565	222	79	324	-	151	50,342
- Bank guarantees	5,117	-	-	-	-	-	-	5,117
- Set-off agreement with banks	385,231	-	-	-	-	-	-	385,231
- No guarantee	166,970	14,942	77,914	71,330	86,949	24,174	12,494	454,773
Total	**557,318**	**64,508**	**78,136**	**71,409**	**87,274**	**24,174**	**12,645**	**895,463**
Bond debt outstanding by loan type								
Fixed-rate loans								
s- repayment loans	176,535	13,308	13,673	13,989	13,517	4,305	4,350	239,667
- interest-only loans	96,704	33	4,801	4,443	3,411	45	77	109,514
Adjustable-rate mortgage loans								
- repayment loans	33,458	18,771	4,829	7,320	11,757	2,016	863	79,015
- interest-only loans	74,217	565	17,914	16,399	15,554	3,590	290	128,530
Money market-linked loans								
Capped								
- repayment loans	79,020	128	2,190	2,271	4,466	374	1,068	89,518
- interest-only loans	95,648	24	1,743	672	3,989	22	121	102,220
Uncapped								
- repayment loans	241	248	4,586	9,531	6,829	5,030	3,900	30,367
- interest-only loans	1,458	204	28,209	16,665	27,311	8,790	1,601	84,239
Index-linked loans	37	31,226	189	117	439	1	375	32,383
Total	**557,318**	**64,508**	**78,136**	**71,409**	**87,274**	**24,174**	**12,645**	**895,463**
Bond debt outstanding by geographic area								
- Metropolitan area	160,580	25,956	30,728	21,783	3,343	2,371	3,772	248,532
- Other Eastern Denmark	60,913	5,326	4,275	3,808	12,429	2,081	1,185	90,017
- Funen	49,603	6,083	5,743	4,835	8,423	873	1,207	76,768
- Jutland	278,738	27,143	28,315	30,997	62,890	15,310	6,477	449,870
- Faroe Islands and Greenland	1,477	-	239	118	-	2	5	1,842
- International	6,006	-	8,835	9,867	189	3,536	-	28,434
Total	**557,318**	**64,508**	**78,136**	**71,409**	**87,274**	**24,174**	**12,645**	**895,463**
Bond debt outstanding by loan ranges, DKKm								
0–2	456,195	7,910	11,182	10,318	23,235	1,533	1,192	511,564
2–5	93,973	9,806	12,387	10,052	26,915	2,292	1,841	157,266
5–20	6,665	27,847	23,792	17,595	31,776	5,358	4,711	117,744
20–50	486	14,176	11,669	9,670	4,346	3,524	2,894	46,765
50–100	-	3,375	3,859	6,129	811	2,041	829	17,043
100–…	-	1,393	15,247	17,645	191	9,425	1,179	45,080
Total	**557,318**	**64,508**	**78,136**	**71,409**	**87,274**	**24,174**	**12,645**	**895,463**
Bond debt outstanding by remaining loan term, years								
0–10	12,903	3,594	3,263	13,166	2,590	3,915	761	40,193
10–15	20,991	4,615	2,320	9,552	3,194	4,621	1,254	46,548
15–20	32,597	10,495	12,662	32,960	5,380	10,270	3,413	107,777
20–25	97,016	13,785	10,232	2,354	16,656	70	1,611	141,724
25–30	393,812	7,097	49,489	13,375	59,453	5,298	5,554	534,079
30–35	0	10,219	132	-	-	-	51	10,403
35–…	-	14,702	37	1	-	-	-	14,740
Total	**557,318**	**64,508**	**78,136**	**71,409**	**87,274**	**24,174**	**12,645**	**895,463**

Housing prices in Denmark



Source: Association of Danish Mortgage Banks

Development in equity in Denmark



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. Group mortgage lending at fair value increased from DKK 823bn at end-2007 to DKK 895bn at end-2008.

The portfolio is highly diversified in terms of loan type, geography, loan term and size of debt outstanding. The greater part of the portfolio is residential mortgages in Denmark, which accounted for 62% of total mortgage lending at 31 December 2008.

Geographically, around half of the loan portfolio relates to Jutland and one third to the metropolitan area. The share of foreign lending represented 3% at 31 December 2008. Foreign lending comprises Nykredit's activities in England, Norway, Poland, Sweden, Germany and Spain. Around one-fifth of foreign lending is residential mortgages.

The share of loans with interest-only periods was 47% of total mortgage lending in 2008, while the share of adjustable-rate mortgage (ARM) loans was 9%. For commercial customers, mortgage lending cannot be viewed separately from the total financial exposures, including swap agreements.

Development in housing prices

The latest price statistics published by the Association of Danish Mortgage Banks show a decrease in prices at national level of detached and terraced houses of 7.8% from Q4/2007 to Q4/2008. Prices of owner-occupied flats decreased by 14.4% in the capital and by 11.5% at national level.

Following a long period of rising home equity in Denmark, home equity decreased by 17% from Q3/2007 to Q3/2008 throughout Denmark.

Loan-to-value ratios (LTVs)

Nykredit follows the development in LTVs very closely. In practice, customers' debt outstanding relative to property values is monitored on an ongoing basis. For the purpose of the ongoing monitoring of property values, statistical models approved by the Danish FSA are applied. The models are applied to detached houses, holiday homes and owner-occupied flats that satisfy specific requirements for LTV ratios, risk classification and time since the last valuation. The statistical valuations are performed centrally and supplemented by local valuations.

To ensure a sustainable credit and capital policy in the long term, scenario analyses are conducted that assess the effects of marked price decreases in the housing market. In the scenarios, the development in future LTVs for different property types are analysed as well as the consequences thereof.

LTVs are an important factor in the credit models for determining a customer's credit quality. Customers with low LTVs generally have higher ratings than customers with high LTVs.

The tables overleaf break down the Group's lending by LTV range and type of property. The proportion of lending covered by guarantees provided by public authorities has been deducted. Public authority guarantees reduce the credit risk relating to subsidised housing that is included in the lending for the category "Non-profit housing". For this reason, LTV figures for non-profit housing contain no relevant information on risk.

The debt outstanding is continuously distributed by LTV category. In the table, 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, 67% of mortgage lending falls within 40% of the property values.

The so-called year-specific LTV reflects the current LTV ratio of a loan disbursed in a specified year. The table below illustrates residential mortgage loans disbursed in the period 2005-2007 when prices at national level peaked. The table compares the original LTV ratios at the time of disbursement and the current LTV ratios at 31 December 2008.

Private residential mortgage debt outstanding relative to estimated property values and customer quality

Fair value 2008	LTV (loan-to-value)					
%	0-20	20-40	40-60	60-80	Over 80	Total
Good ratings (rating categories 7-10)	44	34	18	4	0	100
Medium ratings (rating categories 4-6)	30	30	28	11	1	100
Weak ratings (rating categories 0-3)	29	28	27	15	2	100
Total	**36**	**32**	**23**	**8**	**1**	**100**

Further detailed information on the Group's portfolio of mortgage loans is available under "Cover pool statistics" at nykredit.com/coverpool.

The Nykredit Realkredit Group
Debt outstanding relative to estimated property values

Fair value 2008				LTV (loan-to-value)					
DKK million	0-20	20-40	40-60	60-80	80-100	Over 100	Total	LTV, median[1] %	LTV, average %
Owner-occupied dwellings	202,275	175,338	129,487	46,936	2,923	360	557,318	29	61
Private rental housing	27,979	22,103	19,127	8,304	623	0	78,136	30	63
Industry and trades	10,298	8,384	4,752	524	217	0	24,174	24	49
Office and retail	29,266	24,484	16,060	1,413	184	0	71,409	25	51
Agriculture	40,759	29,309	14,550	1,891	765	0	87,274	22	48
Non-profit housing	-	-	-	-	-	-	64,508	-	-
Other	5,508	3,946	2,433	655	104	0	12,645	24	48
Total 2008	**316,085**	**263,564**	**186,410**	**59,723**	**4,815**	**360**	**895,463**	**27**	**58**
Total 2007	316,143	237,587	151,519	46,929	4,885	551	757,613	24	55

Note: The table allows for any financed costs of up to 2% of loans. Eg the 60-80% range includes loans with LTVs of up to 82%.
[1] Determined as the mid part of the debt outstanding relative to estimated property values.
[2] Determined as the top part of the debt outstanding relative to estimated property values.

The Nykredit Realkredit Group
Debt outstanding relative to estimated property values

Fair value 2008			LTV (loan-to-value)			
%	0-20	20-40	40-60	60-80	80-100	Over 100
Owner-occupied dwellings	36	31	23	8	1	0
Private rental housing	36	28	24	11	1	0
Industry and trades	43	35	20	2	1	0
Office and retail	41	34	22	2	0	0
Agriculture	47	34	17	2	1	0
Non-profit housing	-	-	-	-	-	-
Other	44	31	19	5	1	0
Total 2008[1]	**35**	**29**	**21**	**7**	**1**	**0**

[1] Based on debt outstanding incl non-profit housing, whereby the sum total does not constitutes 100%.

