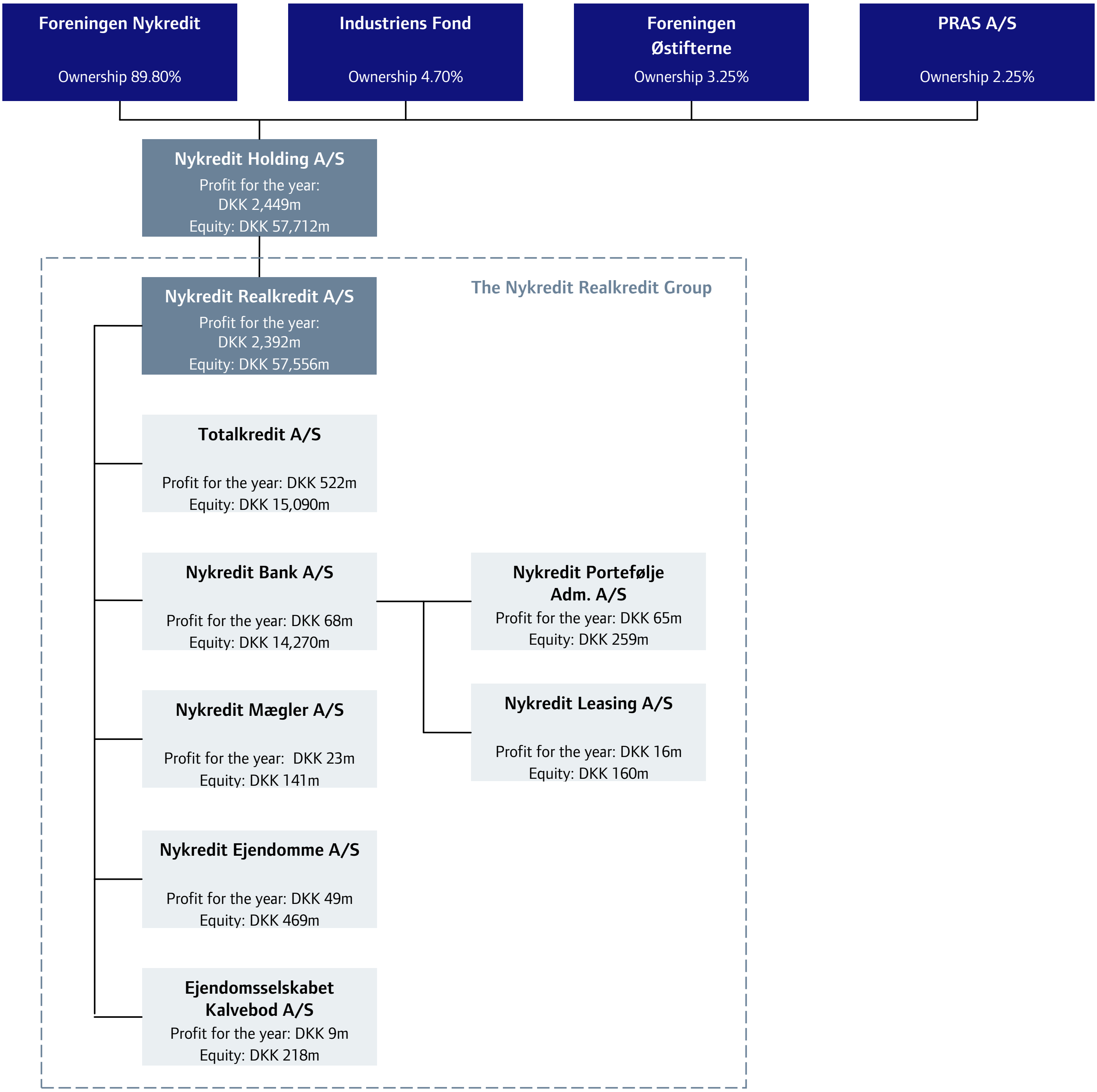
Risk and Capital Management 2012
The Nykredit Realkredit Group

Nykredit

CONTENTS

GROUP CHART


Foreningen Nykredit
Ownership 89.80%
Industriens Fond
Ownership 4.70%
Foreningen Østifterne
Ownership 3.25%
PRAS A/S
Ownership 2.25%
Nykredit Holding A/S
Profit for the year: DKK 2,449m
Equity: DKK 57,712m
The Nykredit Realkredit Group
Nykredit Realkredit A/S
Profit for the year: DKK 2,392m
Equity: DKK 57,556m
Totalkredit A/S
Profit for the year: DKK 522m
Equity: DKK 15,090m
Nykredit Bank A/S
Profit for the year: DKK 68m
Equity: DKK 14,270m
Nykredit Portefølje Adm. A/S
Profit for the year: DKK 65m
Equity: DKK 259m
Nykredit Leasing A/S
Profit for the year: DKK 16m
Equity: DKK 160m
Nykredit Mægler A/S
Profit for the year: DKK 23m
Equity: DKK 141m
Nykredit Ejendomme A/S
Profit for the year: DKK 49m
Equity: DKK 469m
Ejendomsselskabet Kalvebod A/S
Profit for the year: DKK 9m
Equity: DKK 218m

SPECIAL EVENTS IN 2012

Overview
The Danish economy remains constricted by the Southern European debt crisis, and GDP growth is low. However, Denmark's internal and external balances are solid in an international context. Unemployment is low, as are yields on government and covered bonds.

Given this growth scenario and the general state of the economy, 2012 progressed satisfactorily and as expected for the Nykredit Group, as also demonstrated by the normalised levels of the Group's financial ratios.

Nykredit increased its lending to both households and businesses in 2012. Lending to personal customers grew by DKK 22bn and lending to commercial customers by DKK 13bn. Since the onset of the financial crisis in 2008, lending to personal and commercial customers has grown by DKK 156bn and DKK 118bn, respectively.

Owing to the stabilisation of housing prices in 2012, the overall loan-to-value (LTV) level for the Group also stabilised at around 68%. For private residential property, the LTV ratio saw a minor lift to 76% at the end of 2012. The largest increase occurred in segments with the lowest mortgage lending levels. In late 2012, there were incipient signs of rising prices of owner-occupied flats in the metropolitan area.

The arrears ratio declined throughout 2012. At end-2012 the Group's 75-day mortgage arrears relative to total mortgage payments due came to 0.52% against 0.60% at end-2011. The arrears ratio declined for mortgage loans to both personal customers and commercial customers. In the commercial customer segment, the arrears ratio for loans to agricultural customers saw a particularly favourable trend during 2012.

An exposure is in default where it is deemed improbable that the customer will repay all debt in full. For the Nykredit Realkredit Group as a whole, around 2% of exposures were in default at end-2012, largely the same as at end-2011.

Impairment losses represented 0.18% of total lending at end-2012. In spite of a minor increase in the Bank's impairment losses at end-2012 relative to end-2011, we are far from the levels recorded in the wake of the financial crisis in 2008-2009. Impairment losses on group mortgage lending edged up to 0.14% at end-2012, a minor increase on 2011. Given the economic climate, the normalisation of impairment loss levels that began in 2011 continued in 2012.

Recognised losses increased in the years after the financial crisis. At end-2012 the loss ratio for mortgage activities of the Nykredit Group was 0.10% against 0.06% the year before. The moderate upward trend in the loss ratio seen in recent years was to be expected considering the general economic trends. Before the financial crisis, loss ratios were unusually low and the trend seen in recent years is rather a return to more normal levels.

The portfolio of properties repossessed counted 356 properties at end-2012, which was largely the same number as at end-2011. The uptrend of recent years was thus broken in 2012, and we are far from the level of around 1,500 properties repossessed during the housing market crisis in the early 1990s.

The requirement for supplementary collateral grew by DKK 13.8bn to DKK 47.8bn at end-2012. As is the case for the commercial property segment, two-tier mortgaging of private residential property will reduce the requirement for supplementary collateral going forward, even in scenarios with declining property prices.

Increasing capital requirements
The interest-only periods of interest-only loans raised in 2003 will expire in 2013. Nykredit is comfortable with the prospect of the interest-only periods of about 9,000 loans expiring in 2013. The reason is the combination of the good income level of these customers and the moderate increase in monthly mortgage payments on remortgaging from interest-only adjustable-rate mortgages (ARMs) with 1-year funding to repayment mortgages under the two-tier mortgaging model.

The Nykredit Realkredit Group must strengthen its capital position in the coming years as a consequence of the increased regulatory requirements in response to the financial crisis.

The future capital requirement is estimated at around 16% of risk-weighted assets, of which equity must account for 14%. The remaining capital may be in the form of supplementary capital or higher-quality capital. Nykredit's capital requirement is estimated to double. The new capital requirement is estimated to amount to DKK 70bn of equity including a capital reserve buffer of DKK 5bn, plus approximately DKK 15bn in the form of other subordinate loan capital. These amounts may change if Nykredit, as expected, is classified as a systemically important financial institution (SIFI).

The required increase in equity given the higher capital requirements will be accomplished over the next six years or so. Nykredit's Board of Directors will continually consider initiatives to ensure the required growth in equity.

As a financial institution, Nykredit is subject to a capital requirement of 8% of risk-weighted assets. According to Nykredit's estimates, the Group's internal capital adequacy requirement will amount to 9.6% in case of a weaker economic climate in 2013. In comparison, the total capital ratio was 19.1% and the core Tier 1 capital ratio 15.8% at end-2012.

EU capital exercise
At end-2012, the European Banking Authority (EBA) published the results of its latest capital exercise in respect of European credit institutions. The capital exercise assessed the European banks on a conservative basis and according to common European standards for exposures, capital, etc. The purpose of the capital exercise was to ensure that the participating banks had built up a buffer corresponding to a core Tier 1 ratio of 9% by July 2012.

61 credit institutions participated in the capital exercise and their core Tier 1 ratio averaged 10.7%. With a ratio of 14.5%, the Nykredit Realkredit Group performed very well in the capital exercise.

Regulatory initiatives 2013-2015
The EU is expected to adopt a final compromise in the course of H1/2013 on a suite of new extensive measures regulating the capital and liquidity of financial undertakings. As a consequence, the capital requirements will increase significantly, as will the requirements for credit institutions' stocks of liquid assets.

Danish covered bonds are expected to be fully eligible for inclusion in credit institutions' short-term liquidity, partly because of their high liquidity during the financial crisis. The short-term liquidity measure (LCR) will be implemented gradually from 2015. However, Nykredit expects to meet the future liquidity requirements already from 2013.

In the course of 2013, the Danish SIFIs are expected to be identified. These institutions will be subject to tighter regulation, including additional capital requirements and increased supervision. Nykredit expects to be classified as systemically important, given its position as the largest lender with a market share of some 30% of total lending in Denmark.

FSA inspections
The Danish Financial Supervisory Authority (FSA) performs regular inspections of Danish banks and mortgage lenders.

In 2012 the FSA conducted inspections of the Nykredit Group. The published inspection reports are available at nykredit.dk.

The inspections of the Nykredit Group have not caused the FSA to change its assessment of the Group's internal capital adequacy requirement.

