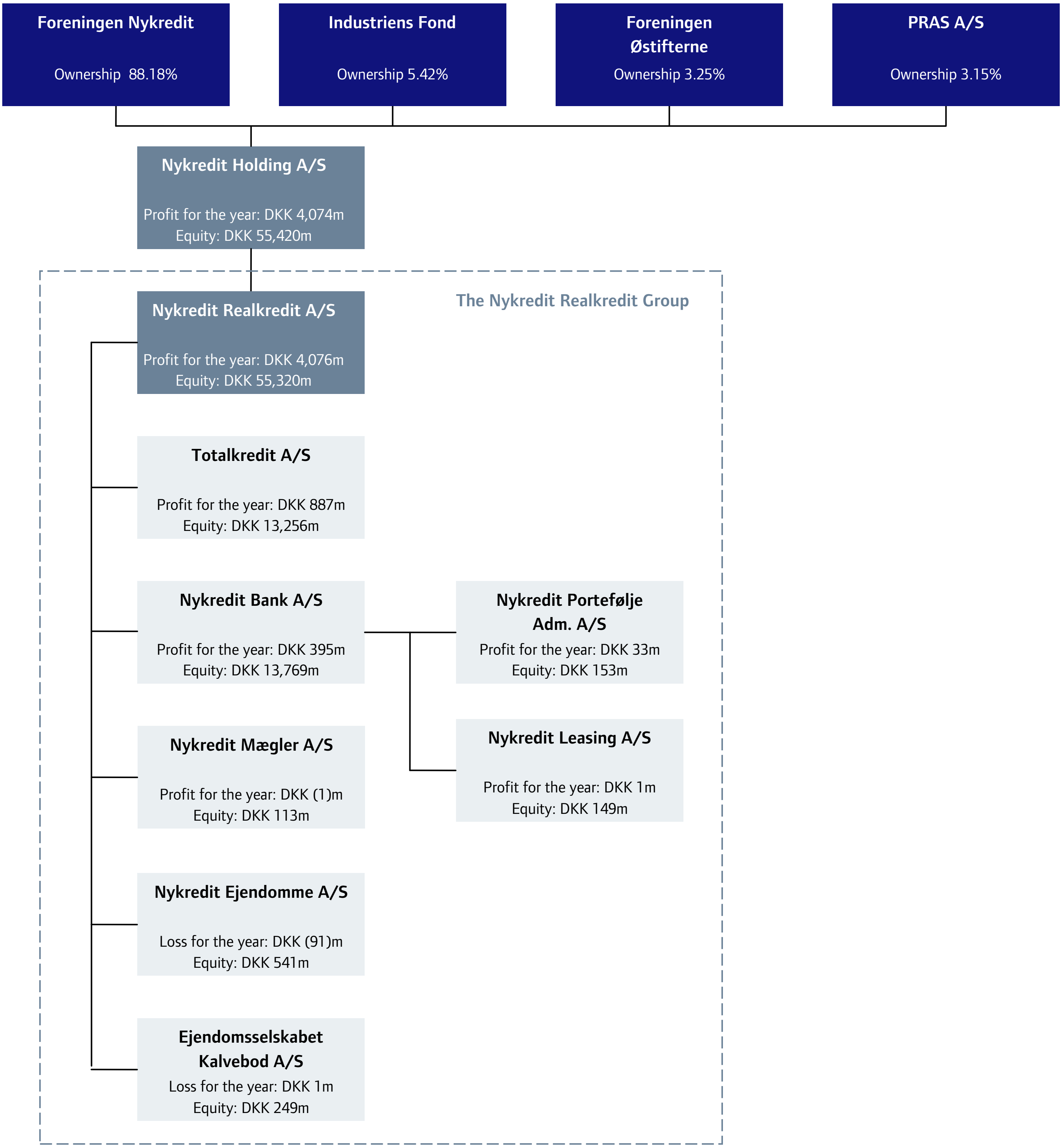
Risk and Capital Management 2010

The Nykredit Realkredit Group

Nykredit

CONTENTS

GROUP CHART



Foreningen Nykredit
Ownership 88.18%
Industriens Fond
Ownership 5.42%
Foreningen Østifterne
Ownership 3.25%
PRAS A/S
Ownership 3.15%
Nykredit Holding A/S
Profit for the year: DKK 4,074m
Equity: DKK 55,420m
The Nykredit Realkredit Group
Nykredit Realkredit A/S
Profit for the year: DKK 4,076m
Equity: DKK 55,320m
Totalkredit A/S
Profit for the year: DKK 887m
Equity: DKK 13,256m
Nykredit Bank A/S
Profit for the year: DKK 395m
Equity: DKK 13,769m
Nykredit Portefølje Adm. A/S
Profit for the year: DKK 33m
Equity: DKK 153m
Nykredit Leasing A/S
Profit for the year: DKK 1m
Equity: DKK 149m
Nykredit Mægler A/S
Profit for the year: DKK (1)m
Equity: DKK 113m
Nykredit Ejendomme A/S
Loss for the year: DKK (91)m
Equity: DKK 541m
Ejendomsselskabet Kalvebod A/S
Loss for the year: DKK 1m
Equity: DKK 249m

SPECIAL EVENTS IN 2010

The Nykredit Realkredit Group
Throughout the financial crisis, the Nykredit Realkredit Group has been able to provide loans to its customers and has thereby contributed to mitigating some of the negative consequences of the crisis.

There are now clear signs that both the global and Danish economies have overcome most of the repercussions of the financial crisis. The Nykredit Realkredit Group recorded fair business growth in 2010 without corresponding growth in costs. Moreover, loss levels are beginning to normalise.

Financially, 2011 is expected to see continued business growth and normalisation of loss levels in Nykredit. The greatest risk in 2011 appears to be the new financial regulation from the Basel Committee. In spite of this, it is difficult not to take a positive view of 2011.

In 2010 the market share of the Nykredit Realkredit Group of total mortgage lending was around 42.0%.

The Group's activities are primarily exposed to Denmark, and Denmark is also the primary geographic focus area in terms of business growth.

Capital policy
Nykredit's objective is to be able to maintain its lending activities at an unchanged level regardless of economic trends, while retaining a competitive credit rating. For this reason Nykredit requires capital resources adequate to meet statutory capital requirements during a severe recession equal to a situation with massive unemployment as in the early 1990s.

As a financial institution, Nykredit is subject to a capital requirement of 8% of risk-weighted items. Nykredit has estimated the Group's internal capital adequacy requirement to amount to 9.4% in case of a weaker economic climate in 2011. In comparison, the actual capital adequacy ratio was 18.5% in 2010, and the core capital ratio 18.5%.

The Nykredit Realkredit Group
Loans and advances

DKK million	2010
Lending governed by the balance principle (mortgage loans)	1,031,266
Other lending (bank loans) – excl reverse transactions	58,833
Total lending	**1,090,099**

Merger between Forstædernes Bank A/S and Nykredit Bank A/S
Nykredit Bank A/S and Forstædernes Bank A/S merged in April 2010. Accordingly, exposures stemming from Forstædernes Bank A/S are treated in the same way as Nykredit Bank's exposures using the IRB approaches.

Strategic alliance with Gjensidige Forsikring
In March 2010, Nykredit sold its insurance activities and entered into a strategic alliance with Gjensidige Forsikring. In consequence, Nykredit is no longer exposed to insurance risk.

Bank rescue packages
The Danish Bank Rescue Package I expired on 30 September 2010. Since 2008 the Group has incurred costs in the form of commission and provisions of just over DKK 1.6bn.

In 2010 the Bank had a guarantee facility of DKK 15bn for issues subject to an individual government guarantee under Bank Rescue Package II. Nykredit Realkredit had a similar facility of DKK 25bn. The guarantees expired at 31 December 2010, and neither the Bank nor the Mortgage Bank launched any issues under the facilities.

Regulatory risk
A new set of rules for the regulation of financial markets is underway. The purpose of the new rules is to create a more stable financial sector through higher capital requirements and new liquidity standards.

In December 2010, the Basel Committee issued a proposal for new regulation of capital and liquidity – Basel III. The Basel Committee is an influential forum in the regulation process, but it has no legislative powers. The European Commission is expected to present a draft directive during summer 2011 for subsequent adoption by the European Parliament and the Council. The draft directive is expected to be relatively similar to the Basel Committee's proposal.

Nykredit is positive towards the legislative initiatives. Stricter equity requirements are necessary to enable banks to absorb cyclical losses. The Basel Committee proposes an increase in the capital requirement from 8% of risk-weighted assets to 13% (including buffers). Stress testing of capital resources is also necessary to ensure sustainable long-term operations. For this reason, Nykredit has been conducting stress tests and has published the results in the description of our capital structure already before it became mandatory.

Liquidity management requirements are also necessary. The proposals submitted by the Basel Committee in December 2010, which are to form the temporary basis of European legislation, seem to be motivated by the requirements in the US and UK, which do not have efficient mortgage systems such as the Danish system. The US and UK have deposit-based lending systems supplemented with non-transparent bond issues, typically of poor credit quality. Against that background, the Basel Committee has proposed that sovereign debt must make up at least 60% of credit institutions' total liquidity. Covered bonds qualify as high-quality liquid assets only to a limited extent.

The Basel Committee's proposals inadvertently pose major challenges for Denmark. Firstly because Danish covered bonds are as liquid as sovereign debt. Secondly, Danish covered bonds are highly secure due to the lending terms and balance principle applying in Denmark. Thirdly, Denmark has a relatively small volume of sovereign debt. This means that Denmark does not have enough sovereign debt to meet the liquidity requirements imposed on banks and mortgage lenders in future. If covered bonds do not qualify as liquid assets based on objective quality criteria, financial stability may be jeopardised.

The Basel Committee's proposal will also eliminate Danish adjustable-rate mortgages funded by 1-year bonds. Nykredit agrees that the existing refinancing model with large bond sales taking place in a matter of a few days is not optimal. In consequence, Nykredit's refinancing auctions in 2010 were distributed more evenly over the year compared with previously, and the work towards expanding this model continues.

Paradoxically, the Basel Committee's proposal could potentially increase the risks in the Danish financial system rather than reduce them. This is the reason why Nykredit, the financial sector in general and the Danish authorities are working actively to ensure that EU legislation will take into account the secure and stable mortgage systems known from eg Denmark, Germany and Sweden. The dialogue with the EU is positive and constructive. We therefore expect the draft directive to have regard for the characteristic features of the Danish mortgage system.

RISK MANAGEMENT

GROUP CHARACTERISTICS

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

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

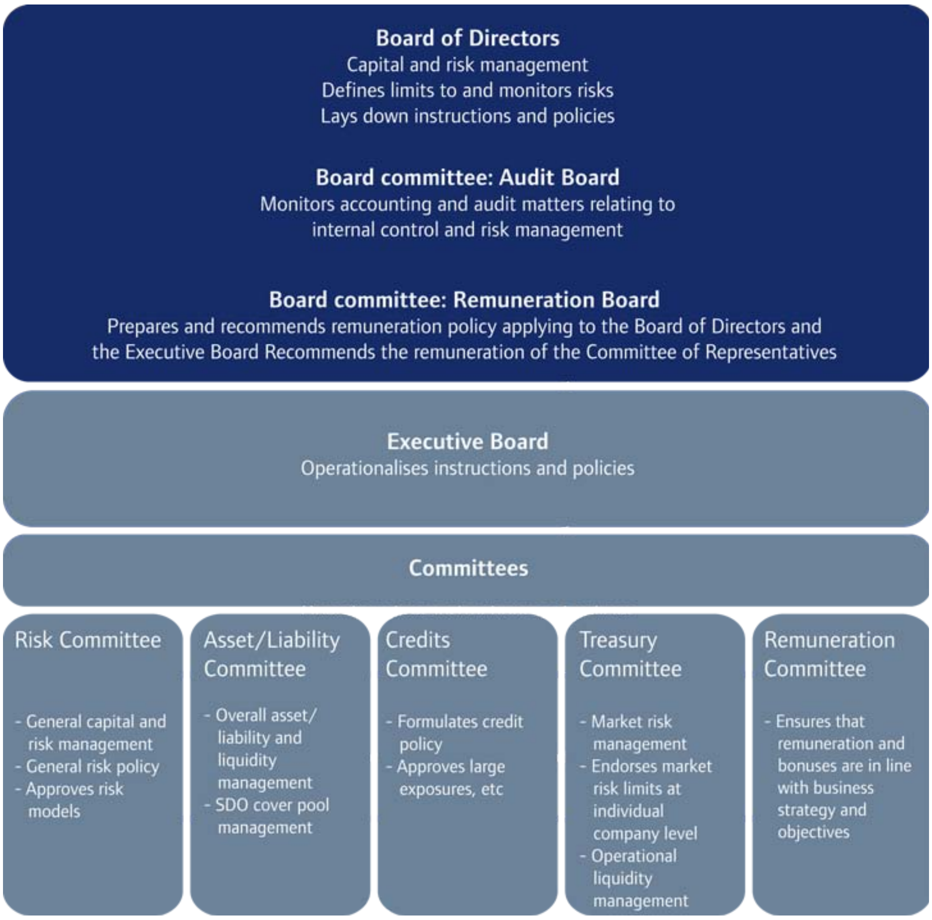
Risk management is the responsibility of the Board of Directors and the Executive Board and is a key element of the Nykredit Group's day-to-day operations. Through risk management, the Group seeks to ensure financially sustainable solutions in the short and long term. Nykredit is committed to having 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
- *Operational risk* reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Risk organisation in the Nykredit Realkredit Group



Risk areas reviewed by the Board of Directors

Annually	
Capital and risk policy	Review of and decision on Nykredit's required capital base, internal capital adequacy requirement (ICAAP result) as well as the long-term capital requirement and risk policy
Return	Review of and decision on current return targets
Risk models	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 internal capital adequacy requirement ■ Liquidity risk and SDO risk Balance principle and investment rules Liquidity position ■ Credit risk Development in credit risk and parameters, and 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 ■ Legislative 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 above a certain limit

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 the capital requirement rules and the internal models. Risk exposures and activities are reported to the Board of Directors on a current basis.

In accordance with current legislation, the Board of Directors has set up an Audit Board, which acts as an intercompany audit board for the companies within the Nykredit Group which are obliged to set up such a board, ie Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S. The Audit Board is charged with reviewing accounting and audit matters relating to internal control and risk management.

Nykredit set up a Remuneration Board in 2010. The Remuneration Board is appointed by the Board of Directors and is composed of three Directors. The primary role of the Remuneration Board is to prepare and recommend the remuneration policy applying to Nykredit's Board of Directors and Executive Board for adoption by Nykredit's Board of Directors and the remuneration of the members of the Committee of Representatives.

The Board of Directors has assigned the day-to-day responsibility to the Group Executive Board which is in charge of 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, the Treasury Committee and the Remuneration Committee.

The Risk Committee is charged with assessing all group risks and internal capital adequacy requirements 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 and liquidity risks, respectively. Both committees approve or endorse risk exposures within the limits provided by the Board of Directors of Nykredit Realkredit A/S to the Executive Board.

Risk areas reviewed by committees

Risk Committee	
Capital policy and requirement	Assessment of Nykredit's required capital base and future capital requirement (ICAAP)
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 LTV ratios ▪ Market risk ▪ Liquidity risk ▪ Operational risk ▪ Other risk
Legislative measures	Assessment of amendments to financial legislation 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 (Danish covered bonds)	Assessment of development in prices of mortgaged properties Assessment of volume of interim loan guarantees Required 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 of: ▪ Customer (finances, payment record, rating, 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 limits
Market risk limits	Market risk limits and their utilisation within the Group
Remuneration Committee	
Remuneration policy	Maintenance and development of remuneration policy
Risk-takers	Procedures for approval of risk-takers
Legislative measures	Assessment of amendments to financial legislation from the Danish FSA and the EU concerning remuneration

The objective of the Remuneration Committee is to assist the Group Executive Board in ensuring that Nykredit's remuneration, including bonus payments, is in line with Nykredit's business strategy and targets.

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

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

Internal Audit reviews the Group's internal models and their application annually. The review includes an assessment of the organisational structure, the estimation of risk parameters and verification that the Group complies with the requirements of the Danish Executive Order on Capital Adequacy and the 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, the relevant management levels and the business areas. The tables on this page and the preceding page show a selection of the most important risk reporting elements.

INCENTIVE AND BONUS PROGRAMMES

Nykredit offers its staff incentive as well as bonus programmes.

There is a general bonus programme at group level that covers the vast majority of the Group's staff – the remaining staff is covered by special bonus programmes.

The bonus allotment criterion applying to the general bonus programme is the development in the business return of each business area. Bonus is linked to the overall earnings of the business area rather than to the individual staff member's sales performance.

Under the general bonus programme, DKK 50m will be paid for 2010 (2.7% of the payroll of the staff involved) against DKK 18m for 2009 (0.9% of payroll). No employee bonds will be allotted for 2010 as was the case in 2009. No bonus programme has been set up for the Board of Directors and Group Executive Board.

Special bonus programmes apply to the business areas Markets, Asset Management and Group Treasury, which match the market standards in Denmark and abroad for such staff groups. The remuneration of these staff members is based on their job performance. Therefore, the variable salary component is generally high relative to the rest of the Group's staff.

Bonus to staff in Markets, Asset Management and Group Treasury amounted to DKK 119m for 2010 compared with DKK 114m for 2009.

There are also bonus programmes in respect of special customer functions totalling DKK 21m for 2010 against DKK 8m for 2009.

In December 2010, the new rules of the EU Capital Requirements Directive regarding variable remuneration of senior management and risk-takers were adopted for implementation into Danish law with effect from 1 January 2011. Nykredit has prepared a bonus programme which fulfils the rules and intentions of the legislation for the staff included.

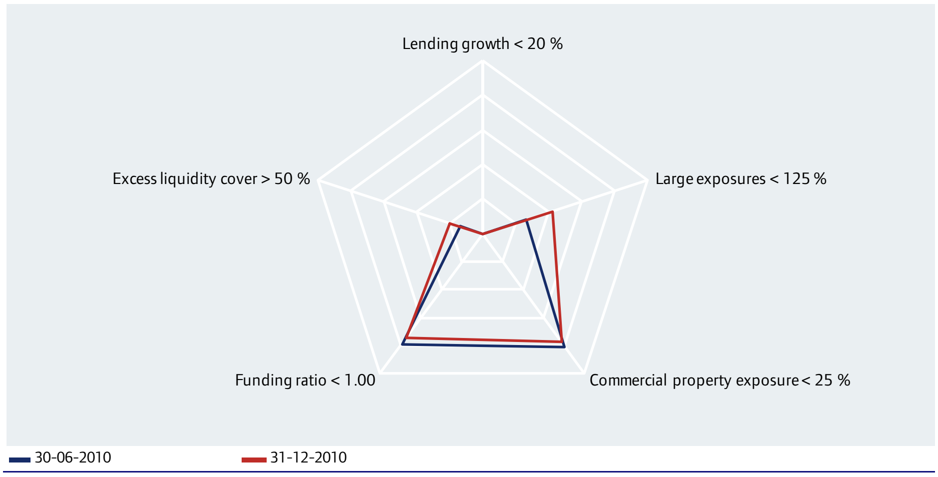
SUPERVISORY DIAMOND MODEL FOR BANKS

In consequence of the financial crisis, the Danish FSA launched a so-called supervisory diamond model in June 2010. The supervisory diamond is a strictly Danish initiative and does not stem from the general EU legislation.

The supervisory diamond sets out limits for five key ratios that indicate when a bank is operating at an excessive risk.

As at 30 June 2010 and 31 December 2010, Nykredit Bank was below the limits prescribed by the FSA.