The Nykredit Realkredit Group
Change in debt outstanding relative to property values in 2008

Fair value 2008			LTV (loan-to-value)			
%	0-20	20-40	40-60	60-80	80-100	Over 100
Owner-occupied dwellings	(2)	(1)	1	1	0	0
Private rental housing	(6)	2	4	1	(1)	(1)
Industry and trades	(11)	4	6	1	0	0
Office and retail	(9)	4	8	0	(1)	(1)
Agriculture	(6)	1	3	1	0	1
Non-profit housing	-	-	-	-	-	-
Other	(6)	2	5	0	(1)	0
Total change	**(3)**	**1**	**2**	**1**	**0**	**0**

Nykredit Realkredit A/S

Mortgage debt outstanding relative to original and estimated property values for loans disbursed in selected years

Owner-occupied dwellings

Fair value 2008			LTV (loan-to-value)			
DKK million	0-20	20-40	40-60	60-80	Over 80	Total
Loans disbursed in 2005						
- balance at 31.12.2005 [1]	24,707	23,316	19,206	11,312	88	78,629
- balance at 31.12.2008 [2]	20,708	16,647	8,415	2,022	204	47,996
Loans disbursed in 2006						
- balance at 31.12.2006	17,525	16,368	13,020	6,848	49	53,809
- balance at 31.12.2008	15,326	13,866	9,423	3,134	360	42,109
Loans disbursed in 2007						
- balance at 31.12.2007	13,845	12,953	10,280	5,208	59	42,344
- balance at 31.12.2008	12,807	11,902	8,961	3,731	377	37,777

[1] Defined as the bond debt outstanding on properties for which loans were disbursed in 2005. LTV has been calculated on the basis of the original property value in 2005 and the nominal value of the loan.
[2] Defined as the fair value of the debt outstanding on properties for which loans were disbursed in 2005. LTV has been calculated on the basis of the estimated property value and the fair value of the debt outstanding on the loan.

Totalkredit A/S

Mortgage debt outstanding relative to original and estimated property values for loans disbursed in selected years

Owner-occupied dwellings

Fair value 2008			LTV (loan-to-value)			
DKK million	0-20	20-40	40-60	60-80	Over 80	Total
Loans disbursed in 2005						
- balance at 31.12.2005 [1]	42,297	41,094	37,443	29,945	1,105	151,884
- balance at 31.12.2008 [2]	36,080	32,209	19,490	4,931	1,948	94,658
Loans disbursed in 2006						
- balance at 31.12.2006	32,835	31,789	28,903	23,264	891	117,682
- balance at 31.12.2008	28,779	27,306	22,292	9,011	2,850	90,237
Loans disbursed in 2007						
- balance at 31.12.2007	32,884	31,753	28,764	22,919	927	117,247
- balance at 31.12.2008	31,135	29,822	25,883	14,637	3,465	104,943

[1] Defined as the bond debt outstanding on properties for which loans were disbursed in 2005. LTV has been calculated on the basis of the original property value in 2005 and the nominal value of the loan.
[2] Defined as the fair value of the debt outstanding on properties for which loans were disbursed in 2005. LTV has been calculated on the basis of the estimated property value and the fair value of the debt outstanding on the loan.

The Nykredit Realkredit Group

Geographic distribution of mortgage lending for owner-occupied dwellings

Fair value 2008	Exposure DKKbn	Credit risk distribution in %	Average risk weighting, %	Loans, LTV>70% DKKbn	Loans, LTV>100% DKKbn	LTV, average %
Copenhagen City	39.2	3.4	5.8	2.7	0.2	65
Greater Copenhagen	40.1	2.0	3.3	1.9	0.1	61
Northern Sealand	54.3	2.7	3.2	2.1	0.0	60
Eastern Sealand	26.9	1.4	3.4	1.1	0.0	62
Western and southern Sealand	59.5	14.3	15.6	1.9	0.0	62
Funen	49.6	11.6	15.5	1.2	0.0	59
Northern Jutland	69.6	20.0	19.2	1.7	0.0	60
Eastern Jutland	91.7	9.7	7.1	2.8	0.0	61
Western Jutland	44.3	13.7	20.8	1.0	0.0	60
Southern Jutland	73.3	16.7	15.1	1.5	0.0	60
Bornholm	1.4	0.5	23.7	0.0	0.0	60
Greenland and the Faroe Islands	1.5	0.3	18.4	0.0	0.0	67
International	6.0	3.5	36.4	0.4	0.0	64
Total	**557.3**	**100.0**	**11.8**	**18.5**	**0.4**	**61**

BANK LENDING

The credit exposures of the Nykredit Bank Group and Forstædernes Bank totalled DKK 148.6bn at end-2008.

Undrawn commitments amounted to DKK 21.4bn, or 14.4% of the total credit exposure.

The Basel II rules imply that undrawn commitments are subject to capital requirements. In 2008 Nykredit Bank initiated a process of significantly reducing the credit offers and commitments granted to commercial customers.

The Nykredit Realkredit Group
Bank lending

2008 DKK million	Total exposure	*Of which undrawn commitments*	Total capital requirement
Retail exposures	24,471	*5,100*	*755*
Of which			
- Mortgages on real property	*13,983*	*3,258*	*319*
- Revolving exposures, etc	*3,432*	*1,509*	*34*
- Other retail exposures	*7,056*	*332*	*402*
Commercial exposures	94,456	13,837	6,153
Credit institution exposures	27,960	2,421	318
Sovereign exposures	546	24	-
Equity exposures	88	-	6
Assets with no counterparty	1,096	-	88
Total 2008	**148,617**	**21,382**	**7,320**
Total 2007	112,328	34,693	5,365

CREDIT EXPOSURES OF INVESTMENT PORTFOLIOS

Nykredit's securities portfolio consists mainly of Danish and European mortgage bonds. In addition, Nykredit has invested in high-rated bank bonds.

Owing to Nykredit's investment strategy, investments in CDOs, CLOs and US subprime, etc are usually minimal.

With the acquisition of Forstædernes Bank, Nykredit acquired a portfolio of structured bonds, CLOs and hedge funds. The intention is to divest this portfolio while minimising any losses incurred in the process. In the light of the financial crisis and expectations of future credit losses, the portfolio has been written down to DKK 441m.

Furthermore, the Nykredit Realkredit Group holds DKK 1,206m in Kalvebod series I, II, III and IV. The Kalvebod series are structured bank bonds, the cover assets of which are subordinate loan capital and hybrid core capital in Danish local and regional banks. Nykredit Bank is the arranging bank of the Kalvebod series and holds the greater part of Nykredit's portfolio of the notes.

The turmoil in financial markets resulted in a negative market value adjustment of DKK 402m at end-2008 of Nykredit's portfolio of Kalvebod notes.

The value adjustment was mainly due to the general widening of spreads between yields on subordinate loan capital in banks and swap rates. However, the value adjustment of subordinate loan capital in Roskilde Bank also affected the total value adjustment.

On acquiring Forstædernes Bank, Nykredit also acquired a portfolio of Scandinotes. Scandinotes are structured bank notes with cover assets in the form of subordinate loan capital and hybrid core capital in Scandinavian banks. This portfolio amounted to DKK 18m at end-2008.

The Group also invests in equities. By far the greater part of equity investments consists of strategic equities. Nykredit's portfolio of strategic equities amounted to DKK 2,118m at end-2008, of which equities in Danish banks represented DKK 1,114m.

The Nykredit Realkredit Group
Credit exposures of investment portfolios

2008 DKK million	The Nykredit Realkredit Group	Of which Forstædernes Bank
ROs, SDOs and other covered bonds		
Rating of Aa3/AA- or higher	64,556	990
Rating of A1/A+ – Ba1/BB+	377	-
Rating of Ba2/BB or lower	-	-
Not rated	3	-
Total ROs, SDOs and other covered bonds	**64,936**	**990**
Corporate bonds		
Rating of Aa3/AA- or higher	7,428	-
Rating of A1/A+ – Ba1/BB+	2,778	111
Rating of Ba2/BB or lower	206	-
Not rated	2,371	376
Total corporate bonds	**12,783**	**487**
Of which:		
Subordinate loan capital and hybrid core capital in Danish banks [1]	*201*	-
Subordinate loan capital and hybrid core capital in other banks [1]	*1,540*	-
Kalvebod and Scandinotes	*1,224*	*21*
Structured bonds	*270*	*270*
Hedge funds	*905*	*40*
Collateralised Loan Obligations (CLO)	*111*	*111*
Total credit exposure	**77,719**	**1,477**

Note: Kalvebod and Scandinotes are structured bonds based on assets in the form of hybrid core capital and subordinate loan capital in Scandinavian banks.

[1] Excl Kalvebod and Scandinotes.

The Nykredit Realkredit Group
Credit derivatives in the trading book

Nominal value 2008 DKK million	Risk disposed of	Risk received	Total
Financial institutions			
Rating of Aa3/AA- or higher	-	*502*	*502*
Rating of A1/A+ – Ba1/BB+	-	-	-
Rating of Ba2/BB or lower	-	-	-
Not rated	-	-	-
Financial institutions, total	**-**	**502**	**502**
Businesses			
Rating of Aa3/AA- or higher	-	-	-
Rating of A1/A+ – Ba1/BB+	-	37	37
Rating of Ba2/BB or lower	-	74	74
Not rated	-	-	-
Businesses, total	**-**	**111**	**111**
Index	-	691	691
Total credit derivatives, 2008	**-**	**1,304**	**1,304**
Total credit derivatives, 2007	-	1,186	1,186

The Nykredit Realkredit Group
Exposures to the financial sector

2008 DKK million	Market value
Danish financial institutions	
Equities	1,731
Subordinate loan capital and hybrid core capital	3,003
Other	17,238
Danish financial institutions, total	**21,971**
- Of which covered by government guarantee	*15,729*
Foreign financial institutions	
Equities	30
Subordinate loan capital and hybrid core capital	1,232
Other	8,741
Foreign financial institutions, total	**10,004**
- Of which in the USA	*2,081*
- Of which in the euro area and Scandinavia	*7,923*
Total financial exposures, 2008	**31,975**

Note: "Other" comprises other corporate bonds, deposits and bank accounts as well as counterparty risk relating to financial instruments. The figures do not include repo/reverse transactions, covered bonds and other mortgage-backed securities.