RISK MANAGEMENT

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

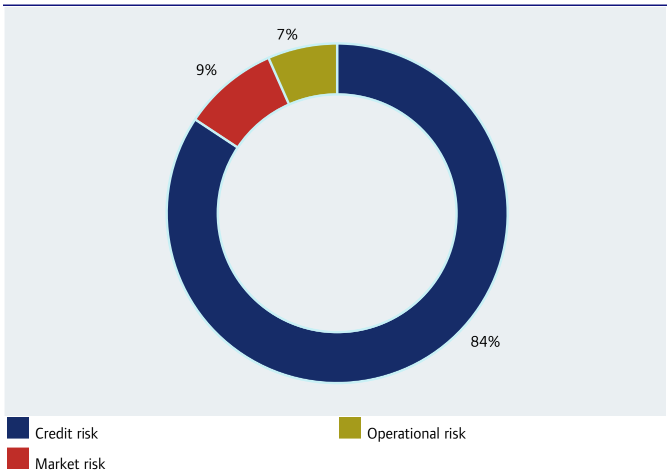
Nykredit strives to meet best international practice for risk management including disclosure of the Group's risk exposures. Nykredit's advanced models for quantifying group risks are central elements of the Group's risk and capital management.

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 Realkredit Group's day-to-day operations. Through risk management, the Group seeks to ensure financially sustainable solutions in the short and long term. Nykredit values balanced risk management and a strong capital structure.

The Nykredit Realkredit 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 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.

The Nykredit Realkredit Group
Capital requirement by risk type



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

ORGANISATION, DELEGATION OF RESPONSIBILITIES AND REPORTING
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 and policies. 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.

The Board of Directors of Nykredit Realkredit A/S counts 14 members, of which nine are elected by the General Meeting for a term of one year and five are elected by and among the staff for a term of four years.

The Board of Directors is the supreme management body of the Company, which makes decisions of a strategic and fundamental nature and lays down guidelines for the day-to-day management of the Group Executive Board.

Nykredit is committed to having a Board of Directors of a suitable size, composition and diversity, which possesses the competencies required to meet the management tasks and the responsibility resting at all times with the Board of Directors as the supreme management body of the Company.

The Board of Directors reviews its competency profile on an ongoing basis. It has been decided that the Board of Directors should have special competencies as regards:
- Strategy
- Knowledge of the business sector and property
- Economics, finance and accounting
- Capital markets, securities and funding
- Politics, management and associations
- Legal and regulatory matters of importance to financial business
- Management of large companies
- Market conditions, customer relations and sales
- Organisation/HR, IT and processes
- Credit matters.

Further details on the competency profile of the Board of Directors, the special competencies of each board member and the composition, size and diversity of the Board of Directors are available at nykredit.com/organisationuk.

Board committees
The Board of Directors of Nykredit Realkredit A/S has appointed an Audit Board, a Remuneration Board and a Nomination Board. Each of these boards monitors selected areas and prepares cases for review by the entire Board of Directors.

Audit Board
The Audit Board serves the companies of the Nykredit Group that are obliged to appoint such a board. In addition to Nykredit Realkredit A/S, the companies in question are Totalkredit A/S and Nykredit Bank A/S.

The principal tasks of the Audit Board are to monitor the financial reporting process, the effectiveness of the Nykredit Group's internal control systems, internal audit and risk management, the statutory audit of the financial statements, and to monitor and verify the independence of the auditors.

The Audit Board held four meetings in 2012.

Remuneration Board
The principal task of the Remuneration Board is to make recommendations in respect of Nykredit's remuneration policy, including guidelines on incentive pay, for the approval of the Board of Directors. Also, the Remuneration Board makes proposals for remuneration of the Committee of Representatives, the Board of Directors and the Executive Board. Further, it reviews and considers draft resolutions concerning staff bonus budgets and ensures that the information in the Annual Report about remuneration of the Board of Directors and the Executive Board is correct, fair and satisfactory.

The Remuneration Board held three meetings in 2012.

Organisation and delegation of responsibilities

Nomination Board
The Nomination Board is tasked with drawing up recommendations for the Board of Directors on the nomination of candidates for the Committee of Representatives, the Board of Directors and the Executive Board. In addition, the Nomination Board, which is accountable to the Board of Directors, is overall responsible for the competency profiles and continuous evaluation of the work and results of the Board of Directors and the Executive Board.

The Nomination Board held five meetings in 2012.

Group committees
Nykredit has appointed a number of group committees which are to perform specific tasks within selected business fields. All the committees include one or more members of the Group Executive Board.

The Group Credits Committee is charged with overseeing and supervising the management of risks in the Nykredit Group in the credits area.

The Group Treasury Committee is charged with ensuring efficient management of securities and funding activities in the Nykredit 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 Exposures by size, industry, loan type and geography Housing prices and LTV ratios Loan impairment, arrears and recognised losses ▪ Market risk Interest rate, foreign exchange and equity price risks (conventional measures and Value-at-Risk) Credit risk of investment portfolios Back tests and stress tests ▪ Operational risk ▪ Regulatory risk Monthly reporting on key risk areas: ▪ Market risk Interest rate, foreign exchange and equity price risks (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

The Group Asset/Liability Committee is tasked with supervising and coordinating liquidity, ALM and capital management.

The Group Risk Committee is charged with overseeing the total risk exposures and capital requirements of the Nykredit Group.

The Group Audit Committee is charged with reviewing audit-related issues, including internal and external audit reporting (group audit plan, long-form audit reports and management summaries) and preparing items for review by the Audit Board.

The Group Contingency Committee has the overall responsibility for compliance with IT security policy rules in relation to contingency (major accidents and catastrophes) and the Group's overall contingency plans.

The Group Advisory Committee lays down the overall guidelines for Nykredit's advisory services, including coordination of advisory statements and recommendations across lending and investments and across tactical and strategic asset allocation.

The Group Products Committee's overarching purpose is to ensure that the development and maintenance of concepts and products potentially involving material risks for the Group, counterparties or customers are undertaken in accordance with the Group's business model.

The Group Pricing Committee reviews Nykredit's recommended prices for banking and mortgage services.

The Group IT Portfolio Committee determines and approves all aspects of the Group's IT operations, including the allocation of resources between system development, management and operating activities, including outsourced activities.

For further information on Nykredit's Board committees and Group committees, please see Nykredit's Annual Report available at nykredit.com.

Reporting

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 Group 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 current risk reporting. Risk is reported to the Board of Directors, the Executive Board, the relevant management levels and the business areas.

CORPORATE GOVERNANCE

The Board of Directors of Nykredit Realkredit A/S has decided that the Nykredit Realkredit Group should act as a listed company for external purposes, operating on sound business terms.

In consequence, the Nykredit Realkredit Group complies with the revised Recommendations on Corporate Governance of the Committee on Corporate Governance subject to the adjustments that follow from its special ownership and management structure. The recommendations form part of the rules of NASDAQ OMX Copenhagen A/S.

Further information on Nykredit's organisation and corporate governance policy is available at nykredit.com/corporategovernanceuk.

CHIEF RISK OFFICER

The responsibilities of the Chief Risk Officer extend to all activities involving risk, including also risks relating to outsourced functions. This includes activities involving credit risk, market risk, counterparty risk, liquidity risk and operational risk.

The Head of Nykredit's Risk Management function has been appointed Chief Risk Officer. Nykredit's organisational structure in which Risk Management has been segregated from all risk-taking entities of the Group ensures independence between the Chief Risk Officer and the acting entities. The Group's central risk management function performs intercompany controls, monitors group risks and prepares risk reports for the Board of Directors on all risk areas.

REMUNERATION

Bonus programmes

Variable remuneration, including bonus programmes, does not apply to the Board of Directors and the Group Executive Board.

Risk-takers

The Group has designated 30 risk-takers, who together with 9 subsidiary executives receive variable remuneration. The numbers are unchanged on 2011. Pursuant to the Danish Financial Business Act, this group is subject to special restrictions, chiefly in relation to payout of bonus. Some of these restrictions are deferral of payout over a several-year period, partial payout through bonds subject to selling restrictions instead of cash payment and Nykredit's ability to retain the deferred amount under special circumstances.

The risk-takers are designated by the Board of Directors based on the size of the loss that the individual risk-taker may inflict on Nykredit in terms of credit or market risk.

As Nykredit is the largest provider of domestic loans in Denmark, the majority of the risk-takers have been designated because of their possibility of inflicting credit losses on Nykredit.

The 2012 bonus provisions were DKK 16m for all subsidiary executives and significant risk-takers compared with an earned bonus of DKK 11m for 2011. The 2012 bonus provisions correspond to 25% of the group's total salaries.

Further information on bonuses to risk-takers, remuneration policy and procedures is available at nykredit.com/aboutnykredit.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Group's internal controls and risk management are designed to efficiently manage rather than eliminate the risk of errors and omissions.

The Nykredit Group continuously expands and improves its current monitoring and control of risk. Risk is reported on a continuous basis in material areas such as credit risk, market risk, liquidity risk, operational risk and IT risk.

Risk management

The risk management process is based on internal control and risk management systems, which together ensure that all relevant financial transactions are correctly reflected in the form of risk calculations and reports.

Risk Management handles the Group's overall risk management and reporting as well as the calculation of capital requirements. Risk Management is responsible for ensuring that the Group's risk reporting and calculation comply with policies laid down and current legislation.

A number of working committees have been appointed to ensure compliance with current legislation. They review and comment on new and amended capital requirement rules and policies for the purpose of adapting financial reporting and capital requirement calculations.

Risk Management prepares internal, semi-annual reports, including for the Board of Directors, and is responsible for the Group's external risk reporting.

Control environment

Business procedures are laid down and controls are implemented for all material risk areas, including areas of significance to the determination of capital requirements.

The Executive Board and a number of group committees, each chaired by a Group Managing Director, are responsible for risk delineation, management and monitoring.

Controls

The purpose of the Group's controls is to ensure that policies and guidelines laid down by the Executive Board are observed and to ensure timely prevention, detection and correction of any errors, deviations or omissions.

The controls comprise manual controls as well as general IT controls and automatic application controls in IT systems applied.

The Executive Board has reassigned its daily control duties, and overall control is based on three functional levels:

- *Business units* – the management of each unit is responsible for identifying, assessing and handling the risks arising in connection with the performance of the unit's duties and for implementing satisfactory permanent internal controls for the handling of business operations.
- *Risk functions* – comprise a number of group-wide areas, such as Group Credits, Group Finance, decentralised finance areas, Risk Management, including the Chief Risk Officer, Compliance and IT Security. These areas are in charge of providing policies and procedures on behalf of Management. Further, they are responsible for testing whether policies and procedures are observed and whether internal controls performed by the business units are satisfactory.
- *Audit* – comprises internal and external audit. On the basis of an audit plan approved by the Board of Directors, Internal Audit is responsible for carrying out an independent audit of internal controls in the Nykredit Group.

The three functional levels are to ensure:

- Reliable internal and external reporting
- Compliance with legislation, other external rules and internal guidelines
- The value of the Group's assets, including efficient management of relevant risks.