The Nykredit Bank Group
Supervisory diamond



CAPITAL REQUIREMENT

The Nykredit Realkredit Group
Capital base

DKK million	2010	2009
Core capital	**55,188**	**51,109**
Statutory deductions from core capital		
Proposed dividend	(300)	-
Intangible assets, including goodwill, and deferred capitalised tax assets	(4,671)	(5,164)
Current loss for the year	-	-
Exposures exempt from limits applicable to large exposures	-	-
Core capital after primary deductions	**50,217**	**45,945**
Hybrid core capital	11,055	10,805
Core capital incl hybrid core capital after primary deductions	**61,272**	**56,750**
Other deductions from core capital		
Deduction for insurance business	-	(384)
Equity investments >10%	(148)	(106)
Sum of equity investments >10%	-	-
Deduction for half the difference between IRB-calculated losses and impairments	(599)	(744)
Deduction for half the expected losses on equity investments	(29)	(39)
Core capital incl hybrid core capital after statutory deductions	**60,497**	**55,476**
Supplementary capital		
Subordinate loan capital	594	4,567
Revaluation reserves	132	132
Reserves in series	53	57
Total supplementary capital	**780**	**4,756**
Statutory deductions from capital base		
Deduction for insurance business	-	(384)
Equity investments >10%	(148)	(106)
Sum of equity investments >10%	-	-
Deduction for half the difference between IRB-calculated losses and impairments	(599)	(744)
Deduction for half the expected losses on equity investments	(29)	(39)
Total statutory deductions from capital base	**(776)**	**(1,274)**
Total capital base after statutory deductions	**60,500**	**58,958**

The Nykredit Realkredit Group
Loan capital

	Interest rate	Maturity	Amount in DKKm
Nykredit Realkredit A/S			
Hybrid core capital	4.9% until 22.09.2014, then floating	Perpetual	500
Hybrid core capital	9.0% until 01.04.2015, then floating	Perpetual	900
Total (EUR)			**1,400**
Nykredit Bank A/S			
Hybrid core capital	6.3% until 22.10.2014, then floating	Perpetual	150
Hybrid core capital	3M CIBOR + 1.7% until 01.05.2016, then floating	Perpetual	100
Subordinate loan capital	Floating	29.03.2014	75
Subordinate loan capital	Floating	29.09.2014	119
Subordinate loan capital	Floating	30.09.2014	200
Subordinate loan capital	Floating	01.11.2014	200
Total			**844**

CAPITAL BASE

The capital base of the Nykredit Realkredit Group stood at DKK 60.5bn at end-2010 against DKK 59.0bn at end-2009.

As a result of continued growth in Nykredit Bank's customer-oriented business, the Bank's core capital was strengthened by DKK 1.0bn measured at market value. The capital increase was fully subscribed for by Nykredit Realkredit.

In autumn 2010, Nykredit Realkredit A/S repaid subordinate loan capital corresponding to EUR 500m. Nykredit Bank A/S repaid subordinate loan capital equal to DKK 325m in the same period. The Nykredit Realkredit Group thus repaid subordinate loan capital of an aggregate DKK 3.9bn, reducing the capital base correspondingly.

Nykredit's core capital consists mainly of equity. As shown in the table below, core capital after statutory deductions amounted to DKK 60.5bn, of which hybrid core capital accounted for DKK 11.1bn.

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 impairment losses 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". The IRB-calculated loss totalled DKK 10,309m, and impairment losses for accounting purposes relating to IRB exposures totalled DKK 9,112m. Total statutory deductions amounted to DKK 1,198m at end-2010. The IRB-calculated loss is a concept applied for regulatory purposes and does not correspond to Nykredit's own loss expectations.

CAPITAL REQUIREMENT – DETERMINATION METHODS

Credit risk

The Nykredit Realkredit Group has been authorised by the Danish Financial Supervisory Authority (FSA) to use the internal ratings-based (IRB) advanced 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 IRB foundation 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 IRB foundation approach may also become subject to the IRB advanced approach in the long term.

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

- Sovereign and credit institution exposures
- Minor individual portfolios.

As mentioned, Forstædernes Bank A/S and Nykredit Bank A/S merged in April 2010. Accordingly, exposures stemming from Forstædernes Bank are treated in the same way as Nykredit Bank's exposures using the IRB methods. In consequence, customers have been assigned ratings according to the principles applied by the rest of the Group, cf "Credit risk models".

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 related to equities, 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 related to 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 and the parts of the portfolio for which the capital requirement 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.

Transitional rules

Under a transitional rule applicable to 2010, the capital requirement may not decrease by more than 20% compared with the Basel I rules. On applying the 20% limit, the Group's capital requirement amounted to DKK 45.0bn at 31 December 2010. As a result of the transitional rule, the capital adequacy ratio must be at least 13.7%.

The current transitional rule will be extended to 2011.

FSA inspections

The FSA performs regular inspections of Danish banks and mortgage lenders.

Pursuant to a new executive order which entered into force on 1 April 2010, banks and mortgage lenders must publish the FSA's inspection reports. A link to the complete inspection reports of the FSA is available at nykredit.dk/omnykredit.

In 2010 the FSA conducted inspections of the Nykredit Group; the published inspection reports can be accessed at nykredit.dk.

The Nykredit Realkredit Group
Share of total exposure value covered by different approaches to credit risk determination

2010	IRB advanced approach	IRB foundation approach	Standardised approach	Total	Total exposures
	%	%	%	%	DKKm
Retail exposures	99.8	-	0.2	100.0	684,516
Of which					
- Mortgages on real property	*99.8*	-	*0.2*	*100.0*	*671,948*
- Revolving exposures, etc	*100.0*	-	-	*100.0*	*4,369*
- Other retail exposures	*100.0*	-	-	*100.0*	*8,198*
Commercial exposures	79.0	20.3	0.8	100.0	419,501
Credit institution exposures [1]	-	-	100.0	100.0	78,493
Sovereign exposures	-	-	100.0	100.0	40,530
Equity exposures [2]	98.4	-	1.6	100.0	4,747
Securitisations	100.0	-	-	100.0	350
Assets with no counterparty	100.0	-	-	100.0	4,075
Total 2010	**83.0**	**6.9**	**10.0**	**100.0**	**1,232,211**
Total 2009	79.7	5.8	14.5	100.0	1,187,791

[1] Credit institution exposures include guarantees issued by banks of a total of DKK 28.7bn.
[2] Capital charges for equity exposures have been determined using the simple risk weight approach. Of the total exposure of DKK 4.7bn, 1.5% is unlisted and is assigned a risk weight of 370%.

CAPITAL REQUIREMENT

At 31 December 2010, the Group's capital requirement was DKK 26.2bn, and risk-weighted items totalled DKK 327.7bn. With the capital base of DKK 60.5bn, this corresponds to a capital adequacy ratio of 18.5%.

The Group's required capital base stood at DKK 30.7bn at end-2010, equal to an internal capital adequacy requirement of 9.4%. The required capital base expresses the amount of capital required to cover the Group's risks in the medium term. The determination of capital is described further under "Capital management".

The IRB advanced approaches are used to determine the credit risk relating to the greater part of the Group's portfolios, cf "Capital requirement – determination methods". According to Nykredit's rating structure, customers with an elevated credit risk are placed in the lowest rating categories with the highest capital requirement. The higher capital requirement for these exposures is included in the statutory capital requirements of the group companies and the Group.

The Nykredit Realkredit Group
Capital requirement and capital adequacy

DKK million	2010	2009
Credit risk		
Standardised approach		
Exposures to central governments or central banks	0	0
Exposures to regional government or local authorities	-	-
Exposures to administrative bodies and non-commercial undertakings	-	-
Exposures to multilateral development banks	-	-
Exposures to international organisations	-	-
Exposures to institutions	1,247	1,628
Exposures to corporates, etc	253	704
Retail exposures	70	262
Exposures secured by mortgages on real property	-	62
Exposures in arrears or overdrawn	-	277
Covered bonds	-	-
Short-term exposures to corporates, etc	-	-
Exposures in the form of collective investment undertakings	-	-
Exposures in the form of other items, incl assets with no counterparty	-	-
Total credit risk, standardised approach	**1,571**	**2,932**
Internal Ratings-Based (IRB) approach		
Retail exposures	7,257	6,959
Of which		
– Mortgages on real property	*6,852*	*6,692*
– Revolving exposures, etc	*62*	*37*
– Other retail exposures	*343*	*229*
Commercial exposures	12,629	12,271
Equity exposures	1,115	1,307
Assets with no counterparty	326	258
Settlement risk	0	0
Total credit risk, IRB approach	**21,328**	**20,795**
Securitisation positions, IRB approach	**371**	**0**
Total credit risk	**23,270**	**23,728**
Market risk	**1,672**	**1,846**
Operational risk	**1,272**	**978**
Total capital requirement	**26,213**	**26,551**
Risk-weighted items	327,665	331,891
Capital base	60,500	58,958
Capital adequacy ratio, %	18.5	17.8
Basel II transitional rule		
Capital requirement after transitional rule [1]	**45,016**	**42,000**
Required capital adequacy ratio (after transitional rule) [2], %	**13.7**	**12.7**

[1] The capital requirement after transitional rule has been determined in accordance with the transitional provisions of the Executive Order on Capital Adequacy. The capital requirements in 2009-2011 must constitute at least 80% of the capital requirement determined under Basel I.

[2] The required capital adequacy ratio has been determined as the capital requirement after transitional rule as a percentage of risk-weighted items under Basel II, thereby expressing the capital adequacy requirement in consequence of the transitional rule.

CAPITAL BASE AND CAPITAL REQUIREMENTS OF GROUP COMPANIES

The table below shows the capital base and capital requirements of the companies of the Nykredit Realkredit Group. All group companies have capital adequacy ratios at comfortable levels above the statutory 8%.

Nykredit Realkredit A/S, Totalkredit A/S and the Nykredit Bank Group are subject to the transitional rule relating to the application of the IRB approaches to determine credit risk. For Nykredit Bank, however, the requirement under the transitional rule is lower than 8%, and therefore the 8% requirement applies. For Nykredit Realkredit A/S, Totalkredit A/S and the Nykredit Realkredit Group, the requirement under the transitional rule is higher than 8%, whereby the requirement after the transitional rule applies. The required capital adequacy ratio after the transitional rule expresses the capital adequacy requirement in consequence of the transitional rule.

CONSOLIDATION METHODS

The capital requirement is determined according to the rules of the Danish 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. Collectively, Nykredit Realkredit A/S and its subsidiaries are referred to as the Nykredit Realkredit Group.

The consolidated risk exposures include:

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

Together with other enterprises, the Nykredit Realkredit Group has joint control of a number of enterprises which do not form part of the Group. Such enterprises are considered joint ventures. One example is JN Data. Group investments in joint ventures are recognised by proportionate consolidation for the purpose of both financial statements and the determination of the capital requirement.

DIFFERENCES COMPARED WITH FINANCIAL STATEMENTS

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.

Capital base and capital requirements of group companies

2010 DKK million	Nykredit Realkredit A/S	Totalkredit A/S	The Nykredit Bank Group	The Nykredit Realkredit Group
Credit risk	25,574	4,853	6,352	23,269
Market risk	1,093	375	644	1,672
Operational risk	970	241	330	1,272
Total capital requirement before transitional rule	**27,637**	**5,469**	**7,327**	**26,213**
Total capital requirement after transitional [1]	**31,029**	**14,390**	**6,104**	**45,016**
Capital base	**59,221**	**15,681**	**14,533**	**60,500**
Core capital ratio, % [2]	17.2	19.3	15.2	18.5
Capital adequacy ratio, % [2]	17.2	22.9	15.9	18.5
Capital adequacy requirement (SREP), %	8.0	8.0	8.0	8.0
Required capital adequacy ratio after transitional rule, %[3]	9.0	21.0	6.7	13.7
Total risk-weighted items	**345,467**	**68,367**	**91,582**	**327,665**

[1] The capital requirement after transitional rule has been determined in accordance with the transitional provisions of the Executive Order on Capital Adequacy. The capital requirements in 2009-2011 must constitute at least 80% of the capital requirement determined under Basel I.
[2] The core capital and capital adequacy ratios have been determined relative to risk-weighted items without applying the transitional rule.
[3] The required capital adequacy ratio after transitional rule has been determined as the capital requirement after transitional rule as a percentage of risk-weighted items under Basel II, thereby expressing the capital adequacy requirement in consequence of the transitional rule.

CAPITAL MANAGEMENT

CAPITAL POLICY AND STRUCTURE

One of Nykredit's objectives is to be able to maintain its lending activities at an unchanged level regardless of economic trends, while retaining a competitive rating. This means that Nykredit must have sufficient capital to cover the statutory capital requirement during a severe recession.

Nykredit pursues a long-term risk and capital management policy, incorporating substantial buffers compared with the statutory requirements. Capital is as far as possible concentrated in the Parent Company, Nykredit Realkredit A/S, to ensure strategic flexibility and leeway. Contributing capital to group companies as required is a central element of the Group's capital policy.

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 risk parameters, Nykredit applies long-term historical data, with loss data dating back to 1991.

Nykredit's internal business capital corresponds to the statutory required capital base excluding a charge owing to the transitional rule. It expresses the amount of capital required to cover the Group's risks in the medium term. Nykredit determines the required capital base so that it may cover increased losses and capital requirements in a weaker economic climate.

The determination of the required capital base factors in lending involving an elevated risk of loss. It also incorporates a general capital charge for uncertainties. The determination of the required capital base and internal capital adequacy requirement (ICAAP result) is described in more detail overleaf.

Group equity after dividend distribution stood at DKK 55.0bn at end-2010.

Nykredit divides its equity into four elements:

- *Business capital* of DKK 30.7bn equal to the statutory required capital base. Nykredit's estimate of the required capital base is partly based on the consequences of deterioration of the current economic climate.
- *Cyclical buffer* of DKK 15.3bn covering the expected rise in the statutory required capital base should the economic climate change from an economic downturn to a severe recession with unemployment rates rising to the high levels of the early 1990s. The cyclical buffer is determined by means of stress tests.
- *Statutory capital deductions (goodwill, etc)* relating to intangible assets of DKK 4.7bn.
- *Strategic capital* of DKK 4.3bn, the long-term capital maintained for strategic initiatives.

The Nykredit Realkredit Group
Capital structure, end-2010

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 risks (ICAAP).

Nykredit aims to maintain a competitive rating of the issued bonds and to remain active as a lender also in periods with low business activity. The determination of the required capital base takes into account these business targets by allocating capital for all relevant risks, including any model uncertainties.

In determining the required capital base, Nykredit applies statistical confidence levels higher than the 99.9% required by law. The Group's required capital base is determined using a confidence level of 99.97% for all exposures out of consideration for Nykredit's commitment to maintaining a competitive rating of the issued bonds.

The Group wants to concentrate its capital resources in the Parent Company, Nykredit Realkredit A/S. Against this background, the required capital base of Nykredit Bank is calculated on the basis of a lower confidence level (99.93%) when determining the Bank's internal capital adequacy requirement relative to the Group's capital adequacy determination (99.97%).

In Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S, the capital charge for exposures with an elevated risk of loss is increased through internal credit models, in which such exposures are rated 0, 1 or 2, cf "Credit risk models".

Nykredit applies the following methods to determine the required capital base, see also the table below:

- Credit risk is determined using Nykredit's internal model with the same parameters as the IRB models, but without the statutory requirements for minimum levels. The underlying loss data cover 1991 and onwards.

Required capital base

2010 DKK million	Nykredit Realkredit A/S	Totalkredit A/S	The Nykredit Bank Group	Nykredit Bank A/S	The Nykredit Realkredit Group
Calculation assumptions					
Statistical confidence level applied at group level, %	99.97	99.97	99.97	99.97	99.97
Statistical confidence level applied at company level, %	99.97	99.97	99.93	99.93	-
Time horizon[1]	1 year	1 year	1 year	1 year	1 year
Determination					
Credit risk (internal credit risk model)	25,574[2]	5,814	5,364	5,364	19,254
Market risk (internal Value-at-Risk model)	2,142	218	698	698	3,149
Operational risk (standardised approach)	747	155	282	282	1,209
Risk relating to own properties	-	-	-	-	137
Pillar I, total	**28,463**	**6,187**	**6,343**	**6,343**	**23,750**
Weaker economic climate (stress test, etc)	1,258	1,362	96	96	2,781
Other [3]	33	-	989	989	1,441
Model and calculation uncertainties	1,156	755	743	743	2,797
Pillar II, total	**2,448**	**2,117**	**1,829**	**1,829**	**7,020**
Total required capital base	**30,911**	**8,305**	**8,172**	**8,172**	**30,770**

[1]Risks are calculated for a term of one year, while charges for a weaker economic climate under Pillar II are based on 3-year scenarios.
[2]The credit risk of Nykredit Realkredit A/S includes the capital charge of intercompany exposures, including investments in subsidiaries and joint funding with Totalkredit A/S. Intercompany exposures are eliminated in the determination for the Nykredit Realkredit Group, for which reason the credit risk is higher for Nykredit Realkredit A/S than for the Nykredit Realkredit Group.
[3]Other includes assessment of control risk, strategic risk, external risk, concentration risk, liquidity risk, etc.

Capital requirement

2010 % of risk-weighted items	Nykredit Realkredit A/S	Totalkredit A/S	The Nykredit Bank Group	Nykredit Bank A/S	The Nykredit Realkredit Group
Determination					
Credit risk (internal credit risk model)	7.4	8.5	5.9	5.8	5.9
Market risk (internal Value-at-Risk model)	0.6	0.3	0.8	0.8	1.0
Operational risk (standardised approach)	0.2	0.2	0.3	0.3	0.4
Risk relating to own properties	-	-	-	-	0.0
Pillar I, total	**8.2**	**9.0**	**6.9**	**6.9**	**7.2**
Weaker economic climate (stress test, etc)	0.4	2.0	0.1	0.1	0.8
Other [1]	0.0	-	1.1	1.1	0.4
Model and calculation uncertainties	0.3	1.1	0.8	0.8	0.9
Pillar II, total	0.7	3.1	2.0	2.0	2.1
Total capital requirement	**8.9**	**12.1**	**8.9**	**8.9**	**9.4**

[1]Other includes assessment of control risk, strategic risk, external risk, concentration risk, liquidity risk, etc.

- Market risk is determined using Nykredit's internal Value-at-Risk model, which is described under "Market risk".
- The required capital base may not be lower than the statutory capital requirement, cf section 124(2) of the Danish Financial Business Act.
- No deductions are made for any diversification effects between risk types, business areas and countries.
- A number of stress tests are applied to determine the capital requirements for increasing impairment losses and the capital requirement in a weaker economic climate.
- Operating losses in stress tests increase the capital requirement, while no set-off is made for operating profits.

Owing to these calculation methods, Nykredit's required capital base will be affected only to a minor extent by the Danish economy's moving from a boom such as in 2007 to a recessionary period.

Nykredit's required capital base consists of Pillar I and Pillar II capital.

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

Pillar II
Pillar II comprises capital to cover other risks as well as an increased capital requirement during an economic downturn. The capital charge during an economic downturn is determined by means of stress tests, cf "Stress tests and capital projection".

Weaker economic climate
In its Pillar II assessment, Nykredit assumes that in 2011 a weaker economic climate will set in, which is in line with the forecasts of corresponding economic trends from various recognised sources.

In a weaker economic climate, the need for capital will grow concurrently with falling property prices and increasing arrears. The calculations also factor in any operating losses due to higher impairment losses etc.

Other factors
The determination of other factors includes any additional risk relating to own properties and reputation risk, which are determined using internal estimates as well as assessments of control risk, strategic risk, external risk, concentration risk, etc.