NON-PERFORMING EXPOSURES

Continuous individual reviews and risk assessments are conducted of all mortgage and bank exposures of a certain size 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. Minor exposures are reviewed to identify any need for individual provisioning in case of objective evidence of impairment.

Exposures not subject to individual provisioning are subject to collective assessment. Collective impairment provisions are made for groups of customers involving uniform credit risk.

Collective impairment provisions are calculated on the basis of a rating model that uses adjusted key parameters from the advanced credit models for loss calculations. The parameters are adapted to the accounting rules so that they are based on events occurred, cash flows from loans until maturity and discounting of losses to present value.

The Group's impairment provisions for loans and advances totalled DKK 1,179m at end-2008 exclusive of Forstædernes Bank. Of the impairment losses for the year, DKK 245m is at-

The Nykredit Realkredit Group excl Forstædernes Bank
Individual and collective impairment provisions

DKK million	Individual impairment provisions	Collective impairment provisions	2008 Collective impairment provisions total	2007 Collective impairment provisions total
Impairment provisions, beginning of year	176	173	349	406
Impairment provisions for the year	727	247	974	147
Impairment provisions reversed	(60)	(35)	(95)	(158)
Impairment provisions recognised as lost	(49)	-	(49)	(47)
Impairment provisions, year-end	**794**	**385**	**1,179**	**349**
Loans and advances subject to impairment[1]	**1,722**	**898,631**	**900,353**	**22,764**
Impairment	794	385	1,179	349
Loans and advances after impairment	**928**	**898,246**	**899,174**	**22,415**

[1] Impairment approach was changed in 2008

The Nykredit Realkredit Group excl Forstædernes Bank
Impairment provisions

2008 DKK million	Individual impairment provisions	Collective impairment provisions	Total impairment provisions	Total claims in default
Retail exposures	46	103	149	46
Of which				
- Mortgages on real property	*25*	*102*	*127*	*25*
- Revolving exposures, etc	*1*	*1*	*2*	*1*
- Other retail exposures	*20*	*0*	*20*	*20*
Commercial exposures	748	282	1,029	748
Credit institution exposures	-	-	-	-
Sovereign exposures	-	-	-	-
Total	**794**	**385**	**1,179**	**794**

The Nykredit Realkredit Group excl Forstædernes Bank
Impairment provisions affecting operating results

DKK million	2008	2007
Impairment provisions		
Mortgage lending	464	254
Bank lending excl EBH	403	95
EBH	312	-
Total	**1,179**	**349**
Impairment provisions affecting operating results		
Mortgage lending	208	(54)
Bank lending excl Roskilde Bank and EBH	396[1]	(14)
Roskilde Bank and EBH	557	-
Other	18	1
Total	**1,179**	**(67)**

[1] Incl guarantee debtors of DKK 56m

tributable to losses on guarantee obligations to the Private Contingency Association relating to Roskilde Bank and EBH Bank. To this should be added impairment losses of DKK 312m relating to EBH. Group impairment provisions for other loans and advances subsequently came to DKK 622m.

Impairment losses on mortgage loans were DKK 208m, equal to 0.02% of lending. Impairment losses on mortgage loans were affected by an increase in collective impairment provisions of DKK 99m.

Impairment losses on loans and advances in Nykredit Bank excluding Roskilde Bank and EBH came to DKK 396m. Of this amount, DKK 112m was an increase in collective impairment provisions.

Impairment losses on loans and advances in Forstædernes Bank are described further in the Annual Report of the Nykredit Realkredit Group.

The arrears ratio for group mortgage lending remains very low.

The Group's portfolio of properties increased slightly following several years at historically low levels. Since the beginning of the year, the Group foreclosed 79 properties and sold 29 properties. The portfolio counted 57 properties at end-2008. In comparison, Nykredit had a portfolio in the region of 1,500 properties in the early 1990s. The properties repossessed will be sold at the highest possible price, ensuring the best possible satisfaction of Nykredit's claim. Accordingly, the Group's mortgages on properties resulted in a limited amount of impairment losses and provisions.

The Nykredit Realkredit Group
Arrears ratio for mortgage loans 75 days overdue

%	Arrears of total mortgage payments	Bond debt outstanding affected by arrears of total bond debt outstanding
Settlement period		
2008		
- September	0.39	0.58
- June	0.22	0.25
- March	0.21	0.25
2007		
- December	0.16	0.23
- September	0.16	0.19

The Nykredit Realkredit Group
Arrears by settlement month and days overdue

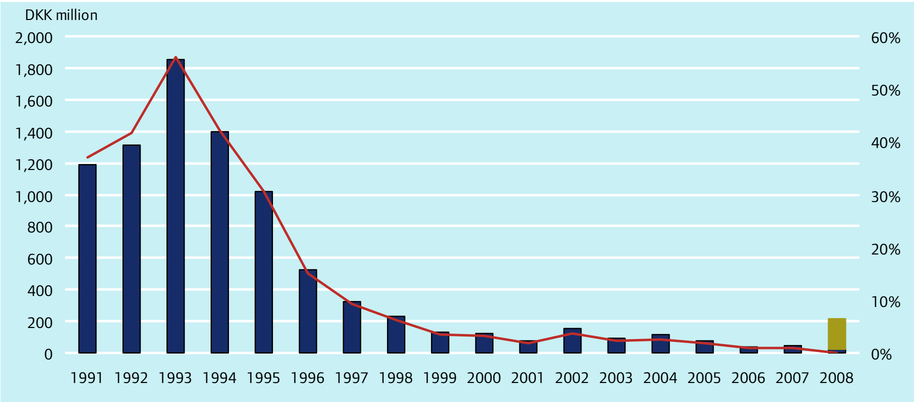
		2008		2007	
DKK million	September	June	March	December	September
Up to 45 days	74	50	42	39	31
45 - 75 days	58	35	29	27	21
75 - 195 days			12	10	7
Over 345 days				3	2

The Nykredit Realkredit Group
Properties repossessed/sold

Number	2008	2007	2006	2005	2004
Addition of dwellings	79	21	28	71	159
Of which owner-occupied dwellings	*70*	*17*	*25*	*59*	*140*
Disposal of dwellings	29	27	34	101	212
Of which owner-occupied dwellings	*22*	*21*	*29*	*86*	*185*
Portfolio of properties, year-end	57	7	13	19	47
Of which owner-occupied dwellings	*51*	*3*	*7*	*12*	*37*

Nykredit Realkredit A/S

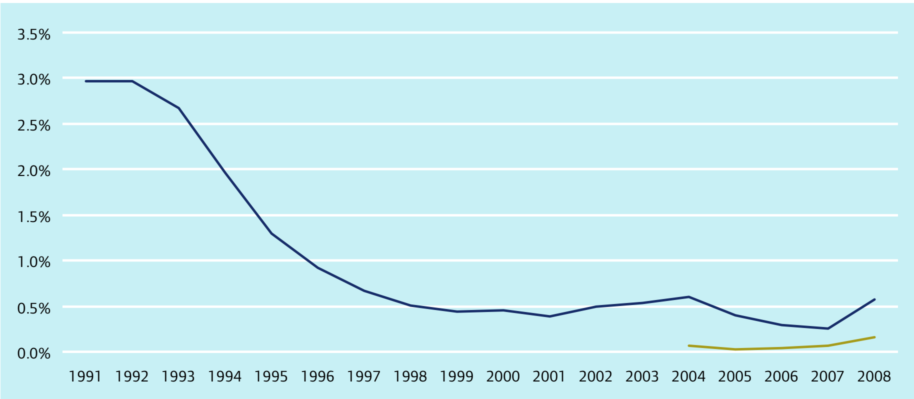
Recognised losses



Recognised losses (lha) Recognised losses relating to Roskilde Bank (lha) Loss ratio (rha)