Information and communication

The Board of Directors has adopted an information and communications policy, which lays down the general requirements for external financial reporting in accordance with legislation and relevant rules and regulations. Nykredit is committed to a transparent and credible business conduct – in compliance with legislation and the Stock Exchange Code of Ethics.

Internal and external risk reports are submitted to the Group's Board of Directors and Executive Board on an ongoing basis. Internal reporting contains analyses of material matters in, for instance, the Group's business areas and subsidiaries.

Monitoring

The Group's Audit Board continuously receives reports from the Executive Board and internal/external audit on compliance with the guidelines provided, business procedures and rules as well as review of model-related initiatives and changes.

Risk areas reviewed by selected Group committees

Group Risk Committee	
Capital policy and requirement	Assessment of Nykredit's required capital base and future capital requirement
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 ▪ New products ▪ Rating of bonds and companies
Legislative measures	Assessment of amendments to financial legislation from the Danish FSA or the EU
Group Asset/Liability Committee	
Liquidity	Liquidity position of group entities Current funding levels (SDOs/ROs, money market and senior capital) Current funding activity (covered bonds and other funding) Stress tests of free liquidity
Capital structure and ALM	Capital structure of group entities Current financing capacity
SDOs (Danish covered bonds)	Assessment of development in prices of mortgaged properties Assessment of volume of interim loan guarantees Required supplementary collateral and issuance of junior covered bonds
Legislative measures	Assessment of amendments to financial legislation from the Danish FSA or the EU
Group 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
Loan impairment	Approval and assessment of loan impairment provisions
Group Treasury Committee	
General themes	Macroeconomics Market themes
Risk and return	Overview of exposures and market risk of group companies Equities: Risk and portfolios Fixed income: Risk and portfolios Investment portfolio income and return relative to benchmarks Value-at-Risk, stress tests and back tests Credit bonds: Risk and portfolios
Strategy and recommendations	Equity price, interest rate, foreign exchange and credit risks Risk limits
Market risk limits	Market risk limits and their utilisation within the Group Market risk limits and their utilisation in subsidiaries
Group Audit Committee	
Audit reports	Review of internal and external audit reporting

CAPITAL REQUIREMENTS

The Nykredit Realkredit Group
Capital base

DKK million	2012	2011
Core Tier 1 capital	**57,354**	**55,159**
Statutory deductions from core Tier 1 capital		-
Proposed dividend	(150)	(200)
Intangible assets, including goodwill, and deferred capitalised tax assets	(3,705)	(4,413)
Current loss for the year	-	-
Exposures exempt from limits applicable to large exposures	-	-
Core Tier 1 capital after primary deductions	**53,499**	**50,546**
Hybrid capital	10,690	11,204
Tier 1 capital after primary deductions	**64,189**	**61,750**
Other deductions from Tier 1 capital	-	-
Deduction for insurance business	-	-
Equity investments > 10%	(63)	(152)
Sum of equity investments > 10%	-	-
Deduction for half the difference between IRB-calculated losses and impairments	(917)	(1,050)
Deduction for half the expected losses on equity investments	(30)	(29)
Other statutory deductions	(769)	(1,031)
Tier 1 capital after statutory deductions	**62,410**	**59,487**
Supplementary capital	**-**	
Subordinated debt	-	-
Revaluation reserves	202	151
Reserves in series	38	49
Total supplementary capital	**241**	**200**
Statutory deductions from capital base		
Deduction for insurance business	-	-
Equity investments > 10%	(63)	(152)
Sum of equity investments > 10%	-	-
Deduction for half the difference between IRB-calculated losses and impairments	(917)	(1,050)
Deduction for half the expected losses on equity investments	(30)	(29)
Other statutory deductions	769	1,031
Total statutory deductions from capital base	**(241)**	**(200)**
Total capital base after statutory deductions	**62,410**	**59,487**

CAPITAL BASE

The capital base of the Nykredit Realkredit Group stood at DKK 62.4bn at end-2012 against DKK 59.5bn at end-2011.

Nykredit's Tier 1 capital consists mainly of equity. As shown in the table, Tier 1 capital after statutory deductions amounted to DKK 62.4bn, of which hybrid capital accounted for DKK 10.7bn.

The hybrid capital is expected to be replaced by new subordinate loan capital in 2013-2015, as the hybrid capital is subject to special redemption terms in 2014 and 2015.

In accordance with the Danish Executive Order on capital base determination, Tier 1 capital and the capital base are adjusted for the difference between the IRB-calculated losses and impairment and value adjustment for accounting purposes of exposures subject to internal ratings-based (IRB) approaches. The charge amounted to DKK 1.8bn at end-2012.

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 is a concept applied for regulatory purposes and does not correspond to Nykredit's own loss expectations.

The Nykredit Realkredit Group
Loan capital

	Interest rate	Call option	Maturity	DKKm
Nykredit Realkredit A/S				
Hybrid capital	4.9% until 22.09.2014, then floating	22.09.2014	Perpetual	3,971
Hybrid capital	9.0% until 01.04.2015, then floating	01.04.2015	Perpetual	7,064
Total				**11,015**
Nykredit Bank A/S				
Hybrid capital	6.3% until 22.10.2014, then floating	22.10.2014	Perpetual	150
Hybrid capital	3M Cibor + 1.7% until 01.05.2016, then floating	01.05.2016	Perpetual	100
Total				**250**

DETERMINATION METHODS

Credit risk

The Nykredit Realkredit Group has been authorised by the Danish FSA to use the IRB advanced approach to determine the capital requirement for credit risk in relation to:

- Mortgage lending by Nykredit Realkredit A/S and Totalkredit A/S
- Personal 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 that is 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
- A few minor portfolios.

In accordance with industry standards, counterparty risk is included as gross amounts in the exposure.

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 (VaR) 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 VaR model to estimate the general risk related to instruments of debt and foreign exchange.

Nykredit Realkredit and Nykredit Bank are required to calculate a stressed VaR in addition to the current VaR for determining the capital adequacy requirement. Stressed VaR must be calculated for the current portfolio, but using volatilities and correlations (market data) from a period of significant stress. This period is fixed annually on the basis of the current portfolios.

For market risk in Totalkredit A/S and the parts of the portfolio for which the capital requirement is not determined using VaR, the standardised approach is applied.

Operational risk

All group companies apply the basic indicator approach to determine the capital requirement for operational risk.

Transitional rules

The capital requirement is subject to a transitional rule under the Danish Executive Order on Capital Adequacy. The 2012 capital requirement must constitute at least 80% of the capital requirement determined under Basel I.

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. Nykredit Realkredit A/S and its subsidiaries are referred to collectively 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 an enterprise, JN Data, which does not form part of the Group. JN Data is regarded as a joint venture. Group investments in joint ventures are recognised by proportionate consolidation for the purpose of both financial statements and the determination of the capital requirement.

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

2012	IRB advanced approach %	IRB foundation approach %	Standardised approach %	Total %	Total exposure DKKm
Retail exposures	99.8	-	0.2	100.0	749,861
Of which					
- Mortgages on real property	*99.8*	-	*0.2*	100.0	*736,094*
- Revolving exposures, etc	*100.0*	-	-	100.0	*6,067*
- Other retail exposures	*100.0*	-	-	100.0	*7,700*
Commercial exposures	74.8	24.2	*0.9*	100.0	*502,408*
Credit institution exposures [1]	-	-	100.0	100.0	58,967
Sovereign exposures	-	-	100.0	100.0	43,886
Equity exposures [2]	97.9	-	2.1	100.0	3,696
Securitisations	100	-	-	100.0	110
Assets with no counterparty	100	-	-	100.0	5,421
Total 2012	**83.1**	**8.9**	**8.0**	**100.0**	**1,364,349**
Total 2011	**81.4**	**8.8**	**9.6**	**100.0**	**1,332,738**

[1] Credit institution exposures include guarantees issued by banks of a total of DKK 21.7bn.
[2] Capital charges for equity exposures in the banking book have been determined using the simple risk weight approach. Of the total exposure of DKK 3.6bn, DKK 2.0bn is unlisted equities, which are assigned a risk weight of 370%.

The Nykredit Realkredit Group
Capital requirement and capital adequacy

DKK million	2012	2011
Credit risk		
Standardised approach		
Exposures to central governments or central banks	-	-
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	933	980
Exposures to corporates, etc	373	370
Retail exposures	37	37
Exposures secured by mortgages on real property	-	-
Exposures in arrears or overdrawn	-	-
Covered bonds	-	-
Short-term exposures to corporates, etc with a short-term credit rating	-	-
Exposures to collective investment schemes	-	-
Exposures in the form of other items, incl assets with no counterparty	-	-
Total credit risk, standardised approach	**1,344**	**1,387**
IRB approach		
Retail exposures	8,242	8,811
Of which		
– Mortgages on real property	*7,881*	*8,443*
– Revolving exposures, etc	*72*	*66*
– Other retail exposures	*289*	*302*
Commercial exposures	12,369	12,741
Equity exposures	947	946
Assets with no counterparty	434	340
Settlement risk	0	0
Total credit risk, IRB approach	**21,992**	**22,839**
Securitisation positions, IRB approach	**110**	**290**
Total credit risk	**23,446**	**24,516**
Loss guarantee	**(1,395)**	**(1,224)**
Total credit risk after loss guarantee	**22,051**	**23,293**
Market risk	**2,368**	**3,086**
Operational risk	**1,722**	**1,474**
Total capital requirement	**26,142**	**27,852**
Risk-weighted assets	326,775	348,155
Capital base	62,410	59,487
Total capital ratio, %	19.1	17.1
Core Tier 1 capital ratio, %	15.9	13.9
Basel II transitional rule		
Capital requirement subject to transitional rule[1]	**49,603**	**48,077**

[1] The capital requirement subject to the transitional rule has been determined in accordance with the transitional provisions of the Danish Executive Order on Capital Adequacy. The capital requirement in 2012 must constitute at least 80% of the capital requirement determined under Basel I.

DIFFERENCES COMPARED WITH FINANCIAL STATEMENTS

Unexercised loan offers, credit and loan commitments, and potential future credit exposures in financial instruments 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 REQUIREMENT

At end-2012, the Group's capital requirement was DKK 26.1bn, and risk-weighted assets totalled DKK 326.8bn. With the capital base at DKK 62.4bn, this corresponds to a total capital ratio of 19.1% against 17.1% at end-2011. The core Tier 1 capital ratio was 15.8% against DKK 13.9% at end-2011.

The Group's capital requirement subject to the transitional rule was DKK 49.6bn at end-2012. The current transitional rule has been extended until 2015 inclusive.

The required capital base stood at DKK 31.3bn at end-2012, equal to an internal capital adequacy requirement of 9.6%. 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 "Required capital base".

Nykredit Holding has issued a loss guarantee in favour of Nykredit Bank. The guarantee resulted in a reduction of DKK 1.4bn in the capital requirement for credit risk exposures at end-2012.

In Management's assessment, the guarantee will only be invoked in case of severe deterioration of the economic climate, and even in that case only under special circumstances. The probability that the guarantee will be invoked is low. In the capital structure, the loss guarantee is included in the countercyclical buffer, leaving the long-term capital requirement unchanged.