In December 2010, the FSA issued revised guidelines for determining the required capital base and internal capital adequacy requirement (ICAAP), now also covering mortgage banks.

In future, mortgage banks must be more alert to the part of the loan portfolio that requires interest rate adjustments, focus on supplementary security and assess their ability to absorb losses.

As an integral part of assessing both the ICAAP result and the capital policy, Nykredit is already actively addressing these areas, so in practice the guidelines merely imply further specification of existing calculations made at a more aggregate level.

The new guidelines will not give rise to further capital charges in the determination of the ICAAP result.

Model and calculation uncertainties
Nykredit applies various models to calculate the capital requirements under both Pillar I and Pillar II.

The calculated capital requirement depends on the choice of model, model design, level of detail, etc. Under Pillar II, a capital charge is included that reflects the uncertainty of the models used. Generally, the charge applied corresponds to 10% of the risks calculated.

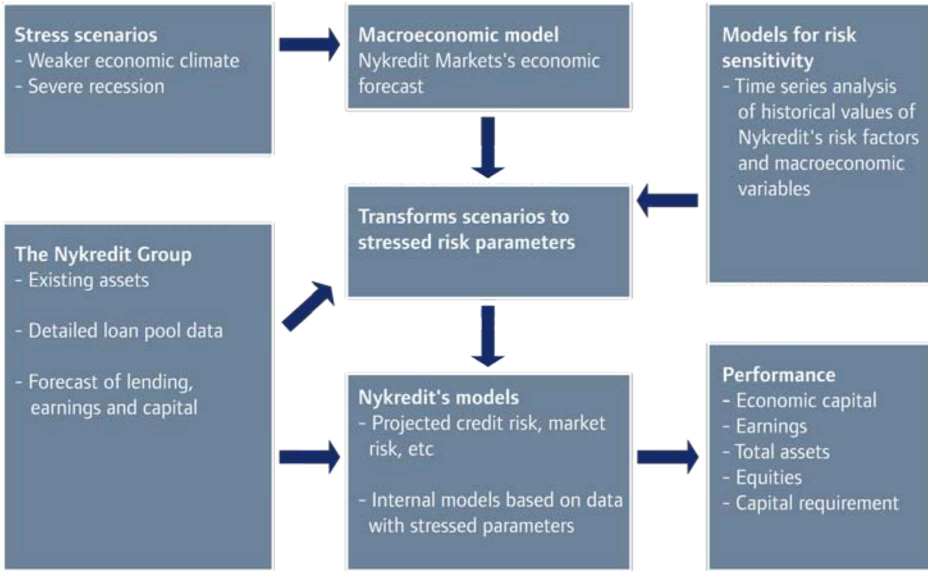
CYCLICAL BUFFER

In addition to the required capital base, Nykredit reserves capital to cover the expected rise in the required capital base if the economic climate changes into a severe recession, corresponding to an increase in unemployment to around 10% along with high interest rates, cf "Stress tests and capital projection".

The calculations are based on the assumption that the existing lending volumes are maintained in spite of a weaker economic climate.

The cyclical buffer amounted to DKK 15.3bn at end-2010.

Model structure for stress tests and capital projections



STRESS TESTS AND CAPITAL PROJECTIONS

Nykredit uses stress tests and scenario analyses in connection with the determination by the boards of directors of the required capital base and long-term capital requirement.

Nykredit operates with three scenarios of the economic development: a base case scenario, a weaker economic climate and a severe recession.

The scenarios are assessed at least once a year.

An essential element of the capital projection model is the correlation between the different economic scenarios and borrower credit risk parameters.

The transformation of the macroeconomic scenarios to stressed default rates builds on historical correlations between customer default rates and macroeconomic variables.

The following macroeconomic variables have been deemed significant and are therefore included in the capital projection model:

- Interest rates (weighted on the basis of short-term unsecured and long-term interest rates)
- Real GDP (annual growth rate)
- Nominal house prices (annual growth rate)
- Unemployment rate (absolute change)
- Equities (annual growth rate in OMXC20)

The variables are stressed so as to arrive at the three scenarios.

Scenario: base case

This scenario is a projection of the Danish economy based on Nykredit's official assessment of the current economic climate.

Scenario: weaker economic climate in 2011

The scenario is designed to illustrate a weaker economic climate relative to the base case scenario.

The Pillar II charge is the capital requirement in this scenario and is calculated as the capital requirement (Pillar I) in a weaker economic climate less the base case capital requirement. The charge for a weaker economic climate is subdivided into a charge for credit risk, market risk, reputation risk and operational risk, and the capital requirement for own properties and any impairments.

The main assumptions behind the calculations are shown in the table below.

Scenario: severe recession (cyclical buffer)

Nykredit designs the severe recession scenario so that it reflects an extreme, but not unlikely, situation. The development determines the size of the cyclical buffer.

The cyclical buffer equals the capital requirement in this scenario and is calculated as the capital requirement (Pillar I) during a severe recession less the sum of the base case capital requirement and Pillar II charge. Any negative earnings impact is also added covering the accumulated loss calculated in the scenario, which in the model shows the total development in equity.

The main assumptions behind the calculations are shown in the table below.

FSA stress tests

As part of the Group's capital policy, in addition to calculating its own scenarios, Nykredit also assesses the stress scenarios prepared by the Danish FSA. The scenarios of the FSA and Nykredit are generally similar, but differ in terms of model setup. Since the FSA published its scenario analyses in 2010, Nykredit has regularly assessed the results in relation to the results based on its own models. In this connection, Nykredit submitted group level calculations to the FSA in 2010 on its own initiative. The FSA's stress scenarios, which now cover mortgage banks as well, have not given rise to adjustments of Nykredit's own stress calculations, nor of its capital policy.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

On the basis of an internal capital adequacy assessment process (ICAAP), the boards of directors of the individual group companies determine the required capital base and internal capital adequacy requirement (ICAAP result) of their respective company during a weaker economic climate at least once a year. The Board of Directors of the Nykredit Realkredit Group determines the cyclical buffer.

The boards of directors will reassess the ICAAP results if any major unexpected events occur.

The determination of the internal capital adequacy requirement by the individual board of directors is based on a number of stress tests as well as an assessment of the company's business model, risk profile and capital structure.

Furthermore, Nykredit's Risk Committee monitors the development in the ICAAP results of the individual companies closely through reports that are updated at least quarterly.

Stress scenarios for determination of capital requirement at end-2010

%	2010	-	2013
Weaker economic climate (scenario applied under Pillar II)			
GDP, growth	-1.9	;	1.0
Interest rates [1]	1.9	;	5.3
Property prices, growth	-7.5	;	3.4
Unemployment	4.2	;	6.0
Severe recession (scenario applied under cyclical buffer)			
GDP, growth	-2.0	;	0.0
Interest rates [1]	1.9	;	8.5
Property prices, growth	-15.0	;	3.4
Unemployment	4.2	;	9.5

Note: For example, -1.9;1.0 denotes that growth in GDP in the periods 2010-2013 ranges from -1.9% to 1.0%.
[1] Average of 3-month money market rates and 10-year government bond yields.

NYKREDIT'S RATINGS

Nykredit Realkredit A/S, Nykredit Bank A/S as well as most of the companies' funding are rated by the international rating agencies Moody's Investors Service and Standard & Poor's.

The bonds issued by Nykredit Realkredit A/S are primarily covered bonds (SDOs) and mortgage bonds (ROs). In addition, bonds have been issued for the funding of supplementary security pursuant to section 33 e of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act (junior covered bonds) as well as hybrid core capital.

Nykredit Bank A/S has issued senior debt as part of the Bank's funding programme.

Only mortgage bonds used for the funding of index-linked loans and loans disbursed prior to September 1993 are not rated.

In February 2010, Moody's announced that the rating of hybrid core capital issued by Nykredit Realkredit A/S had been lowered by one notch to Baa1 as a result of a change of methodology.

In February 2011, Moody's announced that mortgage bonds (ROs) issued out of Capital Centre G of Nykredit Realkredit A/S would be rated Aa3. Capital Centre G is applied to fund the top part of loans in connection with two-tier mortgaging of commercial properties.

In December 2010, Standard & Poor's revised the outlook for the long-term unsecured rating of Nykredit Realkredit A/S and the long-term deposit rating of Nykredit Bank A/S from negative to stable.

The most recent research on Nykredit by Moody's and Standard & Poor's is available at nykredit.com/ir.

The Nykredit Realkredit Group
Ratings

	Moody's Investors Service	Standard & Poor's
SDOs, ROs and JCBs		
Nykredit Realkredit A/S		
Capital Centre C (covered bonds (ROs))	Aa1	AAA
Capital Centre D (covered bonds (ROs))	Aaa	AAA
Capital Centre E (covered bonds (SDOs))	Aaa	AAA
Capital Centre E (junior covered bonds (JCBs))	Aa3	-
Capital Centre G (junior covered bonds (JCBs))	Aa3	-
Nykredit Realkredit 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	A1	A+
Hybrid core capital (Tier 1)	Baa1	BBB+
Nykredit Bank A/S		
Short-term deposit rating	P-1	A-1
Long-term deposit rating	A1	A+
Bank Financial Strength Rating (BFSR)	C-[1]	-
EMTN Programme		
- Short-term senior debt	P-1	A-1
- Long-term senior debt	A1	A+
Euro Commercial Paper programme and Certificate of Deposit Programme		
- Short-term senior debt	P-1	A-1+

[1] Negative outlook

CREDIT RISK

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

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 prepared with a view to hedging the risks affected by changes in economic trends between the granting of loans and their settlement.

The Board of Directors lays down the overall framework of credit granting and is presented with the Group's largest credit applications for approval or briefing on a current basis. 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 exposures. The Risk Committee is responsible for approving credit models and assessing credit risk at portfolio level.

Exposures over a specified amount are 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 are subject to approval by the Group's Credits Committee, and exposures over DKK 200m 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 grants or approves 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 (DKK 300m, 400m, 500m, etc).

The credit limits are higher if the customer is a bank or a mortgage lender, but the principle applied is the same, in the sense that the Board of Directors must grant or approve exposures over a certain amount and subsequently when they increase by multiples.

Also, the Board of Directors is briefed semi-annually about impairment losses in excess of DKK 30m and annually about exposures to members of the Board of Directors, Executive Board, etc.

When processing credit applications, the centres conduct 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 with an assessment of the 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.

All major customers have been assigned to a specific unit which is charged with the overall responsibility for the credit quality of the exposure, including the valuation of security.

Bank exposures over DKK 2m and exposures including operating finance over DKK 0.5m are reviewed at least once a year. This is part of the monitoring of credit exposures based on updated financial and customer information. In addition, all exposures showing signs of risk are reviewed.

Totalkredit's business concept is lending through its partner banks – Danish local and regional banks. The partner banks are responsible for serving customers and hedging the loan portfolio risk.

Risk is hedged by agreement with the partner banks. Under the agreement, recognised losses corresponding to the part of a loan exceeding 60% of the mortgageable value at the time of granting are offset against future commission payments from Totalkredit to the partner banks.

As a consequence of the set-off agreement, Totalkredit A/S bears the full capital charge as well as any impairment losses on the loans. The capital charge for credit risk determined for mortgage lending in Totalkredit A/S came to DKK 4.8bn at 31 December 2010.

Through the banks' risk hedging, Totalkredit offset losses in the amount of DKK 107m in 2010.

Nykredit set up the property company Ejendomsselskabet Kalvebod A/S in 2009 as a wholly-owned subsidiary with equity in the amount of DKK 500m. The purpose was to ensure the best possible management of non-performing property exposures.

Property investors with investable funds have for a while been hesitant to buy properties, and the current market prices may in many cases deviate substantially from realistic going concern values. With the establishment of Ejendomsselskabet Kalvebod A/S, Nykredit intends to acquire properties relating to non-performing property exposures if no satisfactory offer is made by third parties.

The principal activities of Ejendomsselskabet Kalvebod A/S are, directly or indirectly through subsidiaries, to temporarily own and manage properties held for resale.

The property company acquired shares in two property companies in the second half of 2010. The company's property portfolio amounted to DKK 776m at end-2010.

DETERMINATION OF CREDIT RISK

In the determination of credit risk, exposures are calculated as the sum of the carrying amounts of actual loans as well as 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 1,232bn at end-2010 against DKK 1,188bn at end-2009.

Guarantees received issued by banks are recognised as credit institution exposures under mortgage lending. At 31 December 2010, those guarantees amounted to DKK 28.8bn.

Similarly, guarantees issued by the government are recognised as sovereign exposures under mortgage lending. They amounted to DKK 25.4bn at end-2010.

The Nykredit Group has no lending activities outside Europe. Nykredit Realkredit A/S's activities in Poland are being wound up, and activities in the rest of Europe focus on mortgaging of properties in Scandinavia, France, Spain and Germany. All in all, foreign credit exposures represent less than 5% of the total portfolio.

Impairment losses

Impairment losses on loans and advances declined by DKK 5,499m to DKK 2,103m at 31 December 2010.

Impairment losses on mortgage lending were DKK 888m, equal to 0.1% of lending. Impairment losses on bank lending came to DKK 1,215m, excluding the government guarantee scheme, equal to 1.3% of loans and advances.

Impairment losses under the government guarantee scheme were DKK 279m.

In 2011 impairment losses on loans and advances are estimated at DKK 1.0bn-2.0bn, an impairment level around DKK 1.5bn being the most likely. Impairment levels have thus normalised. As in 2010, the highest impairment losses are expected for small and medium-sized enterprises (SMEs).

FSA inspections of credit quality

Overall, Nykredit has taken note of the Danish FSA's assessment of Nykredit Bank: "... that the credit quality of the Bank's retail lending was better than the average credit quality of other major Danish banks." And about Nykredit Realkredit A/S, the FSA states: "Based on the review, the Danish FSA found that the security behind Nykredit's agricultural lending exceeds that of the average Danish mortgage bank."

The Nykredit Realkredit Group
Credit exposures

DKK million	2010	2009
Retail exposures	684,516	621,118
Of which		
- Mortgages on real property [1]	*671,948*	*605,014*
- Revolving exposures, etc	*4,369*	*3,712*
- Other retail exposures	*8,198*	*12,392*
Commercial exposures	419,501	404,295
Credit institution exposures	78,493	111,443
Sovereign exposures	40.530	42,493
Equity exposures	4,747	5,220
Securitisations	350	-
Assets with no counterparty	4,075	3,222
Total	**1,232,211**	**1,187,791**

[1] Incl exposures covered by the right of set-off, cf the agreement with partner banks.

The Nykredit Realkredit Group
Credit exposures and capital charge

2010 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	656,462	22,446	5,608	-	684,516	*9,193*	13.4	7,327
Of which								
- Mortgages on real property	*656,462*	*15,107*	*380*	-	*671,948*	*6,477*	*12.9*	*6,922*
- Revolving exposures, etc	-	*4,369*	*0*	-	*4,369*	*1,951*	*17.6*	*62*
- Other retail exposures	-	*2,970*	*5,228*	-	*8,198*	*764*	*52.4*	*343*
Commercial exposures	332,485	77,604	9,412	-	419,501	*16,997*	38.4	12,883
Credit institution exposures	28,773	-	584	49,135	78,493	*944*	19.9	1,247
Sovereign exposures	25,290	-	-	15,240	40,530	*23*	0.0	0
Equity exposures	-	-	-	4,747	4,747	-	293.7	1,115
Securitisations	-	-	-	350	350	-	1325.0	371
Assets with no counterparty	-	-	-	4,075	4,075	-	100.0	326
Total 2010	**1,043,011**	**100,050**	**15,603**	**73,546**	**1,232,211**	**27,158**	**23.6**	**23,269**
Total 2009	997,596	88,061	23,355	78,779	1,187,791	27,814	25.0	23,728

The Nykredit Realkredit Group
Credit exposures by maturity

2010 DKK million	Up to 1 year	1 year and up to 5 years	Over 5 years	Total exposure
Retail exposures	12,704	8,245	663,566	684,516
Of which				
- Mortgages on real property	*161*	*8,245*	*663,542*	*671,948*
- Revolving exposures, etc	*4,369*	-	-	*4,369*
- Other retail exposures	*8,174*	*35,604*	*24*	*8,198*
Commercial exposures	12,621	584	371,276	419,501
Credit institution exposures	49,135	-	28,773	78,493
Sovereign exposures	15,240	-	25,290	40,530
Equity exposures	-	-	4,747	4,747
Securitisations	-	-	350	350
Assets with no counterparty	4,075	-	-	4,075
Total 2010	**93,673**	**44,433**	**1,094,002**	**1,232,211**
Total 2009	127,574	41,512	1,018,704	1,187,789

The Nykredit Realkredit Group
Credit exposures by type of counterparty

2010 DKK million	Retail	Non-profit housing	Private residential rental	Office and retail	Agriculture	Industry and trades	Other	Total exposure
Retail exposures	639,952	957	12,328	6,731	22,883	1,665	0	684,516
Of which								
- Mortgages on real property	*628,114*	*955*	*12,167*	*6,573*	*22,799*	*1,340*	-	*671,948*
- Revolving exposures, etc	*4,260*	*0*	*23*	*16*	*19*	*52*	-	*4,369*
- Other retail exposures	*7,578*	*2*	*138*	*142*	*65*	*274*	-	*8,198*
Commercial exposures	-	47,763	114,270	121,676	85,125	50,667	-	419,501
Credit institution exposures	-	-	-	-	-	-	78,493	78,493
Sovereign exposures	-	-	-	-	-	-	40,530	40,530
Equity exposures	-	-	-	-	-	-	4,747	4,747
Securitisations	-	-	-	-	-	-	350	350
Assets with no counterparty	-	-	-	-	-	-	4,075	4,075
Total 2010	**639,952**	**48,720**	**126,597**	**128,407**	**108,008**	**52,333**	**209,346**	**1,232,211**
Total 2009	577,996	35,851	161,741	69,398	89,086	91,340	162,378	1,187,791

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 to any one customer or group of interconnected customers after statutory deductions must not exceed 25% of the capital base.

The sum of large exposures relative to the capital base increased compared with previous statements as a result of new rules at 31 December 2010 in the form of a higher weigting of exposures to financial counterparties.

COUNTERPARTY RISK

Nykredit applies financial instruments, such as derivatives and repurchase agreements, for speculative purposes, for serving customers and for managing liquidity and market risk.

The market value of a financial instrument changes according to the underlying market parameters, such as interest rates and exchange rates, which may yield high market values in favour of both Nykredit and its counterparties.

Counterparty risk is a measure of the size of the loss which Nykredit can sustain if a counterparty defaults on its obligations, ie the market value that can potentially be accumulated on the basis of the existing business volume with a counterparty.

Nykredit seeks to limit its counterparty risk through financial netting agreements with counterparties and customers as well as agreements on financial collateral with the majority of its customers and counterparties. This way, claims at market value are netted in case of counterparty default, and net claims at market value are satisfied where possible by financial collateral as exposures increase. The contractual framework is mainly based on market standards such as ISDA or ISMA agreements.

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

The capital charge for counterparty risk is 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 21.9bn at 31 December 2010 and the capital charge DKK 0.8bn for the Group.