The Nykredit Realkredit Group

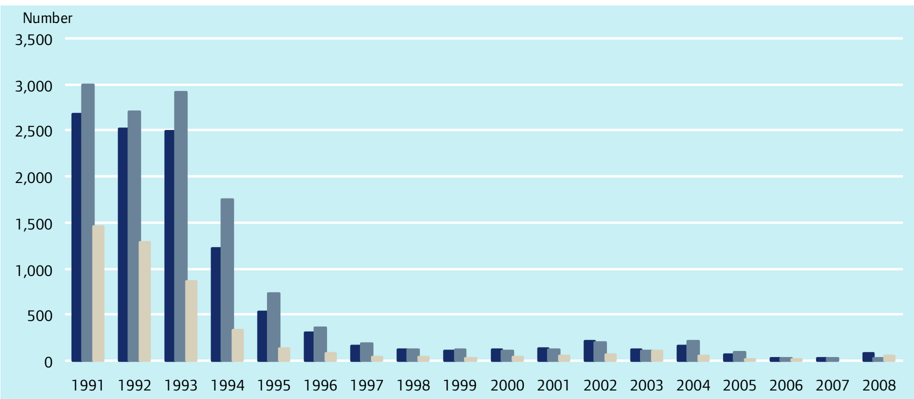
Arrears ratio – 75 days in arrears



Nykredit Realkredit A/S Totalkredit A/S

Nykredit Realkredit A/S

Owner-occupied dwellings repossessed/sold



Addition Disposal Portfolio, year-end

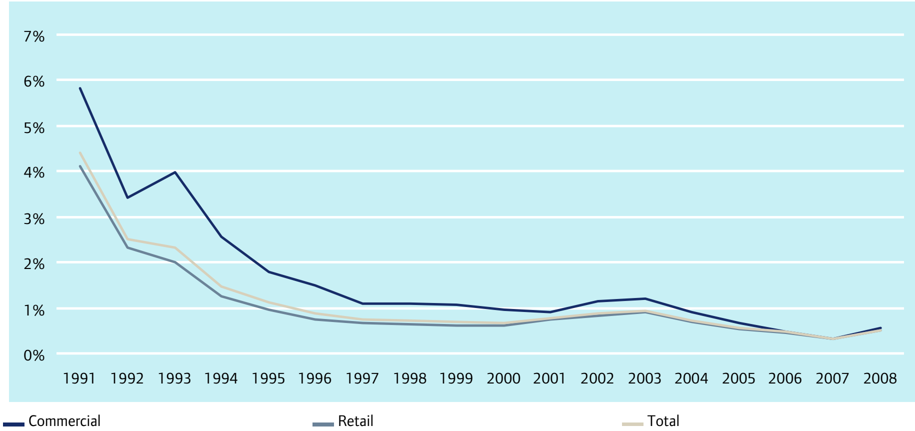
CREDIT RISK MODELS

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, including any drawn part of a credit commitment.

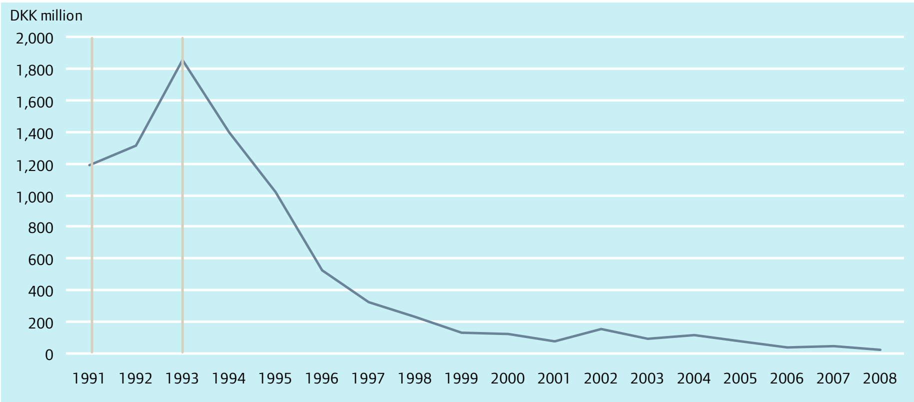
The PD is customer-specific, while the other parameters are product-specific. Therefore, each customer has one PD, while each of the customer exposures has separate LGDs and EVs.

Nykredit Realkredit A/S
Default rate and calibration of PD



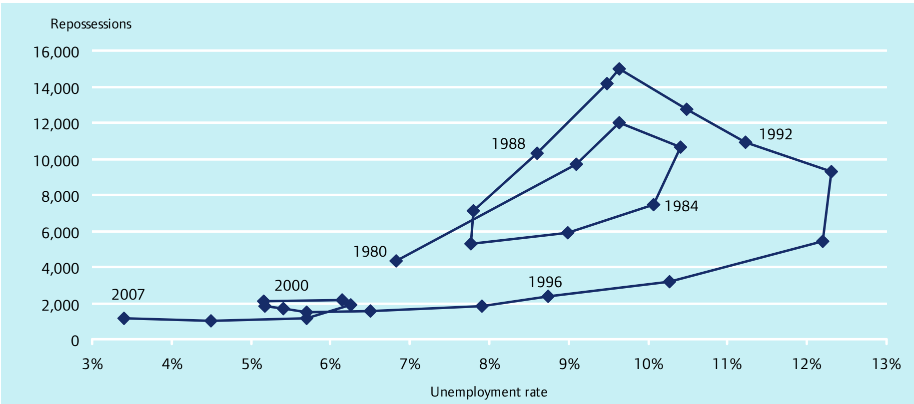
Note: Stated as number of customers

Nykredit Realkredit A/S
Recognised losses and calibration of LGD



Data for LGD level in relation to capital adequacy: 1991-1993. Losses in 2008 are excl losses relating to Roskilde Bank.

The Danish economy
Correlation between unemployment and number of repossessions (1980-2007)



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 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 benefit from the experiences gained during a recession when developing models. For example, in 1993 Nykredit Realkredit A/S recorded losses of DKK 1.9bn and a borrower default rate of 2.34%. In comparison, recognised losses in 2008 amounted to DKK 22m excluding Roskilde Bank and EBH, while the share of borrower defaults on mortgage payments represented 0.51%.

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

LGD ratios are calibrated so that the parameters reflect an economic downturn equal to the period 1991-1993.

The modelling principles are of great importance 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 were based exclusively on current data.

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

An exposure is in default where it is deemed improbable that the customer should 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 its 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 PD of retail customers and small enterprises is determined on the basis of a customer's credit score and payment behaviour. Credit scoring is a statistical calculation of a customer's creditworthiness based on the customer's financial circumstances and other factors. Credit scoring models have been applied at Nykredit Bank since 1998 and at Nykredit Realkredit since 2000.

With respect to other customer segments, 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 are made 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 trends (point-in-time estimates).

The table below shows applied PD stated as point-in-time PD (current value), observed PD (current value), and applied PD, the latter being used to calculate the capital requirement at year-end.

The PD estimates applied for calculating the capital requirement are estimated on the basis of 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.

The Nykredit Realkredit Group
Probability of Default (PD)

%	Point-in-time PD Beginning of 2007	Observed PD End-2007	Applied PD End-2007	Point-in-time PD Beginning of 2008	Observed PD End-2008	Applied PD End-2008
Retail exposures	0.45	0.15	0.90	0.46	0.41	0.96
Of which						
- Mortgages on real property	*0.45*	*0.14*	*0.89*	*0.46*	*0.41*	*0.96*
- Revolving exposures, etc	*0.14*	*0.15*	*1.12*	*0.20*	*0.51*	*0.80*
- Other retail exposures	*0.27*	*0.85*	*1.18*	*1.02*	*0.86*	*1.21*
Commercial exposures	0.73	0.13	1.22	0.74	0.40	1.44
Total	**0.56**	**0.14**	**1.03**	**0.56**	**0.41**	**1.14**

Note: Exposure-weighted. Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

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

2008 Rating category	PD floor %	PD ceiling %	Average applied PD %
10	> 0.00	≤ 0.15	0.11
9	> 0.15	≤ 0.25	0.21
8	> 0.25	≤ 0.40	0.33
7	> 0.40	≤ 0.60	0.50
6	> 0.60	≤ 0.90	0.74
5	> 0.90	≤ 1.30	1.09
4	> 1.30	≤ 2.00	1.61
3	> 2.00	≤ 3.00	2.43
2	> 3.00	≤ 7.00	4.22
1	> 7.00	≤ 25.00	11.57
0	> 25.00	< 100.00	44.77
Exposures in default	100.00		100.00

Note: Average applied PD has been weighted by exposure. Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

Customer ratings are 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 assigned by a credit specialist.

The Nykredit Realkredit Group
Retail exposures covered by IRB

2008 Rating category	Total exposure DKK million	Of which undrawn commitments DKK million	Exposure-weighted average LGD [1] %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	16,232	557	7.2	1.6	21
9	44,075	841	6.6	2.7	95
8	81,111	961	7.7	4.5	293
7	107,766	974	8.9	7.2	621
6	135,097	1,471	10.6	11.1	1,195
5	104,645	1,368	12.6	16.8	1,408
4	50,099	1,055	15.0	26.0	1,043
3	17,563	347	14.1	30.9	435
2	9,534	125	13.6	42.8	326
1	4,208	38	14.6	70.3	237
0	760	10	14.7	80.9	49
Exposures in default[2]	1,945	12	10.9	19.8	31
Total	**573,035**	**7,760**	**10.4**	**12.6**	**5,754**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal 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 charge. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the 10% requirement, cf section 11 of the Executive Order.

[2] The calculation of capital requirements for exposures in default is based on the difference between LGDs and individual impairment provisions.

The Nykredit Realkredit Group
Commercial exposures covered by IRB

2008 Rating category	Total exposure DKK million	Of which undrawn commitments DKK million	Exposure-weighted average LGD [1] %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	14,623	1,657	19.6	17.2	201
9	30,546	2,269	15.6	19.4	474
8	77,661	3,978	17.3	26.1	1,623
7	80,519	3,343	18.1	33.4	2,152
6	44,111	1,788	20.7	42.6	1,503
5	32,741	1,040	20.1	49.4	1,295
4	25,418	727	21.2	60.9	1,238
3	22,566	736	20.3	65.1	1,176
2	22,252	1,846	22.0	75.6	1,345
1	6,268	255	21.2	97.5	489
0	2,456	113	21.1	103.3	203
Exposures in default [1]	1,604	20	26.5	189.6	243
Total	**360,765**	**17,772**	**19.0**	**41.4**	**11,942**

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

[1] The calculation of capital requirements for exposures in default is based on the difference between LGDs and individual impairment provisions.