CAPITAL BASE AND CAPITAL REQUIREMENTS OF GROUP COMPANIES

All companies of the Nykredit Realkredit Group have total capital ratios at comfortable levels above the statutory 8%.

At end-2012, Nykredit Realkredit A/S had a capital requirement of DKK 30.8bn and a capital base of DKK 59.4bn. Totalkredit A/S's capital requirement was DKK 6.4bn and the capital base DKK 16.4bn. The Nykredit Bank Group had a capital requirement of DKK 5.9bn and a capital base of DKK 14.3bn.

Capital base and capital requirements of group companies

2012 DKK million	Nykredit Realkredit A/S	Totalkredit A/S	The Nykredit Bank Group	The Nykredit Realkredit Group
Credit risk after loss guarantee	27,751[1]	5,844	3,914	22,051
Market risk	1,346	420	1,024	2,368
- of which stressed VaR	*726*	-	*415*	*1,141*
Operational risk	886	265	503	1,722
Total capital requirement not subject to transitional rule	**29,983**	**6,529**	**5,441**	**26,142**
Total capital requirement subject to transitional rule[2]	**33,683**	**16,785**	**5,571**	**49,603**
Capital base	**61,596**	**18,117**	**14,463**	**62,410**

[1] Including intercompany exposures, for which reason the credit risk is greater for the company than for the Group.

[2] The capital requirement subject to the transitional rule has been determined in accordance with the transitional provisions of the Executive Order on Capital Adequacy. The capital requirement in 2012 must constitute at least 80% of the capital requirement determined under Basel I.

CAPITAL MANAGEMENT

CAPITAL POLICY AND STRUCTURE

Nykredit's objective is to maintain active lending activities regardless of economic trends, while retaining a competitive credit rating. This means that Nykredit should have sufficient capital to cover the calculated increase in statutory capital requirements resulting from higher arrears and loss levels during a severe recession.

Capital is as far as possible concentrated in the Parent Company, Nykredit Realkredit A/S, to ensure strategic flexibility and leeway. Capital is contributed to subsidiaries as required.

Capital policy under existing rules (Basel II)

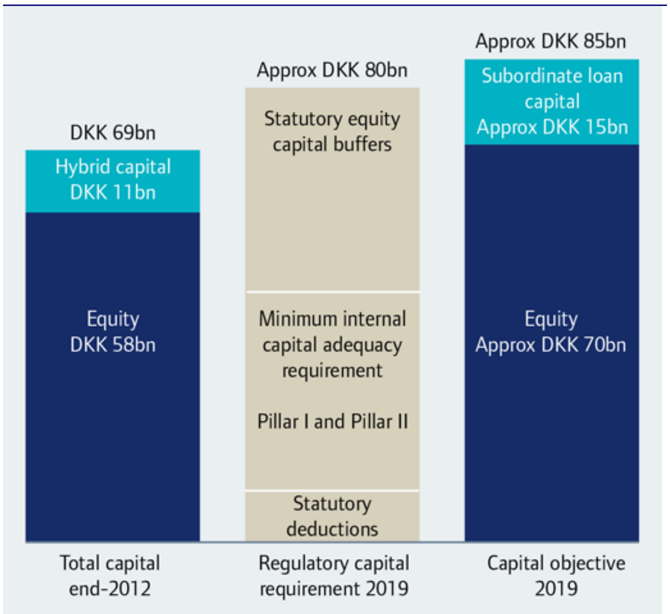
The capital requirement is calculated as the sum of Pillar I (model calculations) and Pillar II (supplementary internal capital adequacy requirement). The total capital requirement is denoted the required capital base and amounts to DKK 31.3bn, of which DKK 23.9bn in Pillar I and DKK 7.4bn in Pillar II. The internal capital adequacy requirement constitutes 9.6% of risk-weighted assets.

Under current legislation, the capital requirement must be assessed in relation to a company's capital base after statutory deductions. The statutory capital deductions amount to DKK 5.8bn and relate to intangible assets such as goodwill plus various deductions.

Nykredit's capital policy objective is to have equity capital covering:

- *Statutory capital deductions* of DKK 5.8bn, just over half relating to goodwill.
- *Required capital base (Pillar I and Pillar II)* of DKK 31.3bn, which includes an assessment of the impact of a slightly weaker economic climate. The determination of the required capital base takes into account any special risks related to Nykredit's business activities, and the calculations include buffers where relevant.
- *Countercyclical buffer* of DKK 14.3bn calculated as the rise in the capital requirement if a severe recession should set in with an unemployment rate of 6.5-10% and interest rates of 5.5-7%. The countercyclical buffer is determined by means of stress tests.

The Nykredit Realkredit Group
Estimated capital position under future rules



All in all, a capital policy requirement of equity in the region of DKK 51.4bn.

Capital policy under future rules (Basel III)

The European Council of Ministers, the European Parliament and the European Commission agree on all material issues in relation to the new capital adequacy rules. The new rules are expected to be adopted in Q2/2013, and they will be phased in towards 2019.

The future capital requirement is estimated at around 16% of risk-weighted assets, of which equity must account for 14%. The remaining capital may be in the form of supplementary capital or higher quality capital. Furthermore, the capital requirement will increase as a result of changed rules for calculating risk-weighted assets. Measured at group level, risk-weighted assets currently total DKK 326.8bn. Other things being equal, they will increase to an estimated DKK 425bn-450bn due to the changed calculation rules.

The new capital requirements consist of the existing requirements plus equity capital buffers of 2.5-5% of risk-weighted assets and a capital surcharge for systemically important financial institutions (SIFIs). Being the largest lender in Denmark, Nykredit expects to be subject to all of the above requirements.

In Nykredit's case, changes in statutory buffer requirements are presumed to be largely offset by the changes in risk-weighted assets usually resulting from changes in economic trends (unemployment etc). Hence, the capital requirement will be largely the same for Nykredit during expansionary and recessionary periods.

All in all, the new rules are expected to double Nykredit's capital requirement in terms of the required capital base. The new capital requirement is estimated to amount to DKK 70bn of equity including a capital reserve buffer of DKK 5bn, plus approximately DKK 15bn in the form of other subordinate loan capital. The capital level may change when the final rules from the EU and the Danish authorities are introduced.

Increasing lending in the coming years will result in additional capital requirements. A 1% increase in risk-weighted assets will cause the capital requirement to rise by DKK 0.7bn.

The required increase in equity given the higher capital requirements will be accomplished over the next six years or so. Nykredit's Board of Directors will continually consider initiatives to ensure the requisite growth in equity.

REQUIRED CAPITAL BASE

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

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

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

Pillar I

Pillar I capital covers credit risk, market risk, operational risk and risk related 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 requirement during a slight economic downturn is determined by means of stress tests, cf "Stress tests and capital projections".

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.

Required capital base

2012 DKK million	Nykredit Realkredit A/S[2]	Totalkredit A/S	The Nykredit Bank Group	The Nykredit Realkredit Group
Calculation assumptions				
Statistical confidence level applied at group level, %	99.97	99.97	99.97	99.97
Statistical confidence level applied at company level, %	99.97	99.97	99.93	-
Time horizon[1]	1 year	1 year	1 year	1 year
Determination				
Credit risk (internal credit risk model)	27,751[3]	6,533	2,743	18,285
Market risk (internal Value-at-Risk model)	2,570	378	864	3,812
- of which stressed VaR	*1,697*	*208*	*466*	*2,372*
Operational risk (standardised approach)	898	214	536	1,662
Risk relating to own properties	-	-	-	133
Total Pillar I	**31,219**	**7,125**	**4,142**	**23,893**
Model and calculation uncertainties	1,325	786	583	2,776
Slightly weaker economic climate (stress test, etc)	1,208	738	494	2,506
Other factors[4]	114	-	1,198	1,359
ICAAP buffer of Nykredit Bank	-	-	745	745
Total Pillar II	**2,648**	**1,525**	**3,020**	**7,385**
Total required capital base	**33,867**	**8,649**	**7,162**	**31,278**

[1] Risks are calculated for a term of one year, while charges for a slightly 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] CRD Pillar I applied
[4] Other factors include assessment of control risk, strategic risk, external risk, concentration risk, liquidity risk, etc.

Internal capital adequacy requirement (ICAAP)

2012 % of risk-weighted assets	Nykredit Realkredit A/S	Totalkredit A/S	The Nykredit Bank Group	The Nykredit Realkredit Group
Determination				
Credit risk (internal credit risk model)	7.4	8.0	4.0	5.6
Market risk (internal Value-at-Risk model)	0.7	0.5	1.3	1.2
Operational risk (standardised approach)	0.2	0.3	0.8	0.5
Risk relating to own properties	-	-	-	-
Total Pillar I	**8.3**	**8.7**	**6.1**	**7.3**
Slightly weaker economic climate (stress test, etc)	0.3	0.9	0.7	0.8
Other factors[1]	0.0	-	1.8	0.4
Model and calculation uncertainties	0.4	1.0	0.9	0.8
ICAAP buffer of Nykredit Bank	-	-	1.1	0.2
Total Pillar II	**0.7**	**1.9**	**4.4**	**2.3**
Total capital requirement	**9.0**	**10.6**	**10.5**	**9.6**

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

The Group concentrates its capital resources in the Parent Company, Nykredit Realkredit A/S. Against this background, the confidence level applied to calculate the required capital base of Nykredit Bank when determining the Bank's internal capital adequacy requirement is lower (99.93%) than the level applied to determine the Group's capital adequacy determination (99.97%).

Nykredit applies the following methods to determine the required capital base:

- 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 onwards.
- Market risk is determined using Nykredit's internal VaR model, including stressed VaR, 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 requirement for increasing impairment losses and the capital requirement in a slightly weaker economic climate.
- Operating losses in stress tests increase the capital requirement, while operating profits are not included.

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.

Slightly weaker economic climate

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

In a slightly 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.

Model and calculation uncertainties

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

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

ICAAP buffer of Nykredit Bank

In light of the cyclical risk still existing in certain areas as well as the new regulatory regime, which will increase the capital requirement for counterparty risk (Credit Value Adjustment), a capital buffer in the amount of DKK 0.7bn has been established in Nykredit Bank.

As an integral part of assessing the internal capital adequacy requirement and of the capital policy, Nykredit actively addresses the part of the loan portfolio that is subject to interest rate adjustment. Additional focus is on supplementary security and the ability to absorb losses.

Nykredit has considered the future requirements for assessment of the internal capital adequacy requirement, and the current determination method factors in these requirements.

The assessments do not give rise to further capital charges in the determination of the required capital base and internal capital adequacy requirements of the Group or group companies.

STRESS TESTS AND CAPITAL PROJECTIONS

Nykredit conducts a large number of model-based stress tests and capital projections to determine the required capital base in the current economic climate and in a severe recession scenario. The results are applied at both group and company level and are included in the annual assessment by the individual boards of directors of the internal capital adequacy requirement. In the determination of the capital requirements, the stress tests are not the only element, but are included in an overall assessment along with the company's business model, risk profile and capital structure.