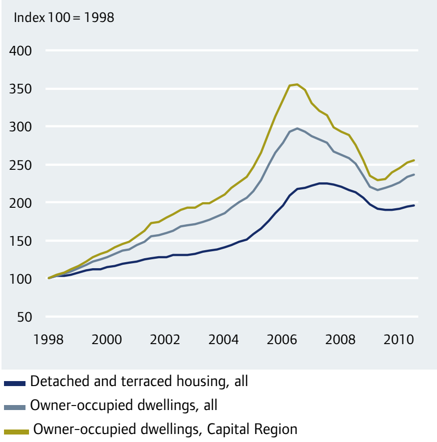
The Nykredit Realkredit Group
Large exposures by company

2010	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	6	75
Nykredit Bank A/S	4	53

Principal balance sheet items

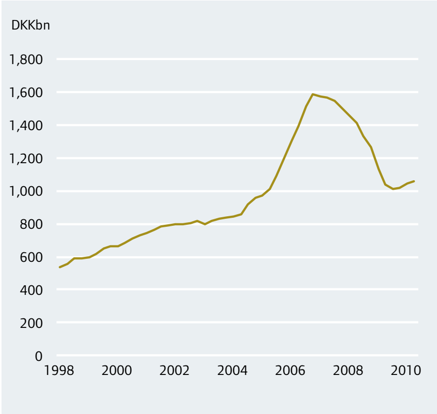
2010 DKK million	Market value after netting	Exposure value determined according to market value method	Capital charge for counterparty risk
Interest rate contracts	24	20,202	704
Foreign exchange contracts	982	1,300	70
Equity contracts	71	73	1
Credit derivatives	(9)	311	5
Total	**1,068**	**21,887**	**780**

Housing prices in Denmark



Source: Association of Danish Mortgage Banks

Development in equity in Denmark



MORTGAGE LENDING

The composition of the Group's mortgage loan portfolio 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 981bn at end-2009 to DKK 1,031bn at end-2010.

The portfolio is highly diversified in terms of loan type, geography, loan term and size of debt outstanding. The greater part of the mortgage portfolio is private residential mortgages in Denmark, which accounted for 61.6% of total mortgage lending at 31 December 2010.

The share of fixed-rate loans in the portfolio continued to fall in 2010, representing 25.0% at end-2010 against 30.0% at end-2009. By contrast, the share of adjustable-rate mortgage loans (ARMs) grew from 37.6% at end-2009 to 41.6% at end-2010.

Issuance of new fixed-rate loans saw a rise in Q3 and Q4/2010 when fixed-rate bonds accounted for nearly half and one third, respectively, of total new issuance. In Q3 the proportion of fixed-rate loans even exceeded the share of ARMs for the first time since Q3/2008.

The share of loans with interest-only periods was 53.7% of total group mortgage lending at end-2010. This is a 2.3 percentage point rise relative to the same quarter in 2009. The share of interest-only loans to retail customers rose by 2.7 percentage point from 52.0% in Q4/2009 to 54.7% in the same quarter in 2010.

Geographically, around half the loan portfolio relates to Jutland, just over a quarter to the metropolitan area and the remainder to Funen and the rest of Sealand. Most of the Group's lending relates to the parts of Denmark that saw the smallest property price declines after the peak in 2006-2007. Measured relative to total mortgage lending of the Nykredit Group, foreign lending constitutes 3.0%, illustrating that group lending is chiefly aimed at the domestic market.

Mortgage lending to commercial customers should be seen in the context of their aggregate financial contracts, including in particular swap agreements. 33% of the total interest rate swap agreements relate to housing cooperatives, and just under 9% relates to agriculture. The remainder covers swaps relating to industry/trades, office/retail, etc. As the distribution of swaps over these categories is uncertain, it is not calculated.

Housing prices

Since housing prices peaked in 2006-2007, prices at national level have decreased by 13% for detached and terraced housing and by 21% for flats. However, there are large regional variations behind the decrease, the largest decreases being recorded in the largest towns and cities, especially as regards the prices of owner-occupied flats.

Prices of detached and terraced houses increased from Q3/2009 to Q3/2010 in eight of the 11 regions in Denmark. At national level, housing prices rose by 3.3% for the period. The largest increase in prices was seen in the Capital Region, while the largest falls in prices were seen in the Sealand and Funen Regions.

Prices of owner-occupied flats were 8% higher in Q3/2010 than in Q3/2009, the biggest rises being in Copenhagen and on Funen. Flat prices thus continued their upward trend for the fifth consecutive quarter.

Commercial property prices

The development in prices of commercial properties is difficult to monitor as publicly available data are very scarce and published at a considerable time lag. Also, the number of transactions is currently very low, for which reason the available data involve a high level of uncertainty.

The most recent available data on commercial property prices are from Q2/2010.

From Q1/2009 to Q1/2010, the price of retail properties rose by just over 15%. In the same period, prices of industrial properties and agricultural properties decreased by just under 15% and 20%, respectively.

Home equity

Home equity levels peaked at end-2007 at around DKK 1,600bn. Since then, home equity has shrunk by some DKK 600bn, but it is worth noting that, in a historical context, the home equity level is still fairly high, and furthermore it stabilised/rose slightly during 2010. Home equity still exhibits regional variations, the highest level of variation being in the metropolitan area.

The Nykredit Realkredit Group
Mortgage lending

Fair value at 31 December 2010 DKK million	Owner-occupied housing	Non-profit housing	Private residential rental	Office and retail	Agriculture	Industry and trades	Other	Total
Mortgage loans								
- Bond debt outstanding	635,073	64,644	95,288	95,479	100,895	25,251	14,637	1,031,266
- Number of loans	675,658	21,231	24,570	20,329	44,895	3,384	3,096	793,163
Bond debt outstanding by loans involving								
- Public guarantees	1	49,372	248	48	306	0	130	50,105
- Bank guarantees	18,610	0	0	0	0	0	0	18,610
- Set-off agreement with banks	437,379	0	0	0	0	0	0	437,379
- No guarantee	179,084	15,271	95,040	95,430	100,590	25,250	14,507	525,173
Total	**635,073**	**64,644**	**95,288**	**95,479**	**100,895**	**25,251**	**14,637**	**1,031,266**
Bond debt outstanding by loan type								
Fixed-rate loans								
- Repayment loans	142,266	13,780	12,588	9,817	9,790	2,993	3,592	194,826
- Interest-only loans	54,874	19	4,202	2,086	2,002	46	61	63,290
Adjustable-rate mortgages								
- Repayment loans	77,512	19,994	7,784	13,154	14,667	2,804	1,375	137,291
- Interest-only loans	196,185	428	29,510	31,608	28,338	4,840	841	291,750
Money market-linked loans								
Capped								
- Repayment loans	67,711	103	1,974	2,125	3,813	333	992	77,052
- Interest-only loans	92,617	25	1,342	639	3,738	14	78	98,454
Uncapped								
- Repayment loans	371	309	5,157	12,785	7,795	6,229	5,056	37,702
- Interest-only loans	3,507	238	32,554	23,202	30,404	7,992	2,321	100,217
Index-linked loans	29	29,748	175	64	348	1	321	30,685
Total	**635,073**	**64,644**	**95,288**	**95,479**	**100,895**	**25,251**	**14,637**	**1,031,266**
Bond debt outstanding by geographic area								
- Capital area	173,963	26,164	36,402	27,961	3,795	2,185	4,025	274,496
- Other Eastern Denmark	67,280	5,124	5,322	4,819	13,933	2,039	1,414	99,929
- Funen	56,364	6,144	6,514	5,607	9,352	1,039	1,288	86,309
- Jutland	327,791	27,212	36,539	41,728	73,378	15,674	7,907	530,229
- Faroe Islands and Greenland	2,021	0	265	104	0	1	3	2,394
- International	7,655	0	10,246	15,259	437	4,313	0	37,910
Total	**635,073**	**64,644**	**95,288**	**95,479**	**100,895**	**25,251**	**14,637**	**1,031,266**
Bond debt outstanding by loan range								
0-2	496,430	7,306	13,833	11,605	23,789	1,638	1,219	555,820
2-5	127,344	9,079	15,809	12,355	31,313	2,288	1,870	200,059
5-20	10,409	27,913	29,895	22,306	38,766	5,331	5,647	140,269
20-50	840	15,087	14,392	12,351	5,529	3,500	3,746	55,445
50-100	50	3,600	5,000	8,954	1,105	2,222	939	21,870
100-…	0	1,658	16,357	27,908	394	10,272	1,216	57,804
I alt	**635,073**	**64,644**	**95,288**	**95,479**	**100,895**	**25,251**	**14,637**	**1,031,266**
Bond debt outstanding by remaining loan term, years								
0-10	12,964	3,336	4,742	16,844	2,486	3,615	907	44,894
10-15	28,722	7,970	4,431	19,131	3,583	5,737	1,827	71,401
15-20	30,684	9,043	14,180	35,832	7,757	10,169	2,731	110,396
20-25	212,133	12,200	26,781	5,204	27,558	302	3,839	288,016
25-30	350,569	7,869	45,102	18,467	59,512	5,428	5,324	492,271
30-35	0	14,055	41	0	0	0	8	14,104
35-…	0	10,172	11	1	0	0	0	10,184
Total	**635,073**	**64,644**	**95,288**	**95,479**	**100,895**	**25,251**	**14,637**	**1,031,266**

Note: Incl lending to Nykredit Ejendomme

Loan-to-value ratios (LTVs)
Nykredit monitors the development in LTVs very closely. In practice, customers' debt outstanding relative to property values is monitored on an ongoing basis. For that purpose, statistical models approved by the Danish FSA are applied. The models are applied to residential properties that satisfy specific requirements for mortgageable value (LTV), risk classification and time since the last valuation. The statistical valuations are performed centrally and supplemented with local valuations.

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

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

The tables below break down the Group's mortgage lending by LTV category 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 part of the lending for the non-profit housing segment. For this reason, LTVs of non-profit housing offer no relevant risk data.

The debt outstanding is distributed continuously by LTV category. In the table, loans with security covering for example between 0% and 60% of the mortgageable value are distributed with two thirds of the debt outstanding in the LTV category 0-40% and one third in the LTV category 40-60%. For example, the table shows that where owner-occupied dwellings are concerned, 64% of mortgage lending falls within 40% of the property values.

Development in LTVs
The LTV ratio of the aggregate portfolio of the Nykredit Group increased until end-2009 and then stabilised. At end-2010 the LTV ratio for the aggregate portfolio was 61%.

As for the aggregate portfolio, the LTV level for owner-occupied dwellings also rose distinctly until end-2009. The ensuing stabilisation implied that the LTV level for owner-occupied dwellings landed at 66% in Q4/2010.

The general development in homeowners' LTV levels differs significantly from region to region. The most marked development was the substantial fall in LTV levels in the Capital Region occurring over the past year. Since the peak in Q3/2009, the ratio has dropped by just over 6 percentage points from 75.6% to 69.4%. Hence, the parts of Denmark originally having the highest levels have seen a significant fall. The rest of Denmark saw a slight increase over the same period.

In 2010, the share of residential properties with LTVs above 100% in the Nykredit Group continued the fall that began in late 2009. In Q4/2010, 1% of residential properties in the Nykredit Group had LTVs above 100%. This share was 2.5% in Q3/2009 when it peaked.

It should be noted that homeowners with LTVs over 100% rarely result in losses for Nykredit, the typical loss trigger being loss of job or divorce.

The so-called vintage LTV reflects the current LTV ratio of a loan disbursed in a specified year. The table below shows residential mortgage loans disbursed in the period 2006-2008 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 2010. Generally, vintage LTV levels remained unchanged in the period reviewed, albeit with a slight increase in the share of loans with LTVs above 80%.

Stress test of homeowners' LTV levels
Nykredit set up an internal housing forum in 2008, which convenes quarterly to discuss the current state of the housing market.

The model setup centres around sensitivity analyses. In 2010 the forum focused on stress tests of the Group's LTV levels for owner-occupied dwellings.

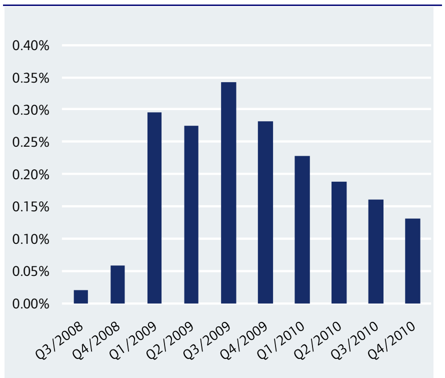
The tests involved interest rate and unemployment rate shocks, and the impact thereof on regional housing prices was calculated using Nykredit's regional housing price model (NORAH). The impact of the price changes on regional LTV levels was subsequently quantified.

The overall conclusion of the stress test was that both unemployment rates and interest rates must increase rather steeply before a major increase can be observed for the part of homeowners that have LTVs above 100%.

In an adverse scenario in which both unemployment and interest rates increase by 3 percentage points, just over 10% of homeowners will have LTVs above 100%. This only constitutes a problem to homeowners who have to sell their homes at the time when their LTVs are above 100%. However, Nykredit's expected losses rise concurrently with rising LTV levels.

The majority – around 80% % – of

The Nykredit Realkredit Group
Private residential mortgage debt with LTVs > 100%



Note: All loans have been placed below the maximum LTV limit.

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

Fair value 2010	LTV (loan-to-value)						
%	0-40	40-60	60-80	80-90	90-100	Over 100	Total
Good ratings (rating categories 7-10)	46	14	7	1	0	0	67
Medium ratings (rating categories 4-6)	14	6	4	1	0	0	26
Weak ratings (rating categories 0-3)	4	2	1	0	0	0	7
Total	**64**	**22**	**12**	**1**	**0**	**0**	**100**

homeowners with LTVs above 100% in case of a 3 percentage point increase in interest rates and unemployment rates have adjustable-rate mortgages. Geographically, the number of homeowners with LTVs above 100% will be overrepresented in the Capital Region.

When interest rates rise, homeowners with fixed-rate loans get the opportunity to refinance their loans. This results in a lower debt outstanding, and the positive effect should be included in the total picture of the consequences of an interest rate increase.

Further detailed information on the Group's mortgage loan portfolio is available under "Cover pool disclosure" at nykredit.com/ir. The statistics are updated on a quarterly basis.

The Nykredit Realkredit Group
Debt outstanding relative to estimated property values

Fair value 2010				LTV (loan-to-value)					
DKK million	0-40	40-60	60-80	80-90	90-100	Over 100	Total	LTV median[1] %	LTV average[2] %
Owner-occupied dwellings	405,366	142,250	75,994	7,987	2,642	835	635,073	30	66
Private residential rental	63,647	19,825	10,533	791	492	0	95,288	28	61
Industry and trades	20,654	3,993	482	60	62	0	25,251	21	47
Office and retail	70,231	19,606	4,975	452	214	0	95,479	25	55
Agriculture	74,932	17,829	6,078	1,022	1,034	1	100,895	24	55
Non-profit housing	-	-	-	-	-	-	64,643	-	-
Other	11,927	2,109	538	28	36	0	14,637	20	47
Total 2010	**646,756**	**205,613**	**98,599**	**10,339**	**4,480**	**836**	**1,031,266**	**27**	**61**
Total 2009	615,841	188,015	91,692	13,316	5,522	1,708	981,227	27	61

[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 2010			LTV (loan-to-value)			
%	0-40	40-60	60-80	80-90	90-100	Over 100
Owner-occupied dwellings	64	22	12	1	0	0
Private residential rental	67	21	11	1	1	0
Industry and trades	82	16	2	0	0	0
Office and retail	74	21	5	0	0	0
Agriculture	74	18	6	1	1	0
Non-profit housing	-	-	-	-	-	-
Other	81	14	4	0	0	0
Total 2010[1]	**67**	**21**	**10**	**1**	**0**	**0**

[1] Calculated on the basis of debt outstanding excl non-profit housing, whereby the sum total does not constitute 100%.

The Nykredit Realkredit Group
Change in debt outstanding relative to property values in 2010

Fair value 2010			LTV (loan-to-value)			
Percentage point	0-40	40-60	60-80	80-90	90-100	Over 100
Owner-occupied dwellings	1	0	0	-1	0	0
Private residential rental	-2	0	1	1	0	0
Industry and trades	5	-2	-3	0	0	0
Office and retail	-2	1	1	0	0	0
Agriculture	-8	4	3	1	1	0
Non-profit housing	-	-	-	-	-	-
Other	-1	0	0	0	0	0
Total change	**0**	**1**	**0**	**0**	**0**	**0**

Nykredit Realkredit A/S
Mortgage debt outstanding relative to original and estimated property values for loans disbursed in selected years
Private residential property

Fair value 2010			LTV (loan-to-value)			
%	0-20	20-40	40-60	60-80	Over 80	Total DKKm
Loans disbursed in 2007						
- balance at 31.12 2007[1]	33	31	24	12	0	42,344
- balance at 31.12 2010[2]	33	30	24	11	2	24,673
Loans disbursed in 2008						
- balance at 31.12 2008[1]	33	30	25	13	0	33,250
- balance at 31.12 2010[2]	32	30	24	12	2	17,747
Loans disbursed in 2009						
- balance at 31.12 2009[1]	32	30	25	13	0	43,789
- balance at 31.12 2010[2]	32	30	24	12	2	40,682

[1] LTV has been calculated on the basis of the original property value when the loan was disbursed and the nominal value of the debt outstanding on the property at the balance sheet date.
[2] LTV has been calculated on the basis of the estimated property value and the fair value of the debt outstanding on the property at the balance sheet date.

Totalkredit A/S
Mortgage debt outstanding relative to original and estimated property values for loans disbursed in selected years
Private residential property

Fair value 2010			LTV (loan-to-value)			
%	0-20	20-40	40-60	60-80	Over 80	Total DKKm
Loans disbursed in 2007						
- balance at 31.12 2007[1]	28	27	24	20	1	117,247
- balance at 31.12 2010[2]	29	28	24	16	3	59,720
Loans disbursed in 2008						
- balance at 31.12 2008[1]	28	27	25	19	1	105,189
- balance at 31.12 2010[2]	28	27	25	18	2	54,242
Loans disbursed in 2009						
- balance at 31.12 2009[1]	28	27	25	19	1	139,192
- balance at 31.12 2010[2]	29	28	25	17	1	130,853

[1] LTV has been calculated on the basis of the original property value when the loan was disbursed and the nominal value of the debt outstanding on the property at the balance sheet date.
[2] LTV has been calculated on the basis of the estimated property value and the fair value of the debt outstanding on the property at the balance sheet date.

The Nykredit Realkredit Group
Geographic distribution of mortgage lending
Private residential property

2010	Exposure at fair value DKKbn	Credit risk distribution in %	Average risk weighting %	Loans, LTV > 70% DKKbn	Loans, LTV > 100% DKKbn	LTV average[1] %
Copenhagen City	43.2	6.8	6.1	4.2	0.2	71
Greater Copenhagen	44.3	7.1	3.8	3.3	0.1	67
Northern Sealand	58.8	9.5	4.7	4.9	0.2	68
Eastern Sealand	27.7	4.4	5.4	2.7	0.1	72
Western and southern Sealand	65.6	10.4	19.1	5.5	0.1	70
Funen	56.4	8.9	14.3	2.8	0.0	64
Northern Jutland	83.7	13.0	16.2	3.7	0.0	63
Eastern Jutland	106.6	16.7	7.6	5.7	0.0	65
Western Jutland	52.3	8.2	17.7	2.3	0.0	64
Southern Jutland	85.4	13.5	14.0	3.7	0.0	63
Bornholm	1.7	0.3	25.5	0.1	0.0	61
Greenland and Faroe Islands	2.0	0.3	13.0	0.1	0.0	65
International	6.1	1.0	27.3	0.4	0.0	55
Total 2010	**634.0**	**100.0**	**11.7**	**39.3**	**0.8**	**66**
Total 2009	604.1	100.0	13.1	47.6	1.7	68

[1] Determined as the top part of the debt outstanding relative to estimated property values.

BANK LENDING

The credit exposures of the Nykredit Bank Group totalled DKK 149bn at end-2010.