Loss given default (LGD)
The LGD, which is calculated for each customer exposure, reflects the percentage share of an 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 calculated 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 claims at the time of realisation. Furthermore, costs incidental to debt collection, proceeds from the realisation of security, payments from customers, etc are included.

The loss on a defaulting borrower cannot be determined until the case has been finally settled. This often takes 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 would expect more and greater losses during an economic downturn.

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

The table below shows applied LGD stated as point-in-time LGD (current value), observed LGD (current value) as well as applied LGD which is used to calculate the capital requirement at year-end.

Applied LGD reflects the economic downturn in 1991-1993 and corresponds to the loss rate during a recession. Applied LGD is therefore not 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 under "Security".

Exposure value (EV) and conversion factors (CF)
EV is estimated for all exposures of a customer and reflects the total expected exposure to a 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 credits, credit lines, loan offers etc. In respect of non-performing exposures subject to flexible utilisation, the credit maximum has often been reached or exceeded at the time of default. This applies to revolving exposures and similar credit facilities, for which reason Nykredit applies a conversion factor above 1.

Nykredit has recently developed new models for calculating conversion factors for loan offers. The new models factor in product characteristics and the time elapsed since a customer received an offer, if any.

The table below shows observed and applied CFs for exposures where customers have undrawn credit. Observed CF is the average utilisation rate for Nykredit's exposures and other

The Nykredit Realkredit Group
Loss Given Default, LGD

%	Point-in-time LGD Beginning of 2007	Observed LGD End-2007	Applied LGD End-2007	Point-in-time LGD Beginning of 2008	Observed LGD End-2008	Applied LGD End-2008
Retail exposures	2.49	1.62	10.58	1.22	0.45	10.43
Of which						
- Mortgages on real property	*1.89*	*1.20*	*10.17*	*1.02*	*0.24*	*10.20*
- Revolving exposures, etc	*15.75*	*11.15*	*39.97*	*15.77*	*8.30*	*39.92*
- Other retail exposures	*15.82*	*13.84*	*33.25*	*15.65*	*26.83*	*33.95*
Commercial exposures	3.50	2.66	21.07	8.42	10.57	18.96
Total	**2.73**	**1.98**	**14.84**	**3.82**	**2.66**	**13.72**

Note: Exposure-weighted. Includes only exposures subject to the advanced IRB approach using internal 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 credit commitments and lines at default, conversion factor (CF)

Factor	Observed CF End-2007	Applied CF End-2007	Observed CF End-2008	Applied CF End-2008
Retail exposures	1.04	1.09	1.01	1.11
Of which				
- Mortgages on real property[1]	*1.06*	*1.13*	*1.01*	*1.14*
- Revolving exposures, etc	*1.03*	*1.07*	*1.03*	*1.07*
- Other retail exposures	*1.13*	*1.00*	*1.01*	*1.01*
Total	**1.04**	**1.09**	**1.01**	**1.11**

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

credit commitments at the time of default. Applied CF at year-end is the parameter for the utilisation rates applied to calculate capital charges.

IRB-calculated losses
The model-based, IRB-calculated losses and the observed losses are shown in the table below. The IRB-calculated loss is a concept applied for regulatory purposes and does not correspond to Nykredit's own loss expectations. The IRB-calculated loss on an exposure is calculated as the product of the PD, LGD and EV estimates.

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

As in recent years, the level of observed losses was very low in 2008. Nykredit's lending is for the most part secured on real property. This results in low observed LGDs and low observed losses.

Internally, Nykredit applies the Basel models to estimate future losses in different economic scenarios or in case of a marked change in the economic climate. Nykredit's loss is a measure of the earnings impact to be expected if such scenarios occur. Based on the current condition of the Danish economy and expectations for the future, the Group's estimated loss for 2009 will amount to DKK 700m-1,400m in the short term, cf "Stress tests and capital projection".

Accordingly, such internal estimates cannot be compared with the IRB-calculated losses, which are based on regulatory requirements and which are partially included in the statutory deductions from the capital base.

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

The models are developed by a separate staff function that is independent of group credit granting and operations in general. To ensure a 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. 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 internal 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, collective impairment provisions and pricing. The credit models have become an integral part of Nykredit's business and are applied in several areas, except in Forstædernes Bank.

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, albeit with due regard for the 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 may be supplemented with policy rules based on key ratios on customers' finances and behaviour. For selected exposures, customer ratings are also used as input for granting advance approval of credit extensions. Furthermore, the assessment includes the quality of the security provided.

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 a 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

The Nykredit Realkredit Group
IRB-calculated and observed losses

2008 DKK million	Observed losses	IRB-calculated loss[1]	Nykredit's expected loss
Retail exposures	56	873	-
Of which			
- Mortgages on real property	*32*	*839*	*-*
- Revolving exposures, etc	*2*	*13*	*-*
- Other retail exposures	*23*	*21*	*-*
Commercial exposures	757	1,509	-
Total	**813**	**2,382**	**700-1,400**

Note: Includes exposures determined subject to both the advanced IRB approaches and the foundation IRB approaches. The IRB-calculated loss on retail exposures has been determined on the basis of LGD after adjustment ensuring compliance with the 10% requirement, cf section 11 of the Danish Executive Order on Capital Adequacy.
[1] IRB-calculated loss using LGD for 1991-1993.

life of each product, contractual basis, an assessment of the quality of the security, etc.

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 greater 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 included.

Real property

Mortgages on real property reduce credit risk substantially. Typically, no losses are incurred on loans secured on properties with initially low LTVs.

The mortgageable value of a property is assessed at the time when a loan is granted. Valuations are based on the marketability, stability of value, alternative use, letting potential, etc of a 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 terraced houses that meet the specific 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 terraced houses, owner-occupied flats and holiday homes that satisfy specific requirements for mortgageable value, 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 authority guarantees are guarantees whereby the guarantor assumes primary liability. This means that Nykredit may enforce the guarantee if a loan falls into arrears.

Credit institution guarantees include guarantees for registration of mortgages without endorsements, guarantees for interim loans in connection with new building and loss guarantees.

Under Nykredit's partnership agreement with the local and regional banks behind Totalkredit, the banks previously had the choice between a guarantee agreement or a set-off agreement. All partnership banks have now switched to the set-off agreement. Under this agreement, any losses incurred are offset against the current commissions paid by Nykredit.

Exposures to Danish banks that participate in the government guarantee scheme introduced in October 2008 to ensure financial stability have a risk weighting of 0% in the capital requirement determination.

In the determination of the capital requirement and the required capital base, 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 under "Capital management".

Financial collateral

Financial collateral includes deposits denominated in DKK or other currencies, listed Danish government bonds, and Danish covered bonds (SDOs and "realkreditobligationer" – "ROs"), 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.

The Nykredit Realkredit Group
Types of security and credit exposures

2008 DKK million	Real property[1]	Guarantees received	Financial collateral	Total collateral value	Total exposure
Retail exposures	624,929	37,941	-	662,870	583,051
Of which					
- Mortgages on real property	*624,929*	*37,941*	*-*	*662,870*	*572,562*
- Revolving exposures, etc	*-*	*-*	*-*	*-*	*3,432*
- Other retail exposures	*-*	*-*	*-*	*-*	*7,056*
Commercial exposures	317,708	23,480	3,297	344,485	380,193
Credit institution exposures	-	-	-	-	81,430
Sovereign exposures	-	-	-	-	41,651
Equity exposures	-	-	-	-	5,419
Assets with no counterparty	-	-	-	-	3,848
Total 2008	**942,637**	**61,421**	**3,297**	**1,007,356**	**1,095,591**
Total 2007	848,974	116,875	2,424	968,272	1,062,339

Note: Exposures include bank guarantees (DKK 38.0bn) included under credit institution exposures and government guarantees (DKK 23.4bn) included under sovereign exposures.

[1] The collateral value of real property has been determined at nominal value.

Nykredit incurs risk on financial counterparties and customers. The largest counterparties and customers are required to provide additional collateral as 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 on market 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 obligations of each customer are determined as the sum of potential obligations 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 required capital base, 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.

By far the greater part of group lending consists of mortgage loans. In practice, Nykredit incurs only negligible market and liquidity risk from these loans – regardless of the development in financial markets. This is because mortgage lending is governed by the statutory balance principle and complies with the match-funding principle, cf the description under "Liquidity and funding".

Nykredit's market risk relates mainly to the investment portfolios. Furthermore, the banking activities involve market risk.

The limits relating to market risk in the Nykredit Realkredit Group 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 the group companies.

The limits provided by the Board of Directors restrict the scope for assuming interest rate, equity price, foreign exchange, volatility and credit risk. Other risks, such as commodity exposures, are not allowed.

The limits permit the use of financial instruments if the risk involved can be determined and managed. Financial instruments are included in the limit for the underlying asset.

Compliance with risk limits is monitored daily and independently of the acting entities of the Group, and any non-compliance is reported to the Treasury Committee or Nykredit's Board of Directors depending on the nature of such non-compliance.

Determination, management and reporting of market risk require 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.

DEVELOPMENT IN MARKET RISK

The Group pursues a long-term investment policy that implies very low credit risk on the investment portfolio. The primary investments are Danish and European covered bonds. In addition, Nykredit has invested in high-rated bank bonds. The interest rate risk involved is reduced by way of offsetting positions in government bonds or interest rate swaps. This creates an exposure to yield spreads between the covered bonds and the government bonds/interest rate swaps. This exposure is not hedged. The international financial crisis has caused yield spreads between mortgage bonds and government bonds to increase by approximately 0.9 percentage point in 2008. In the same period, prices of bank bonds generally fell sharply.