The capital projection model includes the macroeconomic factors of greatest importance historically to the Group's customers. An essential element of the capital projection model is the correlation between the development in the macroeconomic factors and borrower credit risk parameters in different scenarios.

The most important macroeconomic factors identified are:

- Interest rates
- Property prices
- GDP growth
- Equity prices
- Unemployment.

Nykredit operates with three scenarios of the macroeconomic development: a base case scenario, a slightly weaker economic climate and a severe recession. Both in a slightly weaker economic climate and during a severe recession, the capital requirement for credit risk builds on correlations between the macroeconomic factors, customer default rates (PD) and the size of the loss in case of customer default (LGD).

Scenario: Base case

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

Scenario: Slightly weaker economic climate in 2013-2015

The scenario is designed to illustrate a slightly weaker economic climate relative to the base case scenario. The capital charge reflects how much the Group's capital requirement would increase if this scenario occurred.

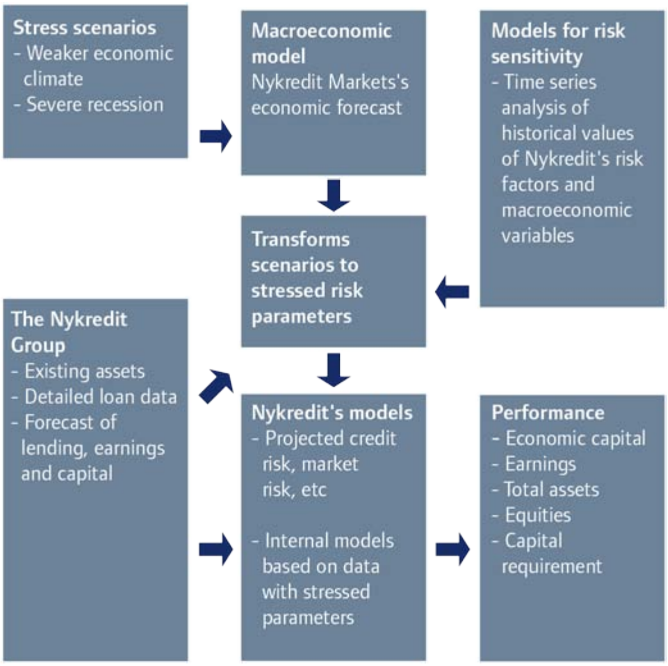
The capital charge for a slightly weaker economic climate came to DKK 2.5bn at 31 December 2012.

Scenario: Severe recession (countercyclical buffer)
A central element of Nykredit's capital policy is to have sufficient capital resources, also in the long term.

Nykredit continually calculates the impact of severe recession combined with a relatively high interest rate level. When determining the size of the countercyclical buffer, it is assumed that the current lending volume is maintained regardless of the economic downturn.

Nykredit designs the severe recession scenario so that it reflects an extreme, but not unlikely, situation.

Model structure for stress testing and capital projection



Stress scenarios for determination of capital requirement

%	2013	2014	2015
Base case			
GDP growth	1.1	1.6	2.1
Interest rates[1]	0.9	1.1	1.5
Property prices, growth	0.7	2.4	2.0
Unemployment	4.3	4.2	4.2
Danish equity index, growth	2.0	2.0	2.0
Slightly weaker economic climate (scenario applied under Pillar II)			
GDP growth	0.0	0.0	0.4
Interest rates[1]	2.3	2.8	3.7
Property prices, growth	-3.0	-3.0	0.0
Unemployment	5.0	5.4	5.2
Danish equity index, growth	-5.0	-5.0	0.0
Severe recession (scenario applied under countercyclical buffer)			
GDP growth	-3.0	-2.0	0.0
Interest rates[1]	5.5	6.5	7.0
Property prices, growth	-12.0	-10.0	-5.0
Unemployment	6.5	9.0	10.0
Danish equity index, growth	-10.0	-10.0	-5.0

[1] Average of 3-month money market rates and 10-year government bond yields.

The countercyclical buffer depends on the development in the scenario, and a negative earnings impact reflecting the accumulated loss calculated in the scenario may be added. That way, the development in equity is also factored in.

The capital charge for a severe recession amounted to DKK 14.3bn at end-2012.

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 introduced its scenario analyses in 2010, Nykredit has regularly assessed the results in relation to those of its own models. 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 companies during a slightly weaker economic climate at least once a year. The Board of Directors of the Nykredit Realkredit Group determines the countercyclical 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 boards 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 Group Risk Committee monitors the development in the internal capital adequacy requirements of the individual companies closely through reports that are updated at least quarterly.

NYKREDIT'S RATINGS

Nykredit Realkredit A/S and Nykredit Bank A/S have retained the services of the international credit rating agencies Standard & Poor's and Fitch Ratings regarding rating of the companies and their funding.

The bonds issued by Nykredit Realkredit A/S are primarily covered bonds in the form of SDOs and ROs. In addition, bonds have been issued for the funding of supplementary collateral (junior covered bonds) as well as hybrid 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.

Standard & Poor's

In Q2/2012 Standard & Poor's (S&P) assigned a AAA rating to ROs issued out of Capital Centres G and I, the highest possible rating. This means that S&P has assigned AAA ratings to all rated SDO and RO capital centres.

S&P also assigned a A+ rating to junior covered bonds issued out of Capital Centres E and H. Junior covered bonds are applied to fund supplementary collateral in the capital centres.

The Nykredit Realkredit Group Ratings

31 December 2012	Bonds[1] DKKbn	S&P	Fitch
SDOs, ROs and junior covered bonds			
Nykredit Realkredit A/S			
- Capital Centre C (covered bonds (ROs))	4	AAA	
- Capital Centre D (covered bonds (ROs))	257	AAA	
- Capital Centre E (covered bonds (SDOs))	338	AAA	
- Capital Centre E (junior covered bonds (JCBs))	24	A+	
- Capital Centre G (covered bonds (ROs))	25	AAA	
- Capital Centre H (covered bonds (SDOs))	570	AAA	
- Capital Centre H (junior covered bonds (JCBs))	19	A+	
- Capital Centre I (covered bonds (ROs))	3	AAA	
- Nykredit Realkredit In General (covered bonds (ROs))	2	AAA	
Totalkredit A/S			
- Capital Centre C (covered bonds (ROs))	56	AAA	
Other ratings			
Nykredit Realkredit A/S			
- Short-term unsecured rating		A-1	F1
- Long-term unsecured rating		A+	A
- Hybrid capital (Tier 1)		BBB	
Nykredit Bank A/S			
- Short-term deposit rating		A-1	F1
- Long-term deposit rating		A+	A
Euro MTN Programme			
- Short-term senior debt		A-1	F1
- Long-term senior debt		A+	A
Euro Commercial Paper Programme and Certificate of Deposit Programme			
- Short-term senior debt		A-1	F1

[1] Issued bonds at nominal value.

Fitch Ratings

Nykredit has also engaged the services of Fitch Ratings. The agency announced in August 2012 that Nykredit Realkredit A/S and Nykredit Bank A/S had been assigned a long-term Issuer Default Rating (IDR) of A and a short-term IDR of F1. Both ratings have stable outlooks.

Moody's Investors Service

In April 2012 Nykredit requested Moody's Investors Service to cease rating the Nykredit Group. The request related to all ratings of group companies and their issues.

In this connection, Nykredit has ceased supplying information for the purpose of Moody's rating process.

Moody's has opted to publish unsolicited ratings for some group companies.

Moody's most recent announcements regarding Danish banks and mortgage lenders have not affected the market for Danish covered bonds, including Nykredit's bonds.

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.

The capital requirements stated in the tables below have been determined without taking into account the loss guarantee issued by Nykredit Holding to Nykredit Bank.

CREDIT POLICY AND CREDIT APPROVAL AUTHORITY

Given Nykredit's size, the credit policy allows for the aim of a suitable market presence and an objective of 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 final settlement.

The Board of Directors lays down the overall framework of credit approval 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 prepares the policies governing the individual business areas and Treasury.

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 Group Credits Committee or the Board of Directors. The Group Credits Committee grants or approves loans and/or facilities that, if granted, will bring Nykredit's total exposure to a customer over DKK 50m and, subsequently, when the exposure exceeds multiples of DKK 25m. The Board of Directors grants or approves loans and/or facilities that, if granted, will bring Nykredit's total exposure to a customer over DKK 200m and, subsequently, when the exposure exceeds multiples of DKK 100m. The credit limits are higher if the customer is a bank or mortgage lender.

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, the Executive Board, etc.

CREDIT APPROVAL AND MONITORING

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 Group Credits Committee undertakes all reporting on individual credit exposures. The Group Risk Committee is responsible for approving credit models and assessing credit risk at portfolio level.

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 own credit models which reflects a conversion of a customer's probability of default (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, the statutory property valuations are also performed. The overall guidelines on customer assessment and property valuation are prescribed by Group Credits.

All major customers have been assigned to a specific unit which is primarily accountable for serving the customer and for the credit quality of the exposure, including exposure reviews and the valuation of security.

Banking exposures exceeding DKK 2m and mortgage exposures exceeding DKK 20m 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.

PARTNERSHIP AGREEMENT WITH BANKS

Totalkredit's business concept is mortgage 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, realised losses corresponding to the part of a loan exceeding 60% of the mortgageable value of the property 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 is responsible for 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 5.8bn at end-2012. Through the set-off agreements with the partner bank, Totalkredit offset losses in the amount of DKK 254m in 2012.

Parameters used to determine credit risk

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 in case of 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.
LTV	Loan-To-Value, also called mortgageable value – the debt outstanding on a mortgage loan relative to the estimated property value.
Default	For mortgage products, an exposure is considered in default 75 days past due, while for banking products the third reminder will constitute default. Exposures for which individual impairment provisions have been made or a direct loss has been incurred are also considered in default.

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

The Nykredit Realkredit Group
Credit exposures and capital charge

2012 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	718,139	25,855	5,867	-	749,861	*8,429*	13.8	8,279
Of which								
- mortgages on real property[1]	*718,139*	*17,222*	*733*[2]	-	*736,094*	*5,348*	*13.4*	*7,919*
- revolving exposures, etc	-	*6,067*	*0*	-	*6,067*	*2,700*	*14.8*	*72*
- other retail exposures	-	*2,565*	*5,134*[3]	-	*7,700*	*381*	*46.8*	*289*
Commercial exposures	378,004	50,694	5,943	67,766	502,408	*18,398*	31.7	12,742
Credit institution exposures	22,077	-	593	36,297	58,967	*283*	19.8	933
Sovereign exposures	30,740	-	-	13,146	43,886	*23*	-	-
Equity exposures	-	-	-	3,696	3,696	-	320.4	947
Securitisations	-	-	-	110	110	-	1,250.0	110
Assets with no counterparty	-	-	-	5,421	5,421	-	100.0	434
Total 2012	**1,148,960**	**76,549**	**12,404**	**126,436**	**1,364,349**	*27,132*	**21.5**	**23,446**
Total 2011	1,100,611	81,021	10,285	140,821	1,332,738	*25,435*	23.6	24,516

[1] Bank loans secured by mortgages on real property primarily related to equity release credits (Friværdikonto).
[2] The guarantees related to interim loans and buyer's certificates.
[3] The guarantees related exclusively to registration of mortgages.