Guarantees issued amounted to DKK 15.6bn, or 11% of total exposures, while undrawn commitments amounted to DKK 22.1bn, or 15% of total exposures.

The Nykredit Bank Group – banking activities
Credit exposures and capital charge

2010 DKK million	Bank lending	Guarantees issued	Other	Total exposures	*Of which undrawn commitments*	Exposure-weighted average risk weight %	Capital charge for credit risk
Retail exposures	22,446	5,608	-	28,054	*6,896*	39.2	880
Of which							
- Mortgages on real property	*15,107*	*380*	-	*15,486*	*4,181*	*38.3*	*475*
- Revolving exposures, etc	*4,369*	-	-	*4,369*	*1,951*	*17.6*	*62*
- Other retail exposures	*2,970*	*5,228*	-	*8,198*	*764*	*52.4*	*343*
Commercial exposures	76,630	9,412	-	86,042	*14,265*	71.0	4,890
Credit institution exposures	-	584	32,538	33,122	*944*	20.0	531
Sovereign exposures	-	-	752	752	*18*	0.0	-
Equity exposures	-	-	232	232	-	114.3	21
Assets with no counterparty	-	-	385	385	-	100.0	31
Total 2010	**99,076**	**15,603**	**33,907**	**148,586**	**22,124**	**53.4**	**6,352**
Total 2009	88,061	23,355	45,105	156,520	*18,197*	51.6	6,551

The Nykredit Realkredit Group
Credit exposures by maturity

2010 DKK million	Up to 1 year	1 year and up to 5 years	Over 5 years	Total exposure
Retail exposures	12,538	-	15,515	28,054
Of which				
- Mortgages on real property	-	-	15,486	*15,486*
- Revolving exposures, etc	*4,369*	-	-	*4,369*
- Other retail exposures	*8,169*	-	*29*	*8,198*
Commercial exposures	11,765	23,660	50,616	86,042
Credit institution exposures	33,122	-	-	33,122
Sovereign exposures	752	-	-	752
Equity exposures	-	-	232	232
Assets with no counterparty	385	-	-	385
Total 2010	**58,563**	**23,660**	**66,363**	**148,586**
Total 2009	90,333	26,707	39,481	156,520

The Nykredit Realkredit Group
Investment portfolio credit risk

DKK million	2010	2009
Government bonds		
Exposure to GISP countries[1]	*(496)*	*(70)*
Total government bonds	**2,883**	**12,183**
Mortgage bonds/ROs, SDOs and other covered bonds		
Rating of or above Aa3/AA-	78,018	52,264
Rating: A1/A+ – Baa3/BBB-	1,368	2,709
Rating: Ba1/BB+ or below	-	-
Not rated	2	3
Total mortgage bonds/ROs, SDOs and other covered bonds	**79,388**	**54,976**
Corporate bonds		
Rating of or above Aa3/AA-	1,417	3,695
Rating: A1+/A – Baa3/BBB-	5,685	5,550
Rating: Ba1/BB+ or below	2,293	975
Not rated	1,090	3,177
Total corporate bonds	**10,485**	**13,397**
Of which:		
Subordinate loan capital and hybrid core capital in Danish banks[2]	*1,355*	*1,794*
Subordinate loan capital and hybrid core capital in other banks[2]	*1,126*	*1,132*
Kalvebod and Scandinotes	*720*	*1,180*
Structured bonds	-	*197*
Hedge funds	-	*4*
Collateralised Loan Obligations (CLO)	-	45
Total credit exposures	**89,873**	**68,373**

Note: Kalvebod and Scandinotes are structured bonds with cover assets in the form of hybrid core capital and subordinate loan capital in Scandinavian banks.
[1] Greece, Ireland, Spain and Portugal.
[2] Excl Kalvebod and Scandinotes.

The Nykredit Realkredit Group
Credit derivatives in the trading book

Nominal value 2010 DKK million	Risk disposed of	Risk received	Total
Financial institutions			
Rating of Aa3/AA- or higher	-	225	225
Rating of A1/A+ – Baa3/BBB-	-	383	383
Rating of Ba1/BB+ or lower	-	-	-
Not rated	-	-	-
Financial institutions, total	**-**	**608**	**608**
Corporates			
Rating of Aa3/AA- or higher	-	-	-
Rating of A1/A+ – Baa3/BBB-	-	-	-
Rating of Ba1/BB+ or lower	-	-	-
Not rated	-	-	-
Corporates, total	**-**	**-**	**-**
Sovereigns	84	-	(84)
Index	-	708	708
Total credit derivatives, 2010	**84**	**1,316**	**1,232**
Total credit derivatives, 2009	-	1,360	1,360

CREDIT EXPOSURES OF INVESTMENT PORTFOLIOS

In line with Nykredit's investment strategy, the securities portfolio consists mainly of Danish and European covered bonds. The portfolio also includes high-rated bank bonds, whereas investments in CDOs, CLOs, US subprime, etc are usually minimal.

With the acquisition of Forstædernes Bank A/S, Nykredit acquired a portfolio of structured bonds, CLOs and hedge fund issues. The work to reduce this portfolio continues while minimising any losses incurred in the process. The market value of the portfolio was DKK 147.9m at end-2010.

Furthermore, the Nykredit Realkredit Group holds DKK 720.2m 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 A/S is the arranging bank of the Kalvebod series and holds the greater part of Nykredit's portfolio of the notes.

The Group also invests in equities, of which strategic equities represent by far the greater part of the portfolio. Nykredit's portfolio of strategic equities amounted to DKK 4.1bn at end-2010.

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 using 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

The Nykredit Realkredit Group
Individual and collective impairment provisions excl provisions for guarantees

2010 DKK million	Individual impairment provisions	Collective impairment provisions	Total impairment provisions	2009 Total impairment provisions
Impairment provisions, beginning of year	8,943	812	9,755	3,247
Additions relating to acquisitions	-	-	-	-
Impairment provisions for the year	2,277	587	2,864	7,601
Impairment provisions reversed	(1,345)	(10)	(1,353)	(484)
Value adjustment of properties repossessed	(95)	-	(95)	(32)
Impairment provisions recognised as lost	(2,800)	-	(2,800)	(577)
Impairment provisions, year-end	**6,980**	**1,389**	**8,369**	**9,755**
Loans and advances subject to impairment	**14,155**	**1,093,432**	**1,107,587**	**1,058,836**
Impairment	6,980	1,389	8,369	9,755
Loans and advances after impairment	**7,175**	**1,092,043**	**1,099,218**	**1,049,081**

The Nykredit Realkredit Group
Individual and collective impairment provisions incl provisions for guarantees

2010 DKK million	Individual impairment provisions	Collective impairment provisions	Total impairment provisions	Total claims in default
Retail exposures	983	465	1,448	*5,175*
Of which				
- Mortgages on real property	*732*	*457*	*1,190*	*4,754*
- Revolving exposures, etc	*12*	*1*	*13*	*34*
- Other retail exposures	*238*	*7*	*245*	*387*
Commercial exposures	7,223	529	7,753	*21,104*
Credit institution exposures	-	-	-	-
Sovereign exposures	-	-	-	-
Total	**8,206**	**995**	**9,201**	**26,279**

The Nykredit Realkredit Group
Loans, advances and guarantees, and impairment losses

	Loans, advances and guarantees [1]		Provisions for loan impairment and guarantees		Impairment losses	
DKK million	2010	2009	2010	2009	2010	2009
Mortgage lending						
Nykredit Realkredit	574,947	554,471	1,703	1,407	730	1,240
Totalkredit	455,260	431,511	523	535	158	515
Total	**1,030,207**	**985,982**	**2,226**	**1,942**	**888**	**1,755**
Of which arrears	*571*	*766*	-	-	-	-
Bank lending						
Nykredit Bank	56,075	55,828	3,168	3,236	421	2,374
Terminated exposures from Forstædernes Bank	2,758	5,081	2,975	4,576	937	3,287
Total	**58,833**	**60,909**	**6,143**	**7,812**	**1,358**	**5,661**
Repo lending	12,920	11,962	-	-	-	-
Guarantees	15,225	23,386	745	610	136	504
Of which obligations relating to the Private Contingency Association	*659*	*938*	*659*	*380*	*279*	*318*

[1] Mortgage lending determined at nominal value including arrears.

are based on events occurred, cash flows from loans until maturity and discounting of loss flows to present value. As a supplement to the rating model, events resulting from sudden changes in the economic climate and therefore not yet covered by the model are also taken into account.

Impairment losses on group lending are described in detail in the Annual Report of the Nykredit Realkredit Group.

The arrears ratio at end-2010 decreased relative to end-2009. For the September settlement date, the Group's 75-day mortgage arrears as a percentage of total mortgage payments due came to 0.64% against 0.92% at the same time in 2009.

The Group's portfolio of properties increased following several years of record low levels. Since the beginning of the year, the Group repossessed 473 properties and sold 363 properties. The property portfolio counted 273 properties at end-2010. 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. The Group's mortgages on properties resulted in a limited amount of impairment losses.

The Group's recognised losses of a net amount of DKK 724m break down into DKK 495m in Nykredit Bank A/S and DKK 224m in Nykredit Realkredit A/S.

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		
2010		
- September	0.64	0.77
- June	0.71	1.06
- March	0.89	1.19
2009		
- December	0.92	1.18
- September	0.92	1.13

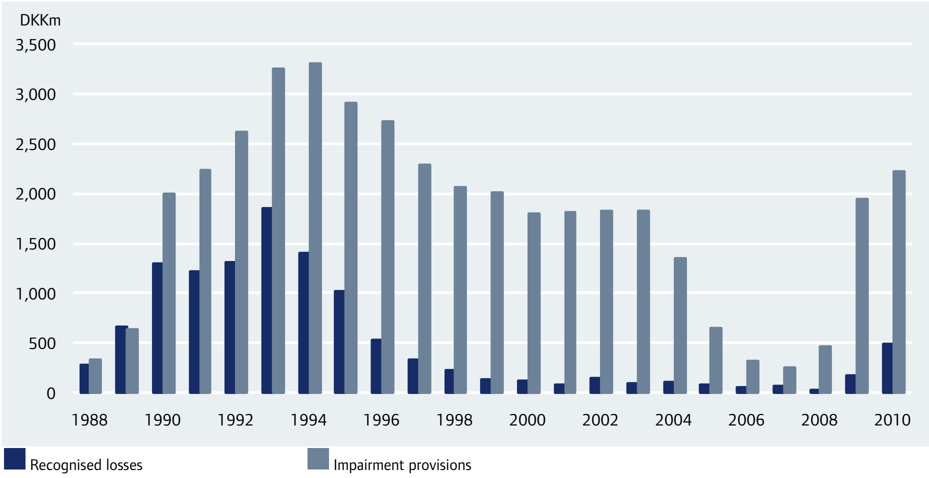
The Nykredit Realkredit Group
Properties repossessed/sold

	2010	2009	2008	2007	2006
Addition of properties	473	284	79	21	28
Of which owner-occupied dwellings	*339*	*223*	*70*	*17*	*25*
Disposal of properties	363	178	29	27	34
Of which owner-occupied dwellings	*265*	*154*	*22*	*21*	*29*
Property portfolio, year-end	273	163	57	7	13
Of which owner-occupied dwellings	*190*	*120*	*51*	*3*	*7*

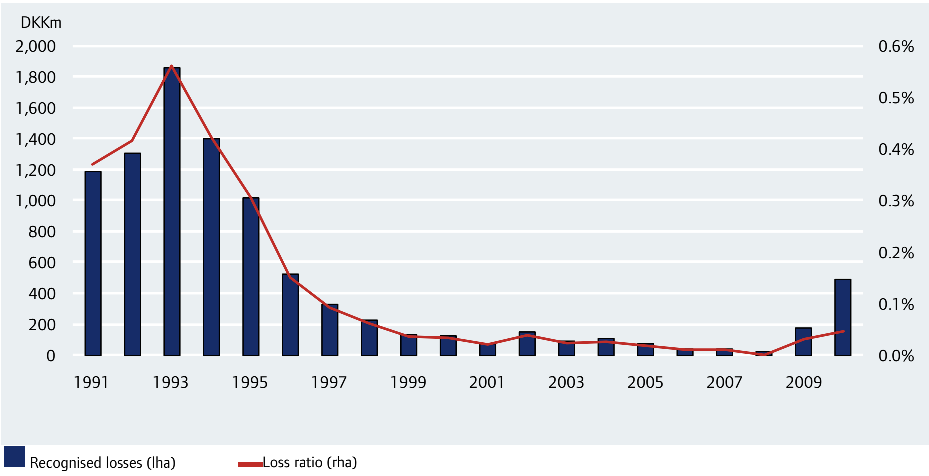
The Nykredit Realkredit Group
Arrears by settlement period by property category

DKK million	Loans and advances, end-of period 2010	Loans and advances subject to individual provisioning	Arrears Q4/2010	Arrears Q3/2010	Arrears Q2/2010	Arrears Q1/2010	Arrears pre-2010
Owner-occupied dwellings	634,526	2,121	204	31	17	12	25
Private residential rental	102,135	2,833	63	13	6	4	11
Industry and trades	25,630	397	21	6	5	3	6
Office and retail	88,871	267	51	12	7	6	8
Agriculture	101,484	230	32	5	3	2	2
Non-profit housing	62,342	21	7	1	1	0	2
Other	14,648	35	5	1	0	0	0
Total	**1,029,636**	**5,903**	**383**	**69**	**39**	**27**	**53**

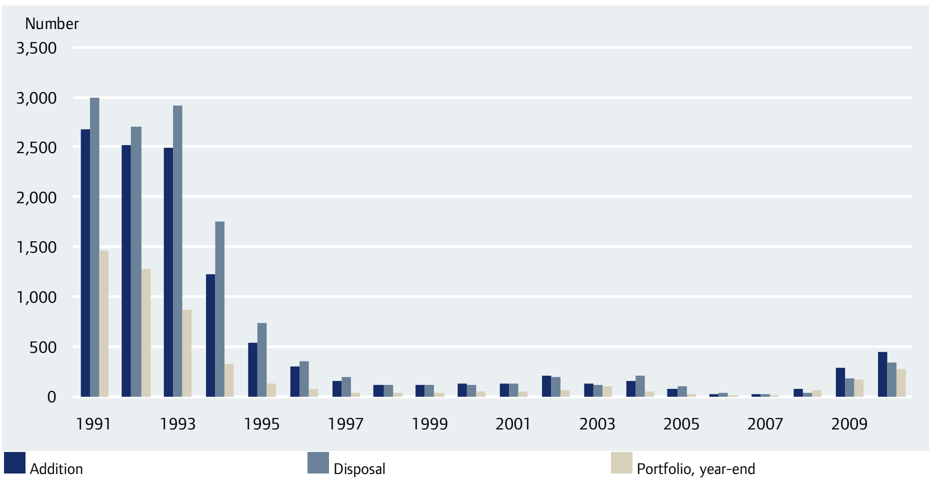
The Nykredit Realkredit Group – mortgage lending
Recognised losses and impairment provisions



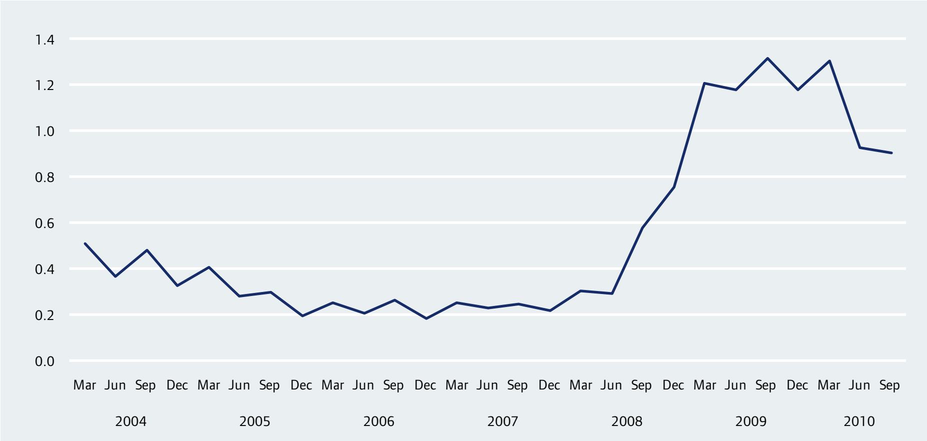
The Nykredit Realkredit Group – mortgage lending
Recognised losses and loss ratios



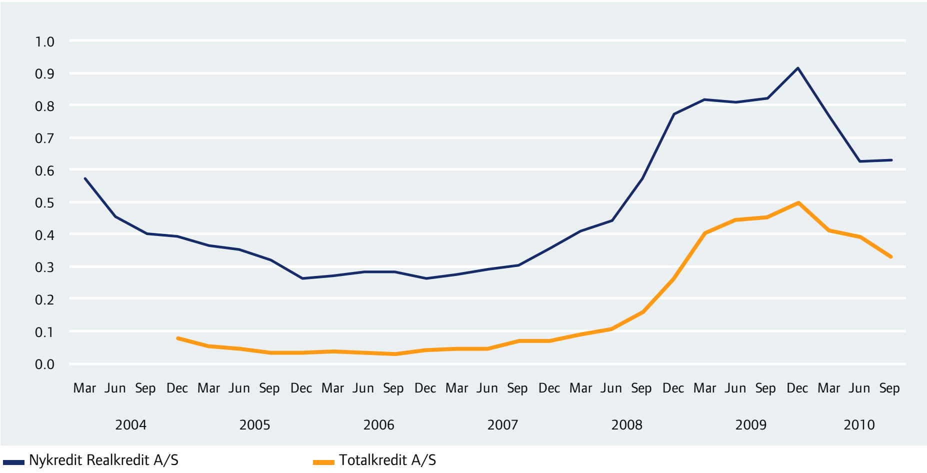
The Nykredit Realkredit Group – mortgage lending
Owner-occupied dwellings repossessed/sold



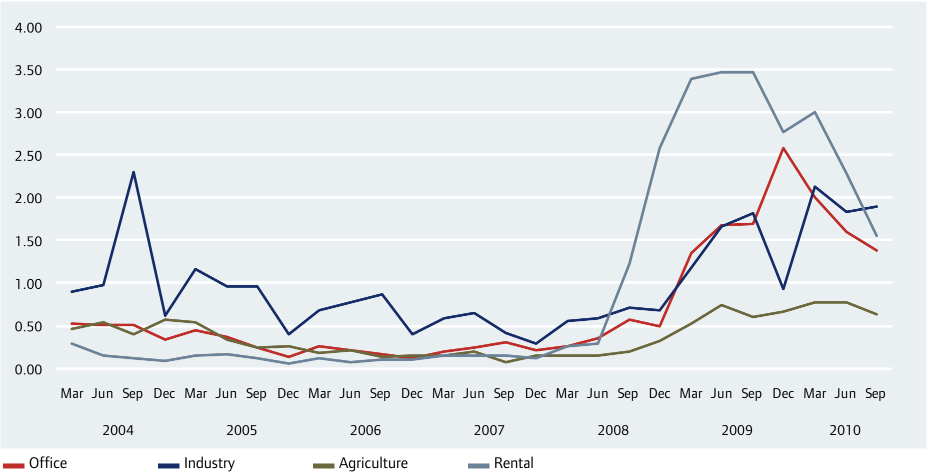
The Nykredit Realkredit Group
Arrears ratio – 75 days in arrears



Nykredit Realkredit A/S - Retail Customers and Totalkredit A/S
Arrears ratio – 75 days in arrears



Nykredit Realkredit A/S - Commercial Customers
Arrears ratio by sector – 75 days in arrears



The Nykredit Bank Group
Loans, advances and guarantees by sector

	Loans, advances and guarantees		Provisions	
DKK million	2010	2009	2010	2009
Public sector	**806**	**498**	**0**	**113**
Agriculture, hunting, forestry and fishing	2,556	2,585	82	88
Manufacturing, mining and quarrying	6,627	6,239	256	251
Energy supply	2,418	2,129	18	121
Construction	1,482	1,775	285	212
Trade	2,235	2,348	375	155
Transport, accommodation and food service activities	1,634	1,848	61	130
Information and communication	1,443	2,181	54	144
Financial and insurance activities	18,616	20,698	1,705	1,989
Real property	16,739	20,858	1,664	3,128
Other trade and industry	10,350	9,094	1,481	1,328
Total corporate customers	**64,100**	**69,755**	**5,981**	**7,546**
Retail customers	**22,311**	**26,017**	**907**	**762**
Total	**87,217**	**96,270**	**6,888**	**8,421**

Note: The distribution is based on public sector statistics and is therefore not directly comparable with the Bank's business areas. It should be noted that sector segments were changed in 2009. Comparative figures have not been fully restated accordingly. In the Bank's opinion, the effect is of minor importance to the assessment of the composition and development of loans, advances and guarantees.