The uncertainty in the markets triggered by the financial crisis in 2008 caused increasing yield volatility and thereby increased volatility risk for Nykredit given its large holdings of covered bonds.

Owing to Nykredit's investment strategy, investments in CDOs, CLOs, hedge funds and US subprime are usually minimal. Investments in this type of products totalled DKK 2,068m at end-2008 in the Nykredit Group excluding Forstædernes Bank, whereas the portfolio in Forstædernes Bank totalled DKK 441m. Credit exposures of the investment portfolios are described in more detail under "Credit risk".

The Group also invests in equities. By far the greater part of equity investments consists of strategic equities. Nykredit's portfolio of strategic equities amounted to DKK 2,118m at end-2008, of which equities in Danish banks accounted for DKK 1,114m.

The portfolio of strategic equities was marked by major capital losses in 2008 as the financial crisis has led to capital losses on financial equities. Value adjustment of strategic equities against equity came to a capital loss of DKK 2,847m at end-2008 compared with a capital loss of DKK 465m in 2007.

The Nykredit Realkredit Group
Capital requirement for items involving market risk

2008 DKK million	Specific risk	General risk	Total capital requirement	Total capital requirement 2007
Value-at-Risk (99%, 10 days)	-	3,362	3,362	880
Outside Value-at-Risk model:				
Instruments of debt	897	251	1,148	1,014
Equities	28	11	38	85
Foreign exchange risk	-	14	14	2
Collective investment schemes	30	-	30	33
Total market risk	**955**	**3,638**	**4,592**	**2,014**

Note: Specific risk denotes losses resulting from changes in the market value of a specific position due to the issuer or the individual security. General risk denotes losses resulting from general changes in market prices.

The Nykredit Realkredit Group
The Board of Directors' principal market risk limits at group level, end-2008

Financial ratios	Definition	Limit
Value-at-Risk	Maximum loss in one day at a 99% confidence level	DKK 300m/500m[1]
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 (3.000)m to 8,250m
Corporate bonds	Measured at book value	DKK (2,000)m to 11,000m
- Up to A+/A1	*Measured at book value*	*DKK (2,000)m to 6,000m*
- Up to Ba1/BB+ and not rated	*Measured at book value*	*DKK (1,000)m to 2,000m*
Volatility risk	Measured as losses on a general rise in interest rate volatility of 1 percentage point	DKK (200)m to 200m

[1] The Value-at-Risk limit was temporarily raised to DKK 500m during the year. Exceedings resulting from the turmoil in financial markets were approved by the Board of Directors.

KEY FIGURES ON MARKET RISK

Market risk cannot be assessed adequately on the basis of a single risk key figure. To obtain a full overview of market risk, Nykredit combines various key figures that express sensitivity to the development in the financial markets. The Group's determination, management and reporting of market risk take place by combining a range of different tools in the form of statistical models, stress tests and key ratios with subjective assessments.

The traditional risk measures, such as interest rate, equity price, volatility and foreign exchange risk, are so-called sensitivity tests of the portfolio. They are used to calculate the effect on the value of the portfolio in case of changing market conditions, such as increasing/decreasing interest rates, equity prices or volatility. Calculations are only made for one type of risk at a time. The conventional risk measures do not indicate how likely the particular event is to occur, but rather how much it would affect the value of the portfolio.

Value-at-Risk models (VaR models) can be applied to calculate the maximum value decrease of a portfolio over a given period and at a given probability. VaR models measure the effect and probability of several risks occurring at the same time.

As in the case of credit risk, the calculations are "mechanical" and based on past experience of the development in financial markets. During a financial crisis the current conditions in the financial markets will not invariably correspond to the historical conditions. The maximum expected loss calculated by means of a VaR model may therefore in the early stages of a crisis convey an overly optimistic view of the loss risk.

Value-at-Risk

Nykredit applies a VaR model for the day-to-day internal management and determination of business capital. The choice of time horizon and confidence level in the model depends on the purpose of the calculations. For the day-to-day internal management, a time horizon of one day and a confidence level of 99% are applied, while a time horizon of approximately one year and a confidence level of 99.97% are applied for the determination of business capital. VaR is calculated for both the trading book and the banking book. The model takes into account the embedded option of callable mortgage bonds.

VaR is calculated and reported on a daily basis, and the model is incorporated into Nykredit's securities systems. VaR limits exist at Group, company and organisational entity levels.

The Group's total VaR according to the model for the day-to-day internal management was DKK 331m at end-2008, excluding Forstædernes Bank against DKK 182m at end-2007. This means that, according to Nykredit's model, the Group would, at a 99% probability, lose a maximum of DKK 331m in one day at end-2008 in consequence of market fluctuations.

Not only does the financial crisis cause an increase in VaR, but also a greater risk that the VaR figure miscalculates risk levels.

Nykredit has the approval of the Danish FSA to apply Value-at-Risk in determining the capital charge for market risk. The VaR model for determining the capital requirement applies a statutory confidence level of 99% and a time horizon of 10 days. For the purpose of determining the capital requirement, Nykredit Realkredit A/S only calculates VaR in respect of the trading book, whereas the Nykredit Bank Group makes calculations for the trading book as well as the banking book excluding equities.

It is essential that the VaR 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 (gain/loss) are compared with the model's estimate of the maximum loss. The actual losses are expected to exceed the maximum loss predicted by the VaR 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 VaR is shown in the figure "Back test of overall market risk".

Parameters used to determine Value-at-Risk

Risk factors:	All exposures 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. In calculating the volatilities, last-dated 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 determined on the basis of a time horizon of 1 day but 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 ▪ Required capital base: 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% ▪ Required capital base: 99.97%

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

DKK million	Average	Min	Max	Year-end
2008	280	168	597	331
2007	181	115	332	182

The Nykredit Realkredit Group, excl Forstædernes Bank
Value-at-Risk

2008 DKK million	1 day	10 days	1 year
Internal Value-at-Risk (99.00%)	331	1,046	3,137
Internal Value-at-Risk (99.97% - Pillar I of required capital base)	488	1,543	4,625
Value-at-Risk for capital requirement (99.00%)[1]	280	884	4,421

Note: Contrary to Value-at-Risk for capital requirement, Internal Value-at-Risk includes strategic equities, unlisted equities and assets in subsidiaries for Nykredit Realkredit A/S.

[1] Capital requirements for VaR is determined as VaR (99%, 10 days) x statutory FSA spread, the latter depending on the number of back test exceedings within the past year.

There were eight exceedings in the VaR model of Nykredit Realkredit in 2008 and five in that of Nykredit Bank. The high number is due to the fact that the VaR model will tend to miscalculate risk levels more often during a financial crisis. Thus, 2007 saw only two and five exceedings, respectively.

Daily stress tests
As a supplement to VaR, systematic stress tests are performed daily to measure the risk of loss during turbulent 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.

During the financial crisis in 2008, the daily stress tests were overtaken by the actual development in the financial markets which proved to be much more extreme.

The main focus of the stress tests is the market risks to which the individual companies are exposed. The scenarios applied in the individual companies are therefore different and reflect their respective risk profiles. The tests are adjusted in line with business developments.

In connection with the determination of the required capital base, further stress tests are applied, cf "Capital management". The stress tests applied to determine the required capital base also contain elements relating to market risk, but they are less detailed than the daily stress tests of the VaR model.

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

The risk of yield spread widening between mortgage bonds and government bonds/swap rates is the spread risk. The spread risk of the Group's portfolio of mortgage bonds amounted to DKK 1,426m at end-2008. This means that Nykredit would lose DKK 1,426m on its investments in mortgage bonds if the yield spread between mortgage bonds and government bonds widened by 1 percentage point.

Equity price risk
Equity price risk is the risk of loss as a result of changes in equity prices, and it is calculated 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, Totalkredit and Nykredit Bank hedge the foreign exchange risk of their investments and therefore only had minor foreign exchange positions in currencies other than EUR in 2008.

Up to now, Forstædernes Bank has had no policy on hedging of foreign exchange risk. In future, the company's foreign exchange risk will become subject to separate risk limits. At end-2008 the banks' most significant foreign exchange positions were in EUR and USD.

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.

Volatility risk
Volatility is the size of fluctuations in the price of an asset, eg, the movement in the price of a bond. 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 a loss of market value as a result of changes in market expectations for future volatility.

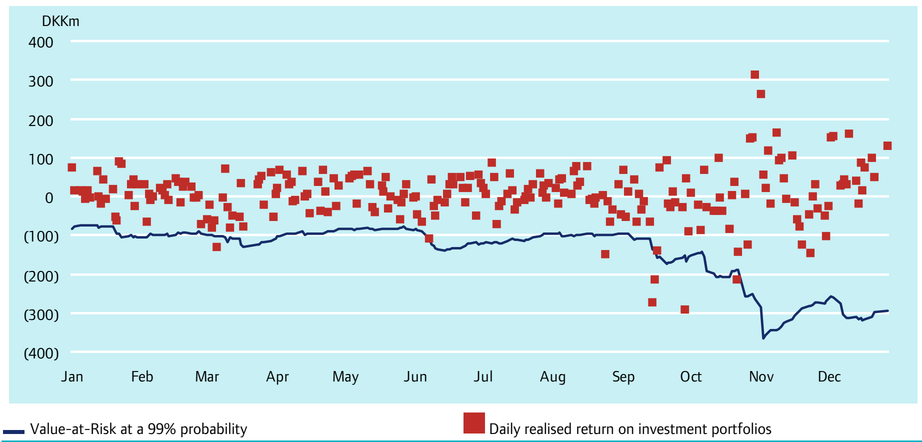
Volatility trading is used in connection with position-taking. Risk is determined and managed on a continuous basis with respect to all financial instruments with embedded options by means of limits.