The Nykredit Realkredit Group
Credit exposures by maturity

2012 DKK million	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total exposure
Retail exposures	420	6,484	742,957	749,861
Of which				
- mortgages on real property[1]	*420*	*6,484*	*729,190*	*736,094*
- revolving exposures, etc	-	-	*6,067*	*6,067*
- other retail exposures	-	-	*7,700*	*7,700*
Commercial exposures	50,862	58,229	393,318	502,408
Credit institution exposures	36,297	593	22,077	58,967
Sovereign exposures	13,146	-	30,740	43,886
Equity exposures	3,619	-	77	3,696
Securitisations	-	-	110	110
Assets with no counterparty	5,421	-	-	5,421
Total 2012	**109,764**	**65,306**	**1,189,279**	**1,364,349**
Total 2011	120,007	48,178	1,164,551	1,332,738

[1]Bank loans secured by mortgages on real property primarily related to equity release credits (Friværdikonto).

The Nykredit Realkredit Group
Credit exposures by counterparty

2012 DKK million	Personal	Non-profit housing	Private residential rental	Office and retail	Agriculture	Industry and trades	Other	Total exposure
Retail exposures	708,343	754	11,429	5,830	22,357	1,148	-	749,861
Of which								
- mortgages on real property	*695,330*	*750*	*11,273*	*5,511*	*22,198*	*1,031*	-	*736,094*
- revolving exposures, etc	*5,881*	*0*	*25*	*77*	*55*	*29*	-	*6,067*
- other retail exposures	*7,132*	*3*	*130*	*242*	*105*	*88*	-	*7,700*
Commercial exposures	493	52,242	129,678	133,186	87,007	50,829	48,974	502,408
Credit institution exposures	-	-	-	-	-	-	58,967	58,967
Sovereign exposures	-	-	-	-	-	-	43,886	43,886
Equity exposures	-	-	-	-	-	-	3,696	3,696
Securitisations	-	-	-	-	-	-	110	110
Assets with no counterparty	-	-	-	-	-	-	5,421	5,421
Total 2012	**708,836**	**52,996**	**141,106**	**139,016**	**109,365**	**51,976**	**161,054**	**1,364,349**
Total 2011	679,886	58,636	139,951	138,717	112,532	54,896	148,120	1,332,738

DETERMINATION OF CREDIT RISK

In the determination of the Nykredit Realkredit Group's 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 credit commitments made and outstanding credit offers. The determination of credit risk also includes counterparty risk.

Total credit exposures came to DKK 1,364bn at end-2012 against DKK 1,333bn at end-2011.

The vast majority of guarantees received in connection with mortgage lending are issued by banks and are recognised as credit institution exposures. At end-2012, guarantees received in connection with mortgage lending amounted to DKK 22.1bn.

Similarly, guarantees issued by the government are recognised as sovereign exposures under mortgage lending. They amounted to DKK 30.7bn at end-2012.

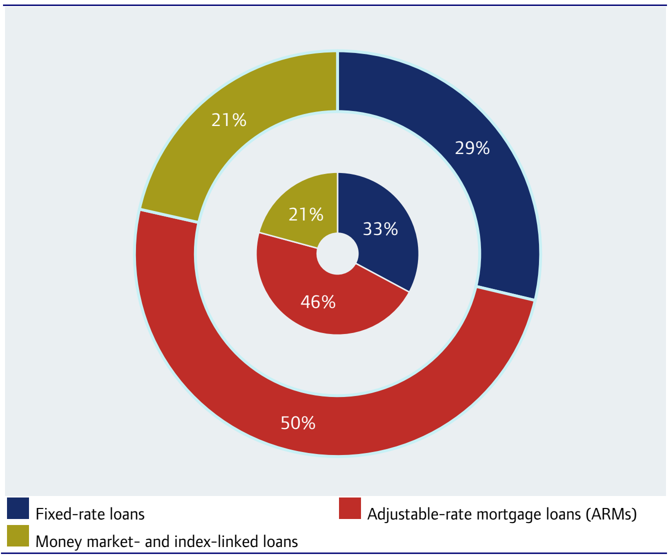
The international credit exposure of the Nykredit Realkredit Group represents less than 5% of the total portfolio. The Nykredit Group has no lending activities outside Europe. Nykredit Realkredit A/S's activities in Poland (DKK 1.2bn) are being phased out, and the activities in the rest of Europe mainly concern mortgage loans for properties in Sweden (DKK 21.9bn), Germany (DKK 14.3bn), the UK (DKK 5.7bn), France (DKK 4.1bn) and Spain (DKK 4.0bn). Lending in these countries accounts for over 90% of total international lending of DKK 55.5bn.

The Nykredit Realkredit Group
Credit exposures

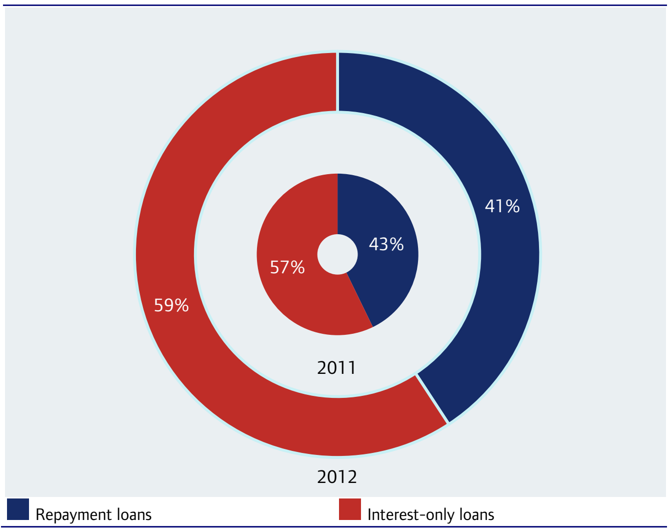
DKK million	2012	2011
Retail exposures	749,861	723,493
Of which		
- mortgages on real property[1]	*736,094*	*712,061*
- revolving exposures, etc	*6,067*	*5,249*
- other retail exposures	*7,700*	*6,183*
Commercial exposures	502,408	478,550
Credit institution exposures	58,967	67,714
Sovereign exposures	43,886	54,548
Equity exposures	3,696	3,906
Securitisations	110	274
Assets with no counterparty	5,421	4,253
Total	**1,364,349**	**1,332,738**

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

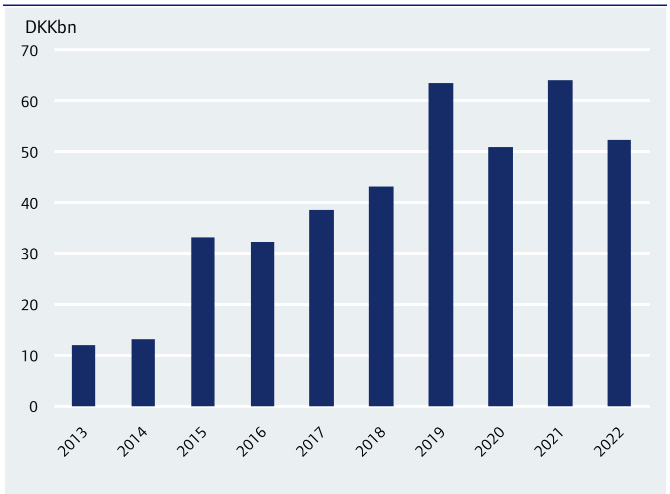
The Nykredit Realkredit Group
Private residential lending by loan type



The Nykredit Realkredit Group
Private residential lending with/without interest-only periods



The Nykredit Realkredit Group
Private residential lending – expiry of interest-only periods



MORTGAGE LENDING

Group mortgage lending at fair value increased from DKK 1,086bn at end-2011 to DKK 1,138bn at end-2012.

The portfolio is highly diversified in terms of loan type, geography, loan term and size of debt outstanding. The majority of the mortgage loans are for private residential property, which accounted for 61% of the Group's total mortgage lending at end-2012. Group commercial lending excl agriculture and residential rental (non-profit housing and private letting) accounted for nearly 14%, while lending to the residential rental and agricultural segments accounted for 16% and 9%, respectively.

At end-2012, the Nykredit Group's total mortgage lending can be broken down into fixed-rate loans of DKK 256bn, adjustable-rate mortgage loans (ARMs) of DKK 546bn – the majority of which with 1-year funding – and money market-linked and index-linked loans of DKK 336bn. The composition of the total loan portfolio in terms of loan types changed over the past year. At end-2012 fixed-rate loans made up a smaller share of the Group's total mortgage lending (23%), while the shares of both ARMs (48%) and money market-linked loans (27%) had grown.

A similar trend applied to the composition of group lending for private residential property. Over the past year, the share of fixed-rate loans (29%) decreased, ARMs made up a larger share of lending (50%), and the share of money market-linked and index-linked loans (21%) of the Group's private residential lending was largely unchanged.

Interest-only loans have accounted for a steadily increasing share of the Nykredit Realkredit Group's private residential lending since their introduction in 2003. At end-2012 interest-only loans made up 59% of total private residential lending against 57% at end-2011. Calculated at end-2012, the interest-only periods of private residential mortgages amounting to DKK 12bn will expire over the next year.

Geographically, around half of the loan portfolio is in Jutland, just over a quarter in the metropolitan area and the remainder on 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. The Group's total lending increased in all Danish regions in the past year, but in absolute figures the largest increase was in the Capital Region and the Central Denmark Region. The smallest increase was seen in Region Sealand.