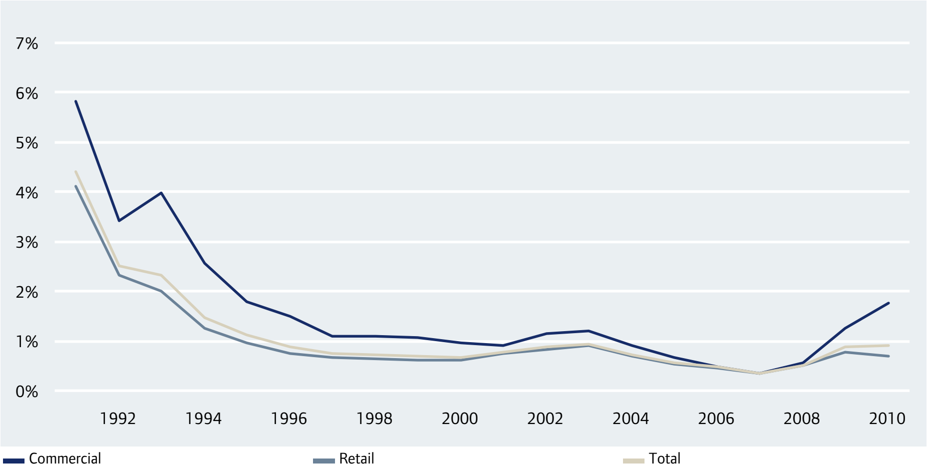
CREDIT RISK MODELS

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.

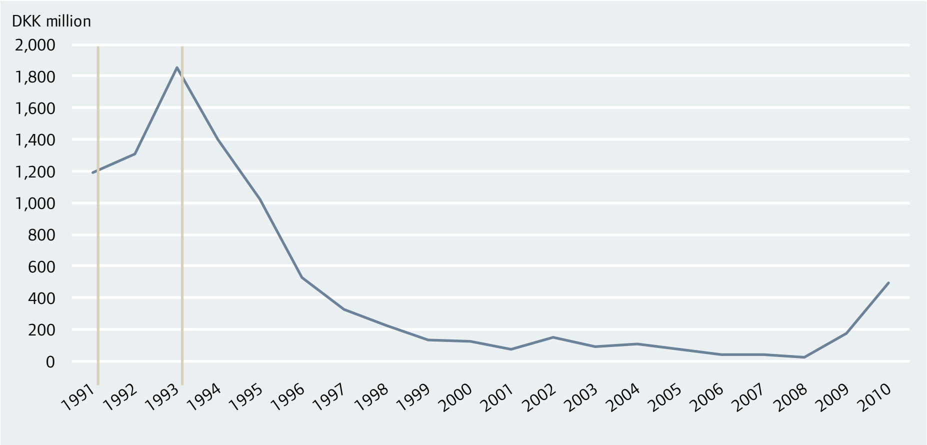
The PD is customer-specific, while the other parameters are product-specific. This means that each customer has an overall PD (retail customers have two PDs – a bank PD and a mortgage bank PD), while each of the customer exposures has separate LGDs and EVs.

Nykredit Realkredit A/S
Default rate and calibration of PD



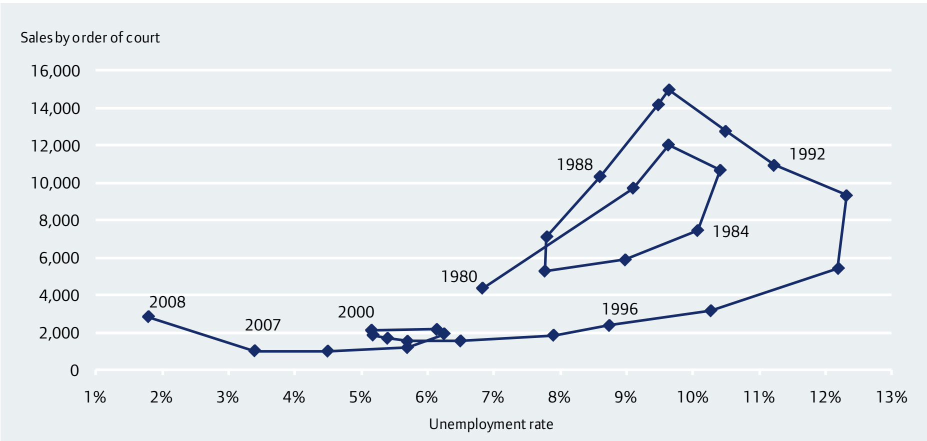
Note: Stated as number of customers.

The Nykredit Realkredit Group – mortgage lending
Recognised losses and calibration of LGD



Data for LGD level in relation to capital adequacy: 1991-1993.

Correlation between unemployment and number of forced sales in Denmark (1980-2010)



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 2010 relating to mortgage lending activities amounted to DKK 724m, while the share of borrower defaults on mortgage payments represented 0.9%.

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 throughout an economic cycle than if the estimation were based exclusively on current data.

Probability of default (PD)

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

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

The PDs of retail customers and small enterprises are determined on the basis of a customer's score at the time of raising the loan and payment behaviour (credit scoring). Credit scoring is a statistical calculation of a customer's creditworthiness based on customers' financial and other circumstances. Credit scoring models have been applied by Nykredit Bank since 1998 and by 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 financial data, arrears and loan 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).

PD: Example of mortgage exposures

The capital requirement calculation is based on "applied PD", which reflects periods of economic downturn. The capital requirement determination was based on the assumption that 2.47% of Nykredit's customers would default on their loans.

To enable a comparison of the "applied PD" with the actual share of non-performing loans, "observed PD", the applied PD has been recalculated into a so-called "point-in-time PD". The recalculation eliminates the historical element, and the point-in-time PD reflects only the current economic trends.

The actual default rate, "observed PD", was 1.05%. The levels of the capital requirement calculation were thus higher than the actual levels for the period.

The Nykredit Realkredit Group
Probability of default, PD

%	Point-in-time PD Beginning of 2009	Observed PD End-2009	Applied PD End-2009	Point-in-time PD Beginning of 2010	Observed PD End-2010	Applied PD End-2010
Mortgage exposures						
Retail exposures	0.69	0.89	1.75	1.34	1.08	1.65
Of which						
- Mortgages on real property	*0.69*	*0.89*	*1.75*	*1.34*	*1.08*	*1.65*
- Revolving exposures, etc	-	-	-	-	-	-
- Other retail exposures	-	-	-	-	-	-
Commercial exposures	1.10	1.23	3.96	3.62	0.97	4.08
Total mortgage exposures	**0.82**	**1.00**	**2.54**	**2.10**	**1.05**	**2.47**
Bank exposures						
Retail exposures	1.15	0.53	1.74	1.56	0.56	2.91
Of which						
- Mortgages on real property	*0.94*	*0.63*	*1.58*	*1.39*	*0.67*	*2.38*
- Revolving exposures, etc	*0.68*	*0.78*	*1.16*	*1.03*	*0.65*	*2.14*
- Other retail exposures	*4.58*	*0.23*	*2.26*	*2.09*	*0.29*	*4.24*
Commercial exposures	2.27	6.33	6.85	6.48	4.42	8.91
Total bank exposures	**2.05**	**4.32**	**5.46**	**4.99**	**3.12**	**7.37**
Total exposures						
Retail exposures	0.70	0.88	1.75	1.34	1.09	1.70
Of which						
- Mortgages on real property	*0.70*	*0.88*	*1.74*	*1.34*	*1.07*	*1.67*
- Revolving exposures, etc	*0.68*	*0.78*	*1.16*	*1.03*	*0.65*	*2.14*
- Other retail exposures	*4.58*	*0.23*	*2.26*	*2.09*	*0.29*	*4.24*
Commercial exposures	1.32	1.90	4.47	4.09	1.46	4.90
Total exposures	**0.93**	**1.24**	**2.81**	**2.33**	**1.20**	**2.88**

Note: Exposure-weighted and including non-performing exposures. Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.The figures are exclusive of Forstædernes Bank as the bank was not covered by the model at the beginning of 2010.

The table above 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. They are therefore not directly comparable with 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.

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 PD models were improved in 2010. The models' ability to distinguish between weak and solid customers has improved, resulting among other things in an increased concentration of customers in higher and lower rating categories, respectively. This reflects the actual financial circumstances of customers to a higher degree than previously.

The increase in unemployment and arrears in recent years have affected the PDs at some delay. Combined with the model improvements, this explains why more retail customers are now placed in rating categories 0 and 1. A similar effect is seen for a number of commercial customers as a result of a weaker payment pattern.

Moreover, the merger with Forstædernes Bank caused an increase in the share of commercial customers rated 0 or 1, as a relatively large share of the customers of Forstædernes Bank are assigned to those two rating categories.

As Forstædernes Bank did not apply comparable rating categories, no comparative figures have been prepared for 2009.

The Nykredit Realkredit Group

Rating scale and marginal probability of default (PD)

2010 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	0.32
7	> 0.40	≤ 0.60	0.49
6	> 0.60	≤ 0.90	0.73
5	> 0.90	≤ 1.30	1.08
4	> 1.30	≤ 2.00	1.55
3	> 2.00	≤ 3.00	2.50
2	> 3.00	≤ 7.00	4.63
1	> 7.00	≤ 25.00	12.37
0	> 25.00	< 100.00	49.26
Non-performing exposures	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.

The Nykredit Realkredit Group – mortgage exposures
Retail exposures covered by IRB

2010 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD [1] %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	28,560	103	7.5	2.0	46
9	85,046	288	6.8	3.1	208
8	203,719	679	9.1	5.6	919
7	120,162	411	11.9	10.0	958
6	104,458	363	13.5	14.7	1,226
5	40,067	147	14.4	20.2	647
4	26,968	108	14.5	25.6	552
3	10,819	48	13.7	31.7	274
2	14,896	65	12.7	41.3	493
1	14,664	60	13.0	66.8	783
0	914	5	14.4	79.6	58
Non-performing exposures[2]	4,629	19	13.2	57.4	212
Total	**654,904**	**2,297**	**10.8**	**12.2**	**6,377**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] Pursuant to section 70(5) 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 70(5) of the Executive Order.
[2] The calculation of the capital charge for non-performing exposures is based on the difference between LGDs and individual impairment provisions.

The Nykredit Realkredit Group – mortgage exposures
Commercial exposures covered by IRB

2010 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD [1] %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	9,031	101	11.9	13.4	97
9	26,832	251	11.4	16.0	343
8	73,820	551	11.6	20.6	1,219
7	84,898	715	15.3	31.7	2,152
6	43,727	358	13.1	29.3	1,023
5	21,539	185	13.7	34.2	590
4	24,325	161	12.	36.0	701
3	15,153	168	18.0	57.6	699
2	16,513	120	12.7	43.3	572
1	3,938	34	14.4	66.8	210
0	2,334	17	13.1	60.0	112
Non-performing exposures[2]	9,106	70	17.1	36.3	264
Total	**331,215**	**2,732**	**13.5**	**30.1**	**7,980**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] Pursuant to section 70(5) 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 70(5) of the Executive Order.
[2] The calculation of the capital charge for non-performing exposures is based on the difference between LGDs and individual impairment provisions.

The Nykredit Realkredit Group – bank exposures
Retail exposures covered by IRB

2010 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD [1] %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	3,956	1,830	30.2	4.3	13
9	1,876	598	28.0	8.9	13
8	3,154	868	23.4	11.5	29
7	2,729	628	25.2	17.3	38
6	2,917	611	25.8	23.1	54
5	2,563	518	25.9	29.3	60
4	2,916	667	26.8	38.9	91
3	2,110	387	28.9	52.1	88
2	3,931	527	33.1	68.0	214
1	1,234	215	29.7	103.3	102
0	123	20	32.7	139.7	14
Non-performing exposures2	545	28	38.1	375.0	164
Total	**28,054**	**6,896**	**28.0**	**39.2**	**880**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] Pursuant to section 70(5) 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 70(5) of the Executive Order.
[2] The calculation of the capital charge for non-performing exposures is based on the difference between LGDs and individual impairment provisions.

The Nykredit Realkredit Group – bank exposures
Commercial exposures covered by IRB

2010 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD [1] %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	4,510	2,133	38.3	27.6	100
9	5,246	1,883	43.0	41.6	174
8	14,432	2,640	43.4	54.6	630
7	15,975	1,747	44.5	66.8	853
6	8,395	1,910	44.3	75.9	510
5	3,330	338	44.0	86.9	232
4	3,251	379	44.5	99.3	258
3	5,040	952	44.0	117.1	472
2	7,976	873	43.4	134.9	861
1	2,244	243	44.4	180.4	324
0	1,746	243	70.1	177.8	248
Non-performing exposures2	11,998	924	45.5	0.0	0
Total	**84,142**	**14,265**	**44.4**	**69.3**	**4,662**

Note: Omfatter eksponeringer behandlet under de grundlæggende IRB-metoder, hvor der anvendes egne estimater for PD.
[1] Pursuant to section 70(5) 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 70(5) of the Executive Order.
[2] The calculation of the capital charge for non-performing exposures is based on the difference between LGDs and individual impairment provisions. No calculation is made of the capital charge for non-performing exposures under the IRB foundation approach, cf the Excutive Order on Capital Adequacy.

The Nykredit Realkredit Group – Total exposures
Retail exposures covered by IRB

2010 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD [1] %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	32,516	1,932	10.3	2.3	60
9	86,922	886	7.3	3.2	221
8	206,873	1,547	9.3	5.7	948
7	122,892	1,040	12.2	10.1	996
6	107,375	974	13.8	14.9	1,280
5	42,630	665	15.1	20.7	707
4	29,884	775	15.7	26.9	643
3	12,929	434	16.1	35.0	362
2	18,827	593	16.9	46.9	707
1	15,898	275	14.3	69.6	885
0	1,037	26	16.5	86.7	72
Non-performing exposures[2]	5,175	46	15.9	90.9	376
Total	**682,958**	**9,193**	**11.5**	**13.3**	**7,257**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] Pursuant to section 70(5) 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 70(5) of the Executive Order.
[2] The calculation of the capital charge for non-performing exposures is based on the difference between LGDs and individual impairment provisions.

The Nykredit Realkredit Group – Total exposures
Commercial exposures covered by IRB

2010 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD [1] %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	13,541	2,234	20.7	18.1	196
9	32,078	2,135	16.6	20.2	517
8	88,251	3,192	16.7	26.0	1,835
7	100,873	2,462	19.9	37.2	3,005
6	52,122	2,269	18.1	36.8	1,533
5	24,869	523	17.7	41.3	821
4	27,576	540	16.2	43.5	959
3	20,193	1,120	24.5	72.5	1,171
2	24,488	993	22.7	73.1	1,432
1	6,182	277	25.3	108.1	534
0	4,080	260	37.5	110.4	360
Non-performing exposures[2]	21,104	993	33.2	15.7	264
Total	**415,357**	**16,997**	**19.7**	**38.0**	**12,629**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] Pursuant to section 70(5) 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 70(5) of the Executive Order.
[2] The calculation of the capital charge for non-performing exposures 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 in case of customer default.

LGDs are calculated for the majority of the Group's exposures 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 losses in cases not finally settled.

LGD: Example of mortgage exposures

The capital requirement calculation is based on "applied LGD", which reflects the period of economic down-turn in 1991-1993. The capital requirement determination was based on the assumption that Nykredit would sustain a loss equal to 11.7% of lending in case of default.

To enable a comparison of the "applied LGD" with the actual share of losses on non-performing loans, "observed LGD", the applied LGD has been recalculated into a so-called "point-in-time LGD". The recalculation eliminates the historical element, and the point-in-time LGD reflects only the current economic trends.

The actual loss ratio, "observed LGD", was 2.2%. The levels applied in the capital requirement calculation were thus higher than the actual levels for the period.

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 actual losses for 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 above 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.

The Nykredit Realkredit Group
Loss given default, LGD

%	Point-in-time LGD Beginning of 2009	Observed LGD End-2009	Applied LGD End-2009	Point-in-time LGD Beginning of 2010	Observed LGD End-2010	Applied LGD End-2010
Mortgage exposures						
Retail exposures	1.57	4.00	10.37	*1.89*	3.45	10.77
Of which						
- Mortgages on real property	*1.57*	*4.00*	*10.37*	*1.89*	*3.45*	*10.77*
- Revolving exposures, etc	-	-	-	-	-	-
- Other retail exposures	-	-	-	-	-	-
Commercial exposures	2.54	2.07	12.44	2.43	4.56	13.47
Total mortgage exposures	**1.88**	**3.21**	**11.11**	**2.07**	**3.78**	**11.68**
Bank exposures						
Retail exposures[1]	9.41	15.87	28.21	*11.51*	20.44	26.27
Of which						
- Mortgages on real property	*6.94*	*12.89*	*22.03*	*7.90*	*22.50*	*20.43*
- Revolving exposures, etc	*15.77*	*5.48*	*40.12*	*15.78*	*11.92*	*38.42*
- Other retail exposures	*15.67*	*30.80*	*33.30*	*15.71*	*21.69*	*34.16*
Commercial exposures[2]	26.37	8.65	43.95	26.45	52.07	43.73
Total bank exposures	**23.04**	**15.87**	**39.66**	**21.93**	**46.16**	**39.26**
Total exposures						
Retail exposures	1.78	3.41	11.12	*2.25*	3.81	11.30
Of which						
- Mortgages on real property	*1.67*	*4.12*	*10.64*	*2.01*	*3.69*	*10.98*
- Revolving exposures, etc	*15.77*	*5.48*	*40.12*	*15.78*	*11.92*	*38.42*
- Other retail exposures	*15.67*	*30.80*	*33.30*	*15.71*	*21.69*	*34.16*
Commercial exposures	2.54	2.13	17.95	6.11	13.19	18.57
Total exposures	**3.72**	**3.41**	**13.79**	**3.66**	**6.97**	**13.99**

Note: Exposure-weighted. LGD for retail exposures has been determined after adjustment to ensure compliance with the 10% requirement, cf section 70(5) of the Executive Order on Capital Adequacy. Forstædernes Bank is not included as the bank was not covered by the model at the beginning of 2010.
[1] LGD after credit risk hedging. Commercial lending in Nykredit Bank is determined using the IRB foundation approach.

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 commitments granted in terms of conversion factors (CF).