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 as a result of the balance principle and match-funding of loans.

The mortgage loan types Tilpasningslån, BoligXlån (ARMs) and RenteMax (floating-rate loan 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 incurs no 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.

The Nykredit Realkredit Group
Back test of overall market risk (99%, 1 day) 2008



Stress test scenarios

Nykredit Realkredit A/S

- EUR rates rise by 0.25 percentage point
- Other rates rise by 0.50 percentage point
- Yield spread between government bonds and swaps widens by 0.25 percentage point
- Equities decrease by 5% in general
- Danish bank shares decrease by 10%

Nykredit Bank A/S

- Yield 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

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 not unambiguously classified under the trading book are placed in the banking book.

Interest rate risk on the banking book
Interest rate risk on 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 balance sheet funds are refinancing of the loan types Tilpasningslån, BoligXlån and RenteMax as well as accumulated interest and principal payments on certain types of ARMs.
- Subordinate capital hedged with interest rate swaps
- Strategic bonds carrying mainly floating rates

Equity price risk on the banking book
Equities in the banking book comprise Nykredit's strategic equities and private equity.

Strategic equities exposures in 2008 ranged between DKK 2.5bn and DKK 5.5bn, while private equity exposures ranged between DKK 0.4bn and DKK 0.5bn.

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 share index or benchmark/peer group.

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

Market value DKK million	2008	2007
Listed equities	1,796	4,777
Unlisted equities	1,525	1,138
Total	**3,320**	**5,915**

The Nykredit Realkredit Group
Market exposures (conventional calculation)

2008 DKK million	Interest rate exposure	Interest rate volatility exposure (Vega)	Equity price exposure
Money market instruments	(57)	-	-
Government bonds	(289)	-	-
ROs (Danish covered bonds)	1,426	(73)	-
SDOs (Danish covered bonds)	1,238	(0)	-
Other bonds, loans and advances, etc	290	-	-
Equities	-	-	410
Derivative financial instruments	(1,698)	23	(41)
Total	**908**	**(49)**	**368**

Note: Repo and reverse transactions are included in money market instruments.

The Nykredit Realkredit Group
Interest rate exposures (loss at interest rate rise of 1 percentage point)

DKK million	2008	2007
Money market instruments	(57)	5
Government bonds	(289)	(472)
Danish covered bonds	2,664	3,602
Other bonds, loans and advances, etc	290	383
Derivative financial instruments	(1,698)	(2,718)
Total interest rate risk	**908**	**800**

The Nykredit Realkredit Group
Market risk (conventional calculation)

	2008				2007			
DKK million	Average	Max	Min	Year-end	Average	Max	Min	End
Interest rate exposure (1 percentage point change)	619	1,160	389	908	624	895	403	829
– of which outside trading book	*28*	*142*	*(115)*	*102*	*49*	*75*	*7*	*15*
– of which from mortgage activities (balance principle)	*17*	*96*	*(66)*	*22*	*6*	*163*	*(166)*	*163*
Equity price exposure (10% change)	532	698	368	368	746	857	648	704
Foreign exchange exposure (Exchange Rate Indicator 2)	10	14	6	8	11	18	4	7
Interest rate volatility exposure (Vega)	(47)	(16)	(75)	(49)	(4)	48	(59)	(52)

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. Forstædernes Bank is included from 17 October 2008 onwards.

Liquidity and Funding

Liquidity risk reflects the risk of loss as a result of insufficient liquidity to cover current payment obligations.

The Group's total liquidity risk is monitored closely and is assessed by the Asset/Liability Committee. The Committee lays down liquidity policies for the group companies. The day-to-day management of liquidity risk is handled by the individual companies based on these policies.

The liquidity curves of Nykredit Realkredit and Totalkredit, and Nykredit Bank and Forstædernes Bank, respectively illustrate the Nykredit Group's very strong position in terms of liquidity.

MORTGAGE BANKING

The greater part of group lending consists of mortgage loans funded by "realkreditobligationer" – "ROs" and SDOs (collectively referred to as covered bonds) according to the match-funding principle. As a result, group liquidity levels are high.

Nykredit's debtors pay their mortgage payments at least one day before the coupon date of the bonds. For this reason, liquidity risk in relation to mortgage payments only concerns non-timely payment by borrowers. Nykredit places the payments from borrowers in accounts with major banks immediately on receipt.

In spite of the financial crisis and temporary suspension of the market maker arrangement, Nykredit was able to issue bonds on a daily basis throughout 2008. The order-based market worked satisfactory throughout the year.

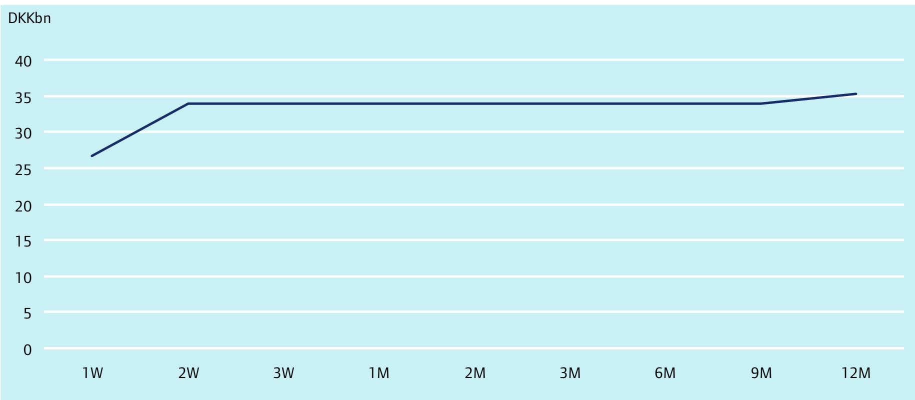
At the refinancing auctions in December, Nykredit issued bonds of DKK 116bn.

In its "Bank Financial Strength Ratings: Global Methodology" from February 2007, Moody's Investors Service has laid down a number of principles and requirements relating to the liquidity management of banks. In order to achieve the rating "Very Good Liquidity Management", the liquidity curve must be positive 12 months ahead. The liquidity of Nykredit Realkredit and Totalkredit is always positive, partly due to match-funding and the investment rules governing the statutory capital requirements.

Nykredit Realkredit plans to launch a Global Medium Term Note (GMTN) programme in Q1/2009. The objectives include:

- expanding Nykredit's distribution network
- increasing the awareness of Danish mortgage finance to facilitate the funding of loans in currencies other than Danish kroner.

Nykredit Realkredit A/S and Totalkredit A/S
12-month liquidity, end-2008



SDOs

SDOs owned by credit institutions are subject to more lenient risk weighting in the determination of capital requirements pursuant to the EU's Capital Requirements Directives (CRD) and the Danish capital adequacy rules, etc.

ROs issued before 1 January 2008 are treated as covered bonds in the determination of the capital requirement. ROs issued after 1 January 2008 involve a higher capital charge.

SDOs must satisfy certain requirements under the special legislation on SDOs. Among other requirements, they must be issued against security by way of one or more of the following three types of assets:

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

At the time of granting, a mortgage loan 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 and/or as a result of changes in the market value of the property or the mortgage loan.

Mortgage banks must provide supplementary security if the LTV ratios of the individual loans secured by mortgages on real property and funded by way of issuance of SDOs determined on an ongoing basis exceed the LTV limits stipulated by law.

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

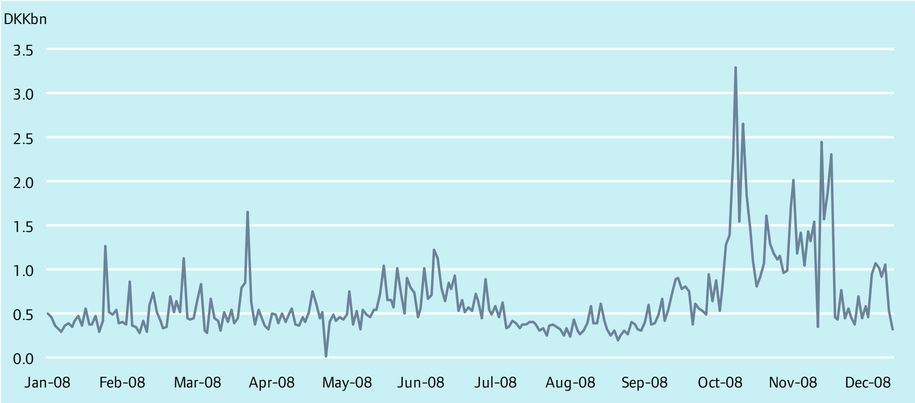
Nykredit monitors the need for supplementary security closely. In this connection, various stress tests are conducted at least quarterly which assess the sensitivity of such need to refinancing surges, declining property prices, etc.

Nykredit's need for supplementary security at the current property prices came to DKK 5bn at end-2008. This is mainly because loans for agricultural and other commercial properties that were funded by ROs have been refinanced by way of SDOs.

Commercial properties may be mortgaged by up to 70% of the property value if Nykredit provides supplementary security for the range between 60% and 70%. This creates a need for supplementary security for this type of properties.