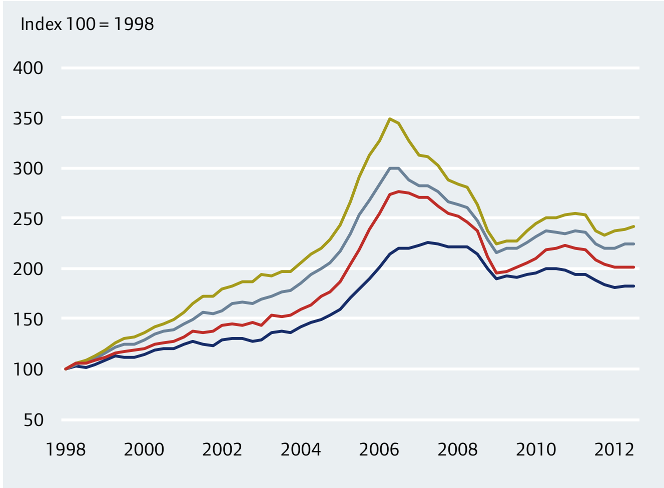
The Nykredit Realkredit Group
Mortgage lending

Fair value at end-2012 DKK million	Private residential property	Non-profit housing	Private residential rental	Office and retail	Agriculture	Industry and trades	Other	Total
Mortgage loans								
- Bond debt outstanding	695,570	69,852	113,027	115,151	102,553	23,859	17,785	1,137,797
- Number of loans	706,091	20,171	28,054	21,857	42,853	3,383	3,076	825,485
Bond debt outstanding by loans involving:								
- Public guarantees	1	53,825	192	19	328	0	111	54,475
- Bank guarantees[1]	19,428	0	0	0	0	0	0	19,428
- Set-off agreement with partner banks	503,520	0	0	0	0	0	0	503,520
- No guarantee	172,621	16,027	112,835	115,132	102,225	23,859	17,674	560,373
Total	**695,570**	**69,852**	**113,027**	**115,151**	**102,553**	**23,859**	**17,785**	**1,137,797**
Bond debt outstanding by loan type								
Fixed-rate loans								
- Repayment loans	137,570	14,659	12,297	7,608	8,118	1,586	3,248	185,085
- Interest-only loans	62,075	21	3,808	2,858	2,173	4	131	71,070
Adjustable-rate mortgage loans (ARMs)								
- repayment loans, 1-year funding	46,815	12,499	8,381	12,801	15,268	2,865	1,265	99,894
- other repayment loans	42,281	11,312	3,769	5,933	2,555	984	567	67,401
- interest-only loans, 1-year funding	129,620	118	23,883	27,362	26,331	2,307	823	210,443
- other interest-only loans	127,787	292	17,087	13,517	4,904	4,276	253	168,116
Money market-linked loans								
Loans with interest rate caps								
- Repayment loans	56,364	89	1,722	1,704	3,183	265	879	64,207
- Interest-only loans	86,777	26	1,294	600	3,476	17	65	92,254
Loans without interest rate caps								
- Repayment loans	531	277	5,809	16,050	8,290	6,385	5,829	43,171
- Interest-only loans	5,739	302	34,813	26,690	27,941	5,170	4,476	105,131
Index-linked loans	11	30,257	164	27	315	1	250	31,024
Total	**695,570**	**69,852**	**113,027**	**115,151**	**102,553**	**23,859**	**17,785**	**1,137,797**
Bond debt outstanding by region								
Capital Region of Denmark	161,380	25,200	39,668	28,422	2,614	1,620	5,656	264,559
Region Sealand	97,814	8,392	7,391	8,485	15,370	2,284	2,006	141,743
North Denmark Region	93,977	6,710	11,441	9,636	25,275	2,547	1,534	151,120
Central Denmark Region	176,744	13,366	22,466	22,742	31,983	8,374	4,881	280,556
South Denmark Region	154,041	16,183	16,023	19,804	27,143	4,798	3,707	241,698
- Faroe Islands and Greenland	2,149	0	305	179	0	1	2	2,637
- International	9,465	0	15,732	25,883	169	4,234	0	55,483
Total	**695,570**	**69,852**	**113,027**	**115,151**	**102,553**	**23,859**	**17,785**	**1,137,797**
Bond debt outstanding by debt outstanding, DKKm								
0-2	528,223	6,797	15,996	12,435	22,794	1,707	1,166	589,120
2-5	152,699	8,073	18,184	13,936	32,280	2,388	1,953	229,513
5-20	13,549	28,321	34,613	24,384	40,239	5,089	6,144	152,341
20-50	1,099	18,207	16,761	14,108	5,868	2,766	4,085	62,894
50-100	0	5,129	6,682	10,554	959	1,781	1,068	26,173
100-	0	3,324	20,790	39,733	412	10,127	3,370	77,756
Total	**695,570**	**69,852**	**113,027**	**115,151**	**102,553**	**23,859**	**17,785**	**1,137,797**
Bond debt outstanding by remaining loan term, years								
0-10	16,652	2,978	10,842	30,214	2,513	4,434	806	68,440
10-15	27,904	6,729	11,371	28,169	3,687	8,428	2,447	88,736
15-20	52,892	12,683	10,726	32,350	10,480	5,233	3,040	127,405
20-25	241,562	9,509	40,753	11,807	56,786	2,826	4,821	368,065
25-30	356,559	17,905	39,293	12,610	29,086	2,937	6,671	465,061
30-35	0	15,577	41	0	0	0	0	15,619
35-	0	4,471	1	0	0	0	0	4,472
Total	**695,570**	**69,852**	**113,027**	**115,151**	**102,553**	**23,859**	**17,785**	**1,137,797**

Note: Incl lending to Nykredit Ejendomme

[1] Bank guarantees denote debt outstanding covered by loss guarantee.

Housing prices in Denmark

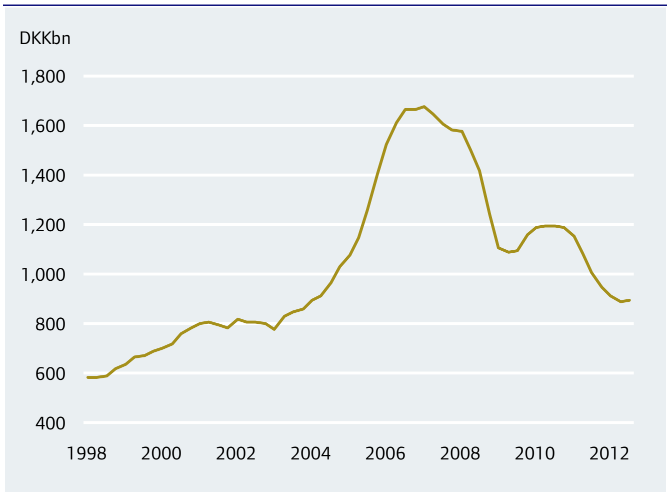


Detached and terraced housing, Denmark — Owner-occupied flats, Denmark
Detached and terraced housing, Capital Region — Owner-occupied flats, Capital Region
Source: Association of Danish Mortgage Banks

Housing costs – fixed-rate repayment mortgage loans

Housing costs are defined as housing-related expenses (mortgage payments, insurance, user costs, etc) relative to disposable income.

Home equity in Denmark (private residential property)



Housing prices

Since the peak in 2007, house prices have dropped by around 19% at national level, and flat prices have dropped correspondingly.

Following a relatively sharp dive in housing prices in 2011, the housing market saw a more stable development in 2012. In the period from Q3/2011 to Q3/2012, house prices declined by just over 3% at national level, and flat prices were largely unchanged. The general development in house prices in the past year was an initial price decline of approximately 3.7% from Q3/2011 to Q1/2012, followed by moderate increases. A similar trend applied to flat prices, for which a decline of 1.6% in the period from Q3/2011 to Q1/2012 was followed by an increase of 1.8% up to Q3/2012. Flat prices are assumed to have gone up for the year as a whole.

The development in housing prices reflects large regional differences. The largest movements in recent years have occurred on Sealand, while prices have been less volatile in the North Denmark Region and the Central Denmark Region. All Danish regions saw prices decrease in the past year, albeit to varying degrees. House prices in Region Sealand dropped by almost 8% in the period, while house prices in the North Denmark Region were down by 1.5%. The trend in flat prices was driven by a 2.1% rise in the Capital Region, where most of the flats are located. However, increased flat prices in the Capital Region did not offset the decline in prices in the other regions in the past year.

From Q3/2011 to Q3/2012, the number of houses sold decreased by 3%, while the number of flats sold was up 14%. The stabilising trends in the housing market, including with respect to flats, are thus also traceable in transaction levels. However, the number of dwellings sold remains very low, and this raises uncertainty over the development in housing prices and thereby the development in loan-to-value (LTV) ratios.

One reason for the recent stabilisation of housing prices is the fact that historically low interest rates and the heavy price declines in recent years have improved the access to the housing market for many potential homebuyers. Housing costs decreased further during 2012 and measured at year-end, average homebuyers spent just over 34% of their disposable income on housing-related expenses, such as mortgage payments and current user costs related to the home. This is the lowest level recorded for over 15 years.

Home equity

Home equity levels peaked at the beginning of 2007 at nearly DKK 1,700bn and have subsequently declined by around DKK 800bn until end-2012. But in a historical context, home equity levels are still quite high. The regional distribution of home equity is marked by a heavy concentration in the Capital Region, as roughly half of total home equity is held by homeowners in this part of Denmark.

Commercial property prices

Prices of commercial properties rose by just under 8% from end-Q3/2011 to end-Q3/2012. In the same period, the price of properties with four flats or more increased nearly 12%, the price of factory and warehouse properties decreased by around 19%, and for agricultural properties the decrease was just over 9%. Due to the low transaction level, however, the figures are subject to extraordinary uncertainty.

LTVs and property valuation model

Nykredit continually monitors the loan-to-value (LTV) ratios of its customers, which express the debt outstanding relative to the value of the property. For that purpose, statistical models approved by the Danish FSA are applied. The models are applied to detached houses, owner-occupied flats and holiday homes that must satisfy specific requirements for mortgageable value, risk classification and time since the last valuation. The statistical valuations are performed centrally and supplemented with local valuations.

In the determination of LTVs, the proportion of lending covered by guarantees provided by public authorities is deducted. Public authority guarantees reduce the credit risk relating to subsidised housing, which forms part of lending to the non-profit housing segment. For this reason, LTVs of non-profit housing offer no relevant risk data.

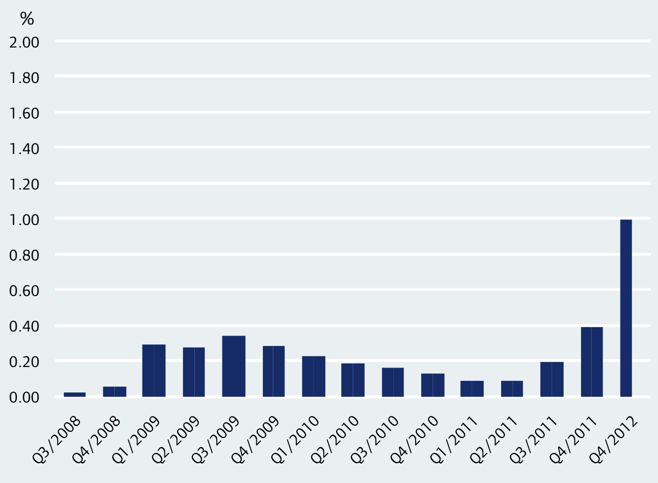
Besides being a central element of the monitoring of the Group's mortgage loans, LTVs are an important factor in the credit models for determining a customer's credit quality. Customers with low LTVs have better ratings than customers with high LTVs.

LTV limits by property category

Owner-occupied properties for all-year habitation Private housing cooperative units Private residential rental properties Non-profit housing Youth housing Senior housing	80%[1]
Properties used for social, cultural or educational purposes Holiday homes Agricultural and forestry properties, market gardens, etc [2] Office and retail properties [2] Industry and trades properties [2] Utilities	60%
Other properties – including undeveloped land	40%

[1] Some loan types offered for residential properties are subject to a lower LTV limit than 80%, but no supplementary security is required unless the LTV ratio subsequently exceeds 80%.
[2] The LTV limit may be extended up to 70% against supplementary security for the part in excess of 60%.

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



Note: Only the part of loans beyond 100% LTV has been included.