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

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

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

Factor	Observed CF End-2009	Applied CF End-2009	Observed CF End-2010	Applied CF End-2010
Bank exposures [1]				
Retail exposures	1.01	1.13	1.02	1.12
Of which				
- Mortgages on real property [2]	*1.02*	*1.17*	*1.02*	1.15
- Revolving exposures, etc	*1.01*	*1.07*	*1.03*	1.07
- Other retail exposures	*1.01*	*1.01*	*1.01*	1.03
Total bank exposures	**1.01**	**1.13**	**1.02**	**1.12**

Note: Exposure-weighted. Includes only exposures subject to the IRB advanced approach using internal CF estimates for products with undrawn credit.
[1] Covers only exposures of Nykredit Bank subject to the IRB approach.
[2] Including exposures in the form of equity release and equity withdrawal credits.

IRB-calculated losses

Model-based, IRB-calculated losses and recognised losses are shown in the table below. IRB-calculated losses are a concept applied for regulatory purposes and do not correspond to Nykredit's own expectations for future losses. 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. Therefore, IRB-calculated losses will typically be higher than recognised losses both in periods with high business activity and during a mild recession. The calculation includes the expected losses on non-performing loans.

The level of recognised losses remained low in 2010 in Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S. Nykredit's lending is for the most part secured on real property.

On the basis of Nykredit's internal models and stress tests, a probable scenario for future loan impairments is calculated. Against this background, loan impairment in the range of DKK 2bn-2.5bn is expected for 2011. The level should be compared with Nykredit's own loan impairment estimate in the range of DKK 1bn-2bn.

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 Risk Management which 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.
Ongoing validation includes:

- *Back tests:* Comparison of the expected and the actual number of defaults, as well as the loss rates within and across rating categories. Analysis of changes in ratings during the year.
- *Expert forums:* Nykredit's experienced credits and case officers and analysts compile and analyse any discrepancies between model estimates and internal assessments of business risk.
- *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.

The Nykredit Realkredit Group
IRB-calculated and recognised losses

DKK million	Recognised losses 2010[1]	IRB-calculated losses 2011[2]	Model-based loan impairment estimate for 2011
Mortgage exposures			
Retail exposures	181	1,404	
Of which			
- Mortgages on real property	*181*	*1,404*	
- Revolving exposures, etc	-	-	
- Other retail exposures	-	-	
Commercial exposures	42	2,166	
Total mortgage exposures	**224**	**3,570**	
Of which non-performing exposures	-	2,170	
Bank exposures			
Retail exposures	45	369	
Of which			
- Mortgages on real property	*6*	*98*	
- Revolving exposures, etc	*2*	*40*	
- Other retail exposures	*37*	*232*	
Commercial exposures [1]	450	6,370	
Total bank exposures	**495**	**6,740**	
Of which non-performing exposures	-	*5,670*	
Total exposures			
Retail exposures	226	1,773	
Of which			
- Mortgages on real property	*187*	*1,501*	
- Revolving exposures, etc	*2*	*40*	
- Other retail exposures	*37*	*232*	
Commercial exposures	492	8,536	
Total exposures, total	718	**10,310**	**2,000-2,500**
Of which non-performing exposures	-	*7,837*	

Note: Includes exposures determined subject to the advanced as well as the foundation IRB approaches. The IRB-calculated losses on retail exposures secured on real property have been determined on the basis of LGD after adjustment to ensure compliance with the 10% requirement, cf section 70(5) of the Executive Order on Capital Adequacy.
[1] Not including recognised losses on properties repossessed as they cannot be distributed over exposure categories.
[2] IRB-calculated losses are stated at end-2010 and express the model-based expected loss for the coming year. IRB-calculated losses have been determined using LGDs for 1991-1993 in accordance with the rules of the Executive Order on Capital Adequacy. This should be seen in the light of Nykredit's own loan impairment estimate for 2011 of DKK 1bn-2bn.

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 business and are used in several areas:

- *Capital management:* Nykredit's risk and capital management is based on a required capital base, which is also applied in connection with the internal performance measurement.
- *Granting of loans:* A uniform approach to credit assessment is taken, 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' personal 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 the customer's financial position, payment history and rating as well as the stability of value and transferability of the security provided, etc. The lower the customer rating, the greater the importance of the security to the overall assessment.

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

SECURITY

The decision to grant a loan is usually based on a customer's creditworthiness and an assessment of the security provided. 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 required capital base, 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 of loan granting. Valuations are based on the marketability, stability of value, alternative use, letting potential, etc of a property.

Nykredit has 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 specific requirements for mortgageable value and risk classification. Valuations must always be confirmed by the relevant local Nykredit 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 with local valuations as required. The valuations are included in the LGD estimate.

Nykredit has 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 subsidised housing. Public authority guarantees are guarantees whereby the guarantor assumes primary liability. This means that Nykredit may enforce a guarantee when a loan falls into arrears.

The Nykredit Realkredit Group
Types of security and credit exposures

DKK million	Real property[1]	Guarantees received	Financial collateral[2]	Total collateral value	Total exposure
Retail exposures	671,948	28,773	-	700,722	684,516
Of which					
– Mortgages on real property	*671,948*	*28,773*	-	*700,722*	*671,948*
– Revolving exposures, etc	-	-	-	-	*4,369*
– Other retail exposures	-	-	-	-	*8,198*
Commercial exposures	357,775	25,290	6,365	389,430	419,501
Credit institution exposures	-	-	-	-	78,493
Sovereign exposures	-	-	-	-	40,530
Equity exposures	-	-	-	-	4,747
Securitisations	-	-	-	-	350
Assets with no counterparty	-	-	-	-	4,075
Total 2010	**1,029,724**	**54,064**	**6,365**	**1,090,152**	**1,232,211**
Total 2009	956,636	81,886	3,675	1,042,311	1,187,791

Note: Exposures also include guarantees issued by banks (DKK 28.7bn), which are recognised under credit institution exposures, and government guarantees (DKK 25.4bn), which are recognised under sovereign exposures.

[1] The collateral value of real property is measured at nominal value. The part of the exposure for which security has been provided is shown.

[2] Collateral relating to repos and reverse transactions not included.

Credit institution guarantees include guarantees for registration of mortgages free from any adverse endorsements, and guarantees for interim loans in connection with new building and loss guarantees.

Under Nykredit's partnership agreement with the banks behind Totalkredit, mortgage loans to retail customers granted by the banks are covered by a set-off agreement for recognised losses. Under this agreement, any losses incurred are offset against the current commission paid by Nykredit.

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 credit risk is subsequently calculated separately for each part.

Financial collateral

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

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

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

When establishing limits for 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 claims.

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

MARKET RISK

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

The Nykredit Group's business activities involve a number of different market risks.

By far the greater part of group lending is mortgage lending. In practice, Nykredit incurs only negligible market and liquidity risks from these loans – regardless of the development in financial markets. This is because mortgage lending is governed by a statutory balance principle and treated according to 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 boards of directors of the individual companies then prescribe limits to their activities.

The limits provided by the boards of directors restrict the scope for assuming interest rate, equity price, foreign exchange, volatility, commodity and credit risks. 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. Any non-compliance is reported to the Treasury Committee or Nykredit's Board of Directors depending on the nature of the 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 uses an internal Value-at-Risk model covering the market risk of 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, and it primarily invests in Danish and European mortgage bonds and covered bonds. In addition, Nykredit has invested in high-rated bank bonds. The interest rate risk involved is reduced by way of offsetting selling of government bonds or interest rate derivatives. This creates an exposure to yield spreads between mortgage/covered bonds and government bonds/interest rate swaps. This exposure is not hedged.

The Group also invests in equities. Equity investments mainly consist of strategic equities. Nykredit's portfolio of strategic equities amounted to DKK 4.1bn at end-2010, of which equities in Danish banks represented DKK 2.3bn.

The Nykredit Realkredit Group
Capital requirement for items involving market risk

2010 DKK million	Specific risk	General risk	Total capital requirement	Total capital requirement 2009
Value-at-Risk (99%, 10 days)	-	573	573	881
Outside Value-at-Risk model:				
Instruments of debt	846	178	1.024	870
Equities	28	18	46	48
Foreign exchange risk	-	1	1	8
Collective investment schemes	28	0	28	38
Total market risk	**902**	**770**	**1.672**	**1,846**

The Nykredit Realkredit Group
The Board of Directors' principal market risk limits at group level, end-2010

Financial ratios	Definition	Limit
Value-at-Risk	Maximum loss in one day at a 99% confidence level	DKK 300m
Interest rate risk	Loss on general rise in interest rates of 1 percentage point	DKK (800)m to 1,200m
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 A1/A+	*Measured at book value*	*DKK (2,000)m to 6,000m*
- Up to Baa3/BBB- 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

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 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 risks, are so-called portfolio sensitivity tests. They are used to calculate the effect on the value of a 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 traditional risk measures do not indicate how likely a particular event is to occur, but rather how much it would affect the value of a 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 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.

Parameters used to determine Value-at-Risk

Value-at-Risk is a statistical measure of the maximum loss on a portfolio at a given probability within a given time horizon. The Nykredit Realkredit Group calculates Value-at-Risk subject to a 99% confidence level and a time horizon of one day. Risk is determined using a Value-at-Risk model that includes the risk relating to spreads between mortgage bonds and swap rates. The model used by Nykredit Bank also includes vega.

Parameters of Value-at-Risk determination:

Risk factors:	All exposures are transformed into a number of risk factors for equity price, interest rate and foreign exchange risks.
Volatilities and correlations:	Daily volatilities and correlations for the above-mentioned risk factors. In calculating the volatilities, last-dated observations carry the highest weight. Volatilities and correlations are calculated on the basis of data for the last 250 banking days.
Time horizon:	Value-at-Risk is calculated at a time horizon of 1 day, but may be scaled to other time horizons. The following time horizons are applied: ▪ Capital requirement for market risk: 10 days ▪ Day-to-day business management: 1 day ▪ Required capital base/internal capital adequacy requirement: 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/internal capital adequacy requirement: 99.97%

Back tests:
The model results are back tested on a day-to-day basis against actual realised returns on the investment portfolios to ensure that the model results are reliable and correct at any time.

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

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

DKK million	Average	Min	Max	Year-end
2010	142	107	232	110
2009	187	118	393	118

The Nykredit Realkredit Group
Value-at-Risk

2010 DKK million	1 day	10 days	1 year
Internal Value-at-Risk (99.00%)	110	348	1,739
Internal Value-at-Risk (99.97% - Pillar I required capital base)	149	470	2,349
Value-at-Risk for capital requirement (99.00%)[1]	59	188	682

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

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

Value-at-Risk

Nykredit applies a Value-at-Risk 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 one year and a confidence level of 99.97% are applied for the determination of the required capital base. VaR is calculated for both the trading book and the banking book. The model factors in the risk relating to the spread between mortgage bonds and swap rates.

VaR is calculated and reported on a daily basis, and the model is incorporated in 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 110m at end-2010 against DKK 118m at end-2009. This means that, according to Nykredit's model, the Group would, at a 99% probability, lose a maximum of DKK 110m in one day at end-2010 in consequence of market fluctuations.

The European debt crisis, which escalated over the summer of 2010, caused major fluctuations in market rates and prices, resulting in increased volatility and thereby higher VaR figures for the Group in that period. During the autumn, these volatilities steadied somewhat, and VaR figures were reduced. The Group's level at end-2010 matched the level at end-2009.

Nykredit has the approval of the Danish FSA to apply Value-at-Risk in determining the capital charge for market risk in Nykredit Realkredit A/S and Nykredit Bank A/S. The

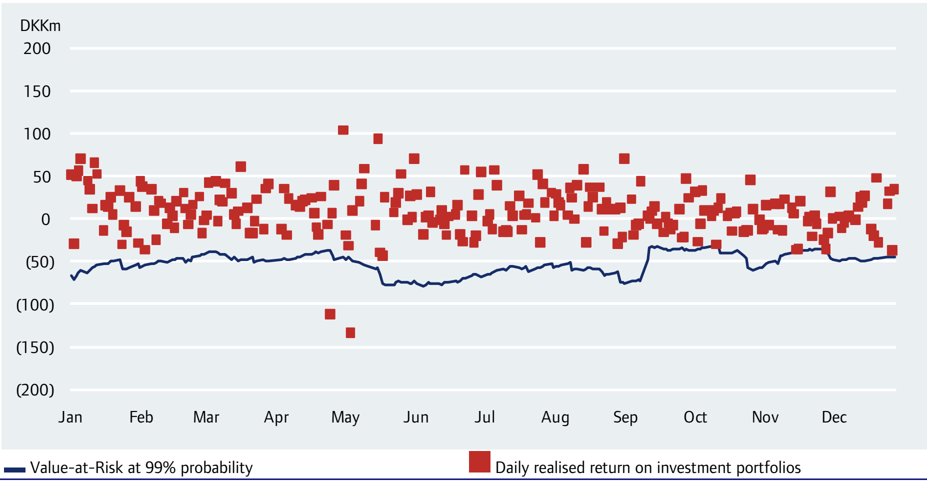
VaR model for determining the capital requirement applies a statutory confidence level of 99% and a time horizon of 10 days. For the purpose of determining the capital requirement, Nykredit Realkredit A/S only calculates VaR in respect of the trading book, whereas Nykredit Bank A/S makes calculations 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.

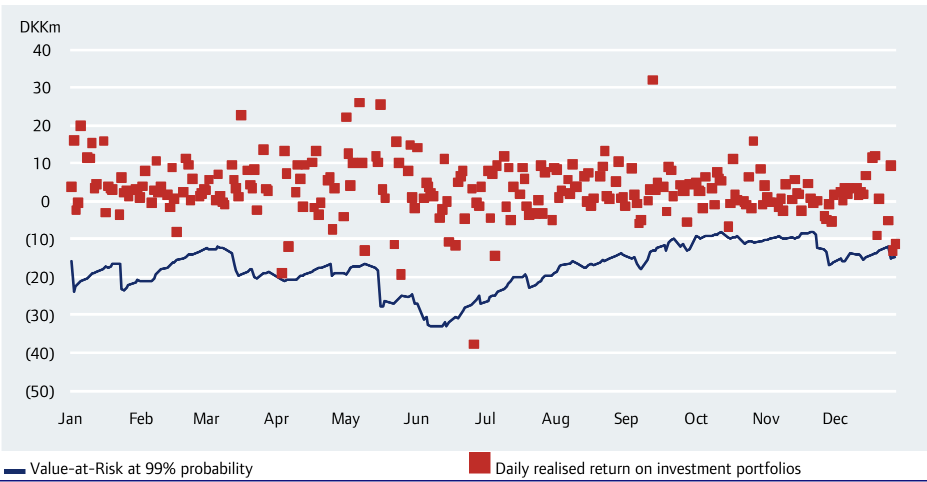
If the actual losses exceed the maximum loss estimate of the model five or more times within one year, the capital requirement will be adjusted upwards. VaR back tests for Nykredit Realkredit A/S and Nykredit Bank A/S are shown in the figures below.

There were two exceedings in the VaR models of both Nykredit Realkredit A/S and Nykredit Bank A/S in 2010. The corresponding figures for 2009 were 0 for Nykredit Realkredit A/S and 1 lower exceeding for Nykredit Bank A/S.

Nykredit Realkredit A/S
Back test of VaR (99%, 1 day) 2010



Nykredit Bank A/S
Back test of VaR (99%, 1 day) 2010



Stress test scenarios

Nykredit Realkredit A/S	Nykredit Bank A/S
▪ EUR rates rise by 0.25 percentage point ▪ Other rates rise by 0.50 percentage point ▪ Yield spreads between government bonds and swaps widen by 0.25 percentage point ▪ Equities decrease by 5% in general ▪ Danish bank equities decrease by 10%	▪ Yield spreads between government bonds and swaps widen 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 spreads between Danish and foreign rates widen by 0.20 percentage point ▪ 5% devaluation of DKK vs all other currencies

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.

The main focus of the stress tests is the market risk 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 2010 the stress tests did not give rise to a change of the Nykredit Group's risk profile.

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. It is calculated on a daily basis as the loss in case of a general interest rate change of 1 percentage point.

Spread risk

Spread risk is the risk of yield spread widening between mortgage bonds/covered bonds and government bonds/swap rates. The spread risk of the Group's portfolio of mortgage bonds/covered bonds amounted to DKK 2.4bn at end-2010. This means that Nykredit would lose DKK 2.4bn on its investments in mortgage bonds/covered bonds if the yield spread between mortgage bonds/covered 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.

The Nykredit Group hedges the foreign exchange risk of its investments and therefore had only minor foreign exchange positions in currencies other than EUR in 2010.

Foreign exchange risk is measured by foreign exchange positions excluding EUR and individual limits at currency level.

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 risk is measured as the change in market value resulting from an increase in volatility of 1 percentage point.

Volatility trading takes place 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 Nykredit Realkredit Group
Market exposures

2010 DKK million	Interest rate exposure (100 bp change)	Interest rate volatility exposure (Vega)	Equity price exposure (10% change)
Money market instruments	(369)	-	-
Government bonds	48	-	-
ROs	1,687	(4)	-
SDOs	787	(4)	-
Other bonds, loans and advances, etc	(148)	-	-
Equities	-	-	510
Derivative financial instruments	(1,570)	(35)	(6)
Total	**434**	**(42)**	**503**

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

The Nykredit Realkredit Group
Market exposures

	2010				2009			
DKK million	Average	Min	Max	Year-end	Average	Min	Max	Year-end
Interest rate exposure (1 percentage point change)	623	205	940	434	1,011	749	1,259	906
– of which outside trading book	*45*	*(32)*	*214*	*137*	*(95)*	*(270)*	*225*	*(201)*
– of which from mortgage activities	*56*	*(17)*	*175*	*62*	*38*	*(21)*	*217*	*170*
Spread risk (OAS)	2,794	2,334	3,357	2,958	2,677	1,787	3,524	3,020
Equity price exposure (10% change)	462	387	533	503	393	294	463	440
Foreign exchange exposure:								
- Foreign exchange positions, EUR	399	35	825	547	319	20	1,660	1,660
- Foreign exchange positions, other currencies	315	60	773	120	320	42	797	328
Interest rate volatility exposure (Vega)	(31)	(51)	(10)	(42)	(24)	(48)	(48)	(16)

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 outside the trading book and interest rate risk from mortgage activities overlap.

Nykredit Bank and Nykredit Realkredit A/S
Stress test results

2010 DKK million	Min	Max	Average	Year-end
Nykredit Bank				
Scenario 1(shock to short-term interest rates)	(14)	60	14	59
Scenario 2 (20bp rise in DKK rates and 5% devaluation)	(9)	66	28	43
Scenario 3 (20bp spread widening between govt and swap)	(17)	36	7	15
Nykredit Realkredit[1]				
Interest rates	(712)	(303)	(496)	(502)
Equities	(366)	(260)	(307)	(343)
Total	(1,012)	(589)	(803)	(846)

[1] A scenario in which the impact on interest rates and equities is specified. The specific scenario is shown in the table at the bottom of page 49.

With a view to reducing its refinancing risk, Nykredit has distributed its refinancing auctions more evenly over the year. At the December auctions 2010, refinancing amounted to DKK 153bn against DKK 164bn at the auctions in 2009. At the March and September auctions 2010, refinancing amounted to DKK 99.7bn compared with DKK 28.6bn in 2009.

The mortgage loan types Tilpasningslån, BoligXlån (ARMs) and RenteMax (floating-rate 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 Group does not incur any liquidity risk in connection with refinancing.

Counterparty risk – swaps

Recent years have seen a large market for sales of swap products to commercial customers. The swaps are sold under agreements on netting and financial collateral and are hedged with financial counterparties, also under agreements on netting and financial collateral.

Customers to which Nykredit has large exposures are required to provide collateral. Around DKK 1.5bn has currently been provided as collateral for market values of customer swaps in favour of Nykredit. Collateral is only required when the market value of an exposure to a customer reaches a certain level. It is not possible to demand collateral for the entire amount of DKK 8.2bn.