The need for supplementary security in case of increasing LTV ratios for the properties provided as security behind the SDOs amounted to around DKK 8bn at end-2008. The need for supplementary security should be seen in relation to Nykredit's capital base of DKK 52bn, which is generally placed in government bonds

The Nykredit Realkredit Group
Daily issuance of fixed-rate bonds



Note: To this DKK 116bn related to the refinancing auctions must be added.

The Nykredit Realkredit Group
Stress test of need for supplementary security in six months term

DKK billion	2008
Scenarios	
Normal lending activity	6.9
Increased lending activity at refinancing surge	7.5
10% fall in property prices and normal lending activity	17.9
Capital provided as supplementary security in Capital Centre E	11.5
- of which funded by way of junior covered bonds	*9.6*

Note: Increased lending activity is based on an assumption of a twofold increase in the number of loans refinanced.

The Nykredit Realkredit Group
Issued junior covered bonds

DKK billion	Maturity date	Nominal outstanding amount
JCB 09	01.01.2009	5.0
JCB 11	01.01.2011	8.0
Total		**13.0**

Note: Pursuant to the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, junior covered bonds may be applied for funding of supplementary security. Pursuant to section 33e of the Act, holders of 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.

The Nykredit Realkredit Group
Issued junior covered bonds

DKK billion	Nominal issuance
2007	5.0
Q1/2008	0.0
Q2/2008	5.8
Q3/2008	2.2
Q4/2008	0.0
Total	**13.0**

and SDOs that are directly eligible as cover assets.

It is Nykredit's policy to maintain a sizeable buffer in the cover assets against declining property prices or refinancing surges. Therefore, already in 2007 and 2008 Nykredit applied the legislative option of raising loans in the form of junior covered bonds to fund supplementary security.

Pursuant to section 33 e of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, holders of junior covered bonds have a secondary preferential right as secured creditors 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.

BANKING

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. Securities not serving as collateral in the trading book constitute a short-term liquidity buffer that may be applied in the case of any unforeseen drains on the Bank's liquidity.

The average liquidity buffer in 2008 was DKK 13.0bn. At end-2008, the liquidity buffer was DKK 31.2bn against DKK 20.2bn at end-2007.

At end-2008 the Bank had issued notes of DKK 12.8bn (EUR 1.7bn) under its EUR 5bn EMTN programme. The notes were issued at satisfactory spreads against swaps, reflecting the Nykredit Group's low-risk profile and strong capital structure.

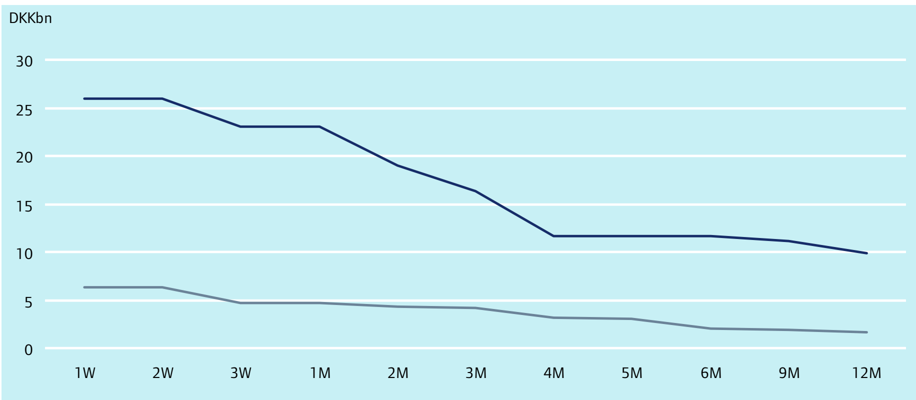
The Nykredit Bank Group
Liquidity relative to statutory requirements 2008

Liquidity as % of debt and guarantee obligations — Nykredit Bank's internal requirements — Statutory requirement

Forstædernes Bank A/S
Liquidity relative to statutory requirements 2008

Liquidity as % of debt and guarantee obligations — Forstædernes Bank's internal requirements — Statutory requirement

The Nykredit Bank Group and Forstædernes Bank A/S
12-month liquidity, end-2008



The Nykredit Bank Group — Forstædernes Bank A/S

To further strengthen the Bank's access to funding through international capital markets, the Bank established a EUR 3bn Euro Commercial Paper programme in October 2008. At end-2008 DKK 4.7bn (EUR 0.6bn) of commercial paper had been issued.

Nykredit Bank has had access to funding throughout the financial crisis.

The management of the Bank's structural liquidity risk is based on an internal model.

The model assumptions are stress tested daily. This includes calculations on the effect of a liquidity crisis in the market that would cause an increase in the Bank's funding costs and lower liquidity of the assets.

Stress tests conducted according to the principles laid down in Moody's Investors Service "Bank Financial Strength Ratings: Global Methodology" show that the Bank can withstand a 12-month long lack of access to the funding market.

According to the Danish Financial Business Act, a bank's liquidity must total at least 10% of total reduced debt and guarantee commitments.

Nykredit Bank uses an internal liquidity requirement of at least 15%. At end-2008, liquidity relative to reduced debt and guarantee commitments of the Nykredit Bank Group was 25.5%.

Following the acquisition of Forstædernes Bank, the intention is to manage all bank activities within the Group according to uniform methods.

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 through reinsurance.

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 customer 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, an insurance risk committee 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, the part of catastrophe claims of up to DKK 1,700m which the Insurer has to cover was limited to DKK 30m. Should the claim exceed DKK 1,700m, the Insurer's expense will rise proportionally up to DKK 330m in case of a claim of DKK 2,000m. In connection with payments from the reinsurance programme, a small reinstatement premium is payable in accordance with common reinsurance practice.

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

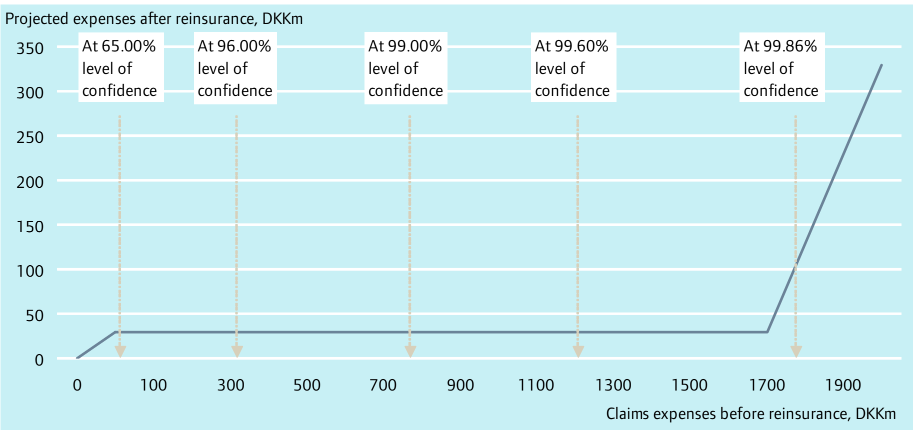
The reinsurance cover for 2009 equals the cover for 2008.

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 the reinsurance companies applied by Nykredit are reviewed on a current basis. None of the ratings were downgraded in the past year.

In 2008 the Insurance Company had claims expenses of DKK 973m and net claims expenses of DKK 943m, which was on a level with expectations.

Nykredit Forsikring A/S
Catastrophe claims expenses



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 is determined using the basic indicator approach and came to DKK 1.3bn at end-2008. 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 the 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 2008 loss-making operational events of DKK 11.2m 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.

Appendix: Comparative Tables

The Nykredit Realkredit Group
Credit exposures and capital charge

2007 DKK million	Mortgage lending	Bank lending	Guarantees issued	Other	Total exposures	*Of which undrawn commitments*	Exposure-weighted average risk weight, %	Basel II capital charge for 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	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	74,514	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

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 charge for credit risk DKKm
10	14,626	1,132	7.6	2.6	30
9	40,683	1,403	6.9	3.5	114
8	70,423	1,175	7.5	5.1	286
7	91,929	1,127	9.1	7.7	566
6	131,982	1,923	11.0	11.4	1,205
5	90,687	1,575	12.4	15.7	1,137
4	26,311	779	13.9	22.6	475
3	11,542	2,776	19.5	39.5	365
2	7,806	199	14.3	45.4	283
1	3,071	78	16.6	80.5	198
0	703	32	16.4	92.2	52
Exposures in default	737	5	14.3	131.3	77
Total	**490,501**	**12,205**	**10.4**	**12.2**	**4,788**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal 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.

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Commercial 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 charge for credit risk DKKm
10	20,365	3,934	21.5	17.9	292
9	32,900	3,614	18.3	21.6	568
8	65,859	8,126	18.8	27.9	1,471
7	68,799	8,045	17.5	31.7	1,743
6	44,893	5,574	18.6	37.2	1,337
5	45,189	7,061	28.5	61.1	2,208
4	29,292	2,080	25.3	72.4	1,698
3	11,350	1,185	18.5	55.1	500
2	10,642	1,207	18.9	62.2	529
1	5,609	780	18.4	86.0	386
0	2,314	466	26.6	150.6	279
Exposures in default	567	11	23.0	0.0	0[1]
Total	**337,778**	**42,083**	**20.5**	**40.7**	**11,009**

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

[1] Capital shall only be maintained for exposures in default when using the advanced IRB approaches, cf schedule 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.

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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 government 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 the capital requirement was introduced in 2007.