It should be noted that by far the greater part of the market value is made up of interest rate swaps, and such exposures only involve an actual risk if the customer becomes insolvent. The opposite applies to currency swaps, the risk of which varies according to fluctuations in exchange rates.

TRADING BOOK AND BANKING BOOK

Nykredit classifies the trading and banking books at portfolio level on the basis of the purpose 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 loan 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.

Exposures in the form of strategic equities available for sale in 2010 ranged between DKK 2.8bn and DKK 3.4bn, while private equity exposures ranged between DKK 0.4bn and DKK 0.6bn.

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.

Nykredit Bank A/S – Swap market values

2010 DKK million	Interest rate swaps	Currency swaps	Total	Collateral
Total	**(7,190)**	**(1,020)**	**(8,210)**	**1,502**

Nykredit Bank A/S – Fixed-rate swaps with non-financial counterparties

2010 DKK million	Number	Principal	Market value
<3%	552	14,090	(87)
3-4%	1,022	20,647	(1,390)
4-5%	2,142	36,149	(4,072)
5-6%	551	10,606	(1,533)
>6%	22	228	(28)
Total	**4,289**	**81,720**	**(7,111)**

Note: Statement at 14 January 2011.

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

Market value DKK million	2010	2009
Listed equities	3,121	2,629
Unlisted equities	1,429	909
Total	**4,550**	**3,539**

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 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 A/S, Totalkredit A/S and Nykredit Bank A/S illustrate the Nykredit Group's very strong position in terms of liquidity.

MORTGAGE LENDING

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

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

Despite the repercussions of the financial crisis, Nykredit was able to issue bonds on a daily basis throughout 2010. The order-based market worked satisfactorily throughout the year.

At the refinancing auctions in December 2010, Nykredit issued bonds worth DKK 153bn.

Nykredit adheres to Moody's principles and requirements for liquidity management by banks. In order to obtain the rating "Very Good Liquidity Management", the liquidity curve must be positive 12 months ahead. The liquidity of Nykredit Realkredit A/S and Totalkredit A/S is always positive, in part due to match-funding and the investment rules governing the capital reserved to meet capital requirements.

SDOs (covered bonds)

SDOs owned by credit institutions and mortgage bonds issued before 1 January 2008 are subject to a lenient risk-weighting for capital adequacy and counterparty risk purposes pursuant to the EU's Capital Requirements Directive (CRD) and the Danish capital adequacy rules, etc.

Mortgage bonds issued after 1 January 2008 carry a higher risk-weighting in terms of capital charge and counterparty exposure.

SDOs must satisfy certain requirements under the special SDO legislation. Among other requirements, SDOs may only 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 value of owner-occupied housing or 60% of the value of commercial properties
- Government bonds or other claims on EU/EEA states
- Claims on credit institutions, including guarantees for registration of mortgages free from any adverse 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 determined on an ongoing basis of the individual loans secured by mortgages on real property and funded by way of issuance of SDOs exceed the statutory LTV limits.

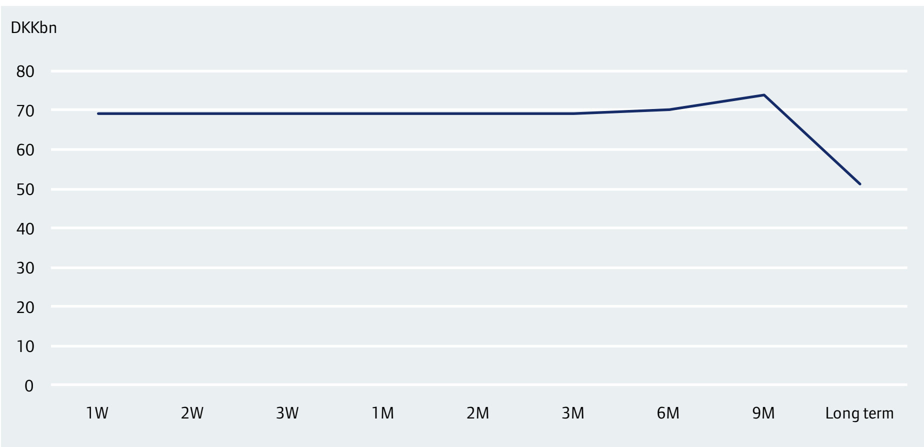
Nykredit Realkredit A/S and Totalkredit A/S may raise supplementary security by investing part of their own portfolios or any borrowed funds in government bonds, SDOs, etc, which are placed as cover assets in the SDO Capital Centre E.

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

Assuming the current lending level was maintained and property prices were unchanged for 12 months, the need for supplementary security amounted to just under DKK 20bn at end-2010. The need for supplementary security should be seen in relation to Nykredit's capital base of just over DKK 60bn. The funds are generally placed in government bonds and SDOs that are directly eligible as cover assets.

It is Nykredit's policy to maintain a sizeable cover pool buffer against declining property prices or refinancing surges. Therefore, since 2007 Nykredit has raised loans in the form of

Nykredit Realkredit A/S and Totalkredit A/S 12-month liquidity, end-2010



junior covered bonds to fund supplementary security in accordance with Danish legislation.

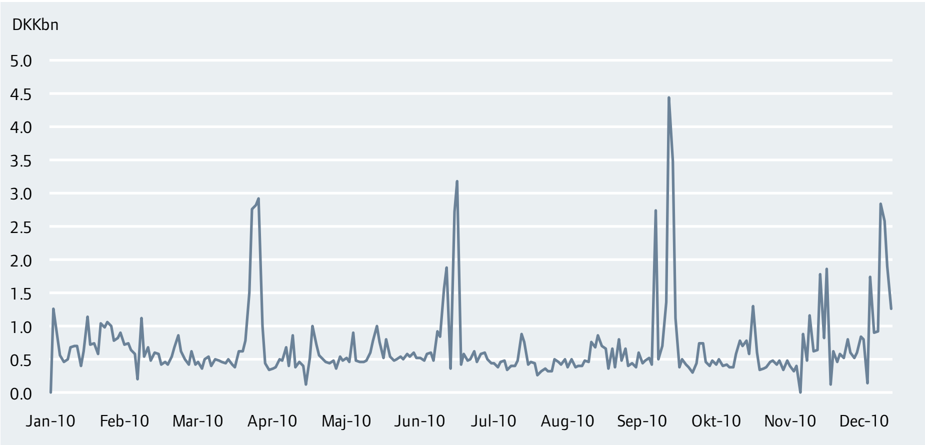
Pursuant to section 33 e of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, holders of junior covered bonds have a secondary preferential right as secured creditors to the cover assets of Capital Centre E. In the event of insolvency, the cover assets of Capital Centre E will be applied 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 management of the Bank's structural liquidity risk is based on an internal model relating to 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 unforeseen drains on the Bank's liquidity.

Securities not serving as collateral in the trading book consist mainly of liquid Danish and European government and covered bonds eligible as collateral with Danmarks Nationalbank or other European central banks. The trading book also includes a portfolio of corporate bonds and the Bank's repo/reverse transactions.

The Nykredit Realkredit Group
Daily issuance of fixed-rate bonds



Note: To this must be added bond issuance of DKK 189bn at the refinancing auctions,

The Nykredit Realkredit Group
Need for supplementary security

DKK million	2010
Present need for supplementary security	18.6
Stress test of need for supplementary security in 12 months – Scenarios	19.6
Normal lending activity – no projection of property values	37.3
Capital provided as supplementary security in Capital Centre E	43.4
- of which funded by way of junior covered bonds	30.2

The Nykredit Realkredit Group
Issued junior covered bonds

DKK million	Maturity date	Nominal outstanding amount
JCB 11 Jan (DKK)	01-01-2011	8,000
JCB 13 Apr (DKK)	01-04-2013	2,000
JCB 13 Oct (DKK)	01-10-2013	2,275
JCB 14 Jan (DKK)	15-01-2014	2,000
JCB 14 Apr (EUR)	01-04-2014	3,720
JCB 14 Oct (DKK)	01-10-2014	2,500
JCB 15 Jan (DKK)	01-01-2015	2,325
JCB 16 Jan (DKK)	01-04-2016	7,000
Total		**29,820**

The model assumptions are stress tested daily. This includes calculating the effect of a liquidity crisis that would increase the Bank's funding costs and lower the liquidity of assets.

According to the Danish Financial Business Act, a bank's liquidity must be at least 10% of total reduced debt and guarantee obligations. Nykredit Bank operates with an internal excess liquidity cover of a minimum of 50% relative to the statutory requirement.

At 31 December 2010, the excess cover was 251% against 324% at end-2009. At 31 December 2010, the liquidity buffer corresponding to the above excess cover amounted to DKK 54.7bn compared with DKK 66.7bn at end-2009. In 2010 the liquidity buffer averaged DKK 49.8bn compared with DKK 43.0bn for 2009.

Stress tests according to the principles of Moody's Investors Service's "Bank Financial Strength Ratings: Global Methodology" show that the Bank has positive liquidity to withstand a 12-month lack of access to funding markets.

The Bank's long-term funding activities progressed according to plan, with EMTN issues of DKK 15.4bn at 31 December 2010.

Further, the Bank continued its current refinancing of short-term ECP issues, which totalled DKK 16.8bn at 31 December 2010.

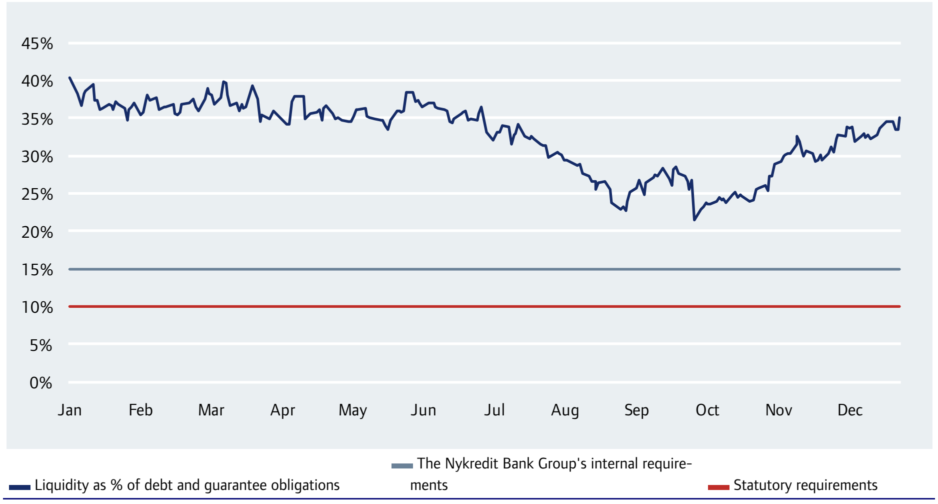
The aggregate amount issued under the ECP and EMTN programmes was DKK 32.2bn at 31 December 2010 against DKK 41.2bn at end-2009.

As an additional liquidity buffer in 2010, the Bank had a guarantee facility of DKK 15bn for issues subject to an individual government guarantee under Bank Rescue Package II. The guarantee expired at 31 December 2010, and the Bank made no issues under the guarantee.

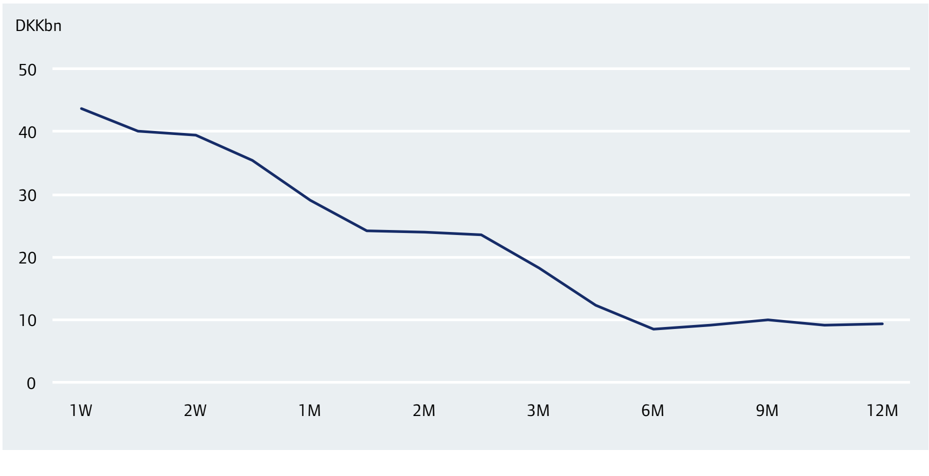
On 1 January 2011, the new Executive Order on management and control of banks (section 71) entered into force. The order lays down detailed requirements for banks' liquidity policy, including a liquidity profile and the board of directors' liquidity instructions, liquidity stress testing and liquidity buffer.

The Bank has adapted its liquidity management to its business development and the new rules.

The Nykredit Bank Group
Liquidity relative to statutory requirements 2010



The Nykredit Bank Group
12-month liquidity, end-2010



OPERATIONAL RISK

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

Nykredit's capital requirement for operational risk is determined using the basic indicator approach. This means that the capital charge is calculated as 15% of average gross earnings. The capital charge for operational risk was DKK 1.0bn at end-2009 and the same figure applied to 2010.

The Nykredit Group is constantly working to create a risk culture where the awareness of operational risk is a natural part of everyday work.

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 to always limit operational risk taking into consideration the costs involved.

Nykredit systematically records and categorises loss-making operational events to create an overview of loss sources and gain experience for sharing across the organisation. 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.

Furthermore, the experience database with operational events is applied in the product development phase of new products.

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

2009 DKKmillion	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	588,721	23,859	8,538	-	621,118	10,154	14.9	7,398
Of which							-	
- Mortgages on real property	*588,721*	*15,294*	*1,000*	-	*605,014*	*5,649*	*14.1*	*6,846*
- Revolving exposures, etc	-	*3,712*	-	-	*3,712*	*1,650*	*12.6*	*37*
- Other retail exposures	-	*4,854*	*7,538*	-	*12,392*	*2,855*	*51.9*	*515*
Commercial exposures	326,989	64,202	13,104	-	404,295	15,887	40.6	13,137
Credit institution exposures	57,254	-	592	53,597	111,443	1,749	18.3	1,628
Sovereign exposures	24,632	-	1,121	16,740	42,493	24	-	-
Equity exposures	-	-	-	5,220	5,220	-	313.1	1,307
Assets with no counterparty	-	-	-	3,222	3,222	-	100.0	258
Total 2009	**997,596**	**88,061**	**23,355**	**78,779**	**1,187,791**	**27,814**	**25.0**	**23,728**
Total 2008	905,738	104,327	15,126	70,400	1,095,591	32,416	25.6	22,475

The Nykredit Realkredit Group
Credit exposures by maturity

2009 DKK million	Up to 1 year	1 year and up to 5 years	Over 5 years	Total exposure
Retail exposures	34,174	7,779	579,166	621,118
Of which				
- Mortgages on real property	*18,070*	*7,779*	*579,166*	*605,014*
- Revolving exposures, etc	*3,712*	-	-	*3,712*
- Other retail exposures	*12,392*	-	-	*12,392*
Commercial exposures	19,841	32,020	352,433	404,294
Credit institution exposures	53,597	592	57,254	111,443
Sovereign exposures	16,740	1,121	24,632	42,493
Equity exposures	-	-	5,220	5,220
Assets with no counterparty	3,222	-	-	3,222
Total 2009	**127,574**	**41,512**	**1,018,704**	**1,187,789**
Total 2008	125,533	45,524	924,534	1,095,591

The Nykredit Realkredit Group
Credit exposures by maturity

2009 DKK million	Retail	Non-profit housing	Private residential rental	Office and retail	Agriculture	Industry and trades	Other	Total exposure
Retail exposures	577,996	231	9,739	6,244	10,347	16,561	-	621,118
Of which								
- Mortgages on real property	*562,488*	*231*	*9,607*	*6,171*	*10,111*	*16,405*	-	*605,014*
- Revolving exposures, etc	*3,649*	-	*12*	*8*	*9*	*34*	-	*3,712*
- Other retail exposures	*11,858*	-	*121*	*65*	*226*	*122*	-	*12,392*
Commercial exposures	-	35,620	152,003	63,154	78,739	74,779	-	404,295
Credit institution exposures	-	-	-	-	-	-	111,443	111,443
Sovereign exposures	-	-	-	-	-	-	42,493	42,493
Equity exposures	-	-	-	-	-	-	5,220	5,220
Assets with no counterparty	-	-	-	-	-	-	3,222	3,222
Total 2009	**577,996**	**35,851**	**161,741**	**69,398**	**89,086**	**91,340**	**162,378**	**1,187,791**
Total 2008	545,554	23,291	125,596	69,095	65,828	133,880	132,347	1,095,591

The Nykredit Realkredit Group – Total exposures
Retail exposures covered by IRB

2009 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD [1] %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	32,462	652	10.7	2.1	56
9	43,314	929	8.3	3.4	118
8	79,056	883	8.5	5.1	320
7	103,002	872	9.2	7.5	621
6	143,980	1,465	10.7	11.7	1,350
5	116,242	1,386	13.1	18.5	1,724
4	52,800	1,015	15.8	27.2	1,147
3	19,918	383	15.2	33.1	527
2	10,835	144	15.0	46.2	401
1	5,729	40	14.2	68.5	314
0	742	10	14.4	78.8	47
Non-performing exposures[2]	4,760	23	11.7	88.0	335
Total	**612,839**	**7,802**	**11.1**	**14.2**	**6,959**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] Pursuant to section 70(7) 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 70(7) of the Executive Order.
[2] The calculation of the capital charge for non-performing exposures is based on the difference between LGDs and individual impairment provisions.

The Nykredit Realkredit Group – Total exposures
Commercial exposures covered by IRB

2009 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD [1] %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	14,688	1,793	19.8	18.4	216
9	34,927	1,065	15.4	20.6	576
8	81,697	2,507	14.0	22.1	1,447
7	98,423	3,720	17.4	32.9	2,590
6	42,648	1,201	17.8	38.4	1,309
5	29,500	2,150	19.6	47.8	1,128
4	19,900	606	19.8	54.7	870
3	22,963	852	29.2	84.9	1,559
2	28,723	680	18.7	64.5	1,482
1	5,856	105	19.6	87.7	411
0	2,623	40	21.1	83.8	176
Non-performing exposures[2]	11,963	249	23.2	52.9	506
Total	**393,911**	**14,968**	**18.0**	**38.9**	**12,271**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] Pursuant to section 70(7) 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 70(7) of the Executive Order.
[2] The calculation of the capital charge for non-performing exposures is based on the difference between LGDs and individual impairment provisions.

The Nykredit Realkredit Group
Types of security and credit exposures

2009 DKK million	Real property[1]	Guarantees received	Financial collateral[2]	Total collateral value	Total exposure	Real property[1]	Guarantees received	Financial collateral[2]
Retail exposures	751,424		57,254		-		808,679	621,118
Of which								
- Mortgages on real property	*751,424*		*57,254*		-		*808,679*	*605,014*
- Revolving exposures, etc	-		-		-		-	*3,712*
- Other retail exposures	-		-		-		-	*12,392*
Commercial exposures	372,826		24,632		3,675		401,133	404,295
Credit institution exposures	-		-		-		-	111,443
Sovereign exposures	-		-		-		-	42,493
Equity exposures	-		-		-		-	5,220
Assets with no counterparty	-		-		-		-	3,222
Total 2009	**1,124,250**		**81,886**		**3,675**		**1,209,811**	**1,187,791**
Total 2008	942,637		61,421		3,297		1,007,356	1,095,591