Development in LTVs in 2012

Due to the stabilising trends in the housing market, particularly in the last six months of 2012, the LTV ratio of the total loan portfolio of the Nykredit Realkredit Group only increased from 66% at end-2011 to 68% at end-2012.

The LTV ratio of the Nykredit Realkredit Group's private residential mortgage lending increased from 73% at end-2011 to 76% at end-2012. The increase covers a divided regional development with LTV levels of private residential property in the Capital Region remaining largely unchanged in the past year and the LTV levels in the remaining regions – particularly on Sealand – having risen quite considerably. This may suggest that the housing price correction has ended in the Capital Region and is still ongoing outside the capital.

The LTV ratio of total commercial lending excluding the agricultural and rental housing segments was 54% at end-2012, which was unchanged relative to end-2011.

Prices of agricultural land saw a stable development. At end-2012, the LTV ratio of the Group's agricultural customers averaged 61%, compared with 57% at end-2011.

Private residential loans with LTVs over 100%

At end-2012, 8% of the Nykredit Group's private residential mortgage loans had LTVs over 100%.

It should be noted that homeowners with negative equity do not as such result in losses for Nykredit, although the expected loss increases with increasing LTV levels. The typical loss triggers are socioeconomic events such as unemployment, illness and divorce, the latter being the most frequent cause by far.

The areas in which Nykredit incurs losses in particular share a number of common characteristics. The three main characteristics are:

- Shrinking population
- Higher unemployment rates than at national level
- Longer times-on-market than at national level.

In case of customer default, Nykredit will be able to enforce the security in the form of the mortgage on the property. Accordingly, only the part of the loan beyond 100% constitutes a real risk for Nykredit in case of customer default. At end-2012, 1% of the Nykredit Group's total private residential mortgage lending had LTVs over 100%, against 0.4% at end-2011. The majority of these loans were located on Sealand.

Stress testing of homeowners' LTV levels

To ensure that the credit and capital policies are sustainable in the long term, Nykredit has developed a range of models (NORAH) that link the development in macroeconomic variables such as unemployment, interest rates, disposable income and housing prices to the development in the LTV levels of the Nykredit Realkredit Group's private residential mortgage lending.

Nykredit uses the setup to calculate the impact of the expected economic development on the LTV levels of the Group's private residential mortgage lending and to analyse the impact in stressed scenarios.

The results of these stress tests are assessed quarterly by an internal monitoring forum charged with overseeing housing market developments and the statistical models applied. The overall conclusion of the stress test analysis was that both unemployment rates and interest rates must increase rather steeply before a major increase can be observed in the share of homeowners with negative equity.

Further information on the Group's mortgage loan portfolio is available under "Cover pool disclosure" at nykredit.com/ir.

The Nykredit Realkredit Group
Private residential mortgage debt outstanding relative to estimated property values and customer credit quality

Fair value 2012				LTV			
%	0-40	40-60	60-80	80-90	90-100	Over 100	Total
Good ratings (rating categories 7-10)	39	14	9	2	1	0	64
Medium ratings (rating categories 2-6)[1]	16	8	6	1	1	0	32
Low ratings (rating categories 0-1)[2]	2	1	1	0	0	0	3
Total	**56**	**23**	**16**	**3**	**1**	**1**	**100**

Note: The debt outstanding is distributed continuously by LTV category. 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%.
[1] Excl customers showing signs of financial difficulty.
[2] Incl customers showing signs of financial difficulty.

Nykredit Realkredit Group
Debt outstanding relative to estimated property values

				LTV				LTV
DKK million	0-40	40-60	60-80	80-90	90-100	>100	Total	average, %[1]
Private residential property	391,192	156,539	108,415	23,328	9,170	6,926	695,570	76
Private residential rental	73,437	23,971	12,932	1,483	639	565	113,027	65
Industry and trades	17,341	4,938	1,360	100	49	71	23,859	57
Office and retail	86,980	23,014	4,213	499	221	224	115,151	54
Agriculture	71,199	20,729	7,971	1,394	662	599	102,553	61
Non-profit housing	-	-	-	-	-	-	69,852	-
Other	14,033	2,660	922	60	40	70	17,785	50
Total 2012	**654,182**	**231,850**	**135,812**	**26,864**	**10,781**	**8,456**	**1,137,797**	**68**
Total 2011	639,976	218,468	124,416	23,446	7,446	4,335	1,085,890	66

Note: The figures are actual LTVs incl any financed costs. Public authority guarantees mitigate the credit risk relating to subsidised housing, which forms part of lending to the non-profit housing segment. For this reason, LTVs of non-profit housing offer no relevant risk data.
In the table, the debt outstanding is distributed continuously by LTV category. 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%.
[1] Determined as the top part of the debt outstanding relative to estimated property values.

Nykredit Realkredit Group
Debt outstanding relative to estimated property values

			LTV				LTV
%	0-40	40-60	60-80	80-90	90-100	>100	median, %[2]
Private residential property	56	23	16	3	1	1	35
Private residential rental	65	21	11	1	1	1	29
Industry and trades	73	21	6	0	0	0	26
Office and retail	76	20	4	0	0	0	24
Agriculture	69	20	8	1	1	1	27
Non-profit housing	-	-	-	-	-	-	-
Other	79	15	5	0	0	0	21
Total 2012[1]	**61**	**22**	**13**	**3**	**1**	**1**	**31**
Total 2011	63	21	12	2	1	0	30

Note: In the table, the debt outstanding is distributed continuously by LTV category. 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 private residential property is concerned, 56% of mortgage lending falls within 40% of the property values.
[1] Calculated on the basis of debt outstanding including non-profit housing for which reason the totals do not add up to 100%.
[2] Determined as the mid-part of the debt outstanding relative to estimated property values. The median LTV for private residential property thus shows that 50% of the debt outstanding falls within an LTV limit of 35%.

The Nykredit Realkredit Group
Change in debt outstanding relative to property values in 2012

Fair value 2012			LTV			
Percentage point	0-40	40-60	60-80	80-90	90-100	Over 100
Private residential property	-2	0	1	0	0	1
Private residential rental	-1	1	0	0	0	0
Industry and trades	-8	4	4	0	0	0
Office and retail	1	-1	-1	0	0	0
Agriculture	-3	1	1	0	0	0
Non-profit housing	-	-	-	-	-	-
Other	-3	1	2	0	0	0
Total change	**-2**	**0**	**0**	**0**	**0**	**0**

Note: The debt outstanding is distributed continuously by LTV category. 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%.

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

2012	Exposure	Credit risk[1]	Average risk weighting[1]	Loans, LTV > 70%	Loans, LTV > 100%	LTV average[2]
	DKKbn	Distribution, %	%	DKKbn	DKKbn	%
Copenhagen City	48.3	6.9	4.8	5.1	0.4	73
Greater Copenhagen	49.2	7.1	3.5	5.3	0.5	72
North Sealand	62.3	9.0	5.3	8.2	1.0	76
East Sealand	29.2	4.2	6.4	4.8	0.7	82
West and South Sealand	68.8	10.0	23.5	14.7	3.1	90
Funen	60.0	8.6	17.6	8.2	0.6	77
North Jutland	94.1	13.4	16.3	8.9	0.1	72
East Jutland	119.3	17.1	7.8	13.1	0.3	74
West Jutland	57.8	8.3	19.9	5.9	0.1	73
South Jutland	94.3	13.6	15.1	10.1	0.1	74
Bornholm	1.9	0.3	32.9	0.3	0.1	83
Greenland and Faroe Islands	2.2	0.3	23.2	0.1	0.0	71
International	8.3	1.2	29.4	0.7	0.0	66
Total 2012	**695.6**	**100.0**	**12.9**	**85.7**	**6.9**	**76**
Total 2011	665.4	100.0	14.3	73.0	2.6	73

[1] Determined as Pillar I according to the Executive Order on Capital Adequacy.
[2] 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 183.3bn at end-2012, up DKK 6.0bn compared with end-2011.

The Bank's commercial exposures amounted to DKK 130.0bn, or 71% of the Bank's total exposures. Of this amount, repo transactions accounted for DKK 47.4bn, or 36% of total commercial exposures.

At 52%, the largest share of the Bank's commercial exposures related to the financing and insurance segment. A considerable part of lending to this segment was based on loans with bonds serving as collateral. Compared with the banking sector in general, the Nykredit Bank Group has a limited exposure to the agricultural segment. At end-2012, only 2% of commercial exposures related to agricultural customers. For the banking sector as a whole, the proportion was 4%.

The Nykredit Bank Group has reduced its lending to the property sector over the past few years. The Bank's lending to this sector totalled DKK 13.1bn at end-2012, corresponding to 17% of the Bank's commercial exposures against 15% for the banking sector as a whole. A significant portion of these loans relate to relatively non-cyclical purposes such as construction of subsidised housing and rental properties.

Personal exposures amounted to DKK 31.7bn at end-2012, corresponding to 17% of total exposures against 16% at end-2011.

Guarantees issued amounted to DKK 12.4bn, or 7% of total exposures at end-2012, while undrawn commitments came to DKK 19.5bn, or 11% of total exposures.

Guarantee issued by Nykredit Holding to the Bank

To support the Bank's rating, the Board of Directors of Nykredit Holding A/S established a loss guarantee in 2011 for the part of the Bank's impairment losses and provisions that exceeds 2% of loans, advances and guarantees subject to a maximum of DKK 2bn for the term of the guarantee.

In Management's assessment, the guarantee will only be invoked in case of severe deterioration of the economic climate, and the probability of the guarantee being invoked is deemed to be low.

The guarantee implied a reduction of DKK 17.4bn in the Bank's risk-weighted assets at end-2012. The risk-weighted assets of the Nykredit Realkredit Group decreased correspondingly.

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

2012 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	25,855	5,867	0	31,722	6,006	32.2	817
Of which							
- mortgages on real property[1]	*17,222*	*733*	*0*	*17,955*	*2,925*	*31.8*	*457*
- revolving exposures, etc	*6,067*	*0*	*0*	*6,067*	*2,700*	*14.8*	*72*
- other retail exposures	*2,565*	*5,134*	*0*	*7,700*	*381*	*46.8*	*289*
Commercial exposures	*56,306*	*5,943*	67,766	*130,015*	13,197	42.3	4,400
Credit institution exposures	0	593	11,659	12,253	233	20.0	196
Sovereign exposures	0	0	7,516	7,516	23	0.0	0
Equity exposures	0	0	221	221	0	308.2	55
Assets with no counterparty	0	0	1,594	1,594	0	100.0	128
Total 2012	**82,161**	**12,404**	**88,757**	**183,321**	**19,458**	**38.2**	**5,596**
Total 2011	84,852	11,359	81,093	177,304	20,584	51.9	5,866

[1] Bank loans secured by mortgages on real property primarily related to equity release credits (Friværdikonto).

The Nykredit Realkredit Group – banking activities
Credit exposures by maturity

2012 DKK million	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total exposure
Retail exposures	-	-	31,722	31,722
Of which				
- mortgages on real property	-	-	*17,955*	*17,955*
- revolving exposures, etc	-	-	*6,067*	*6,067*
- other retail exposures	-	-	*7,700*	*7,700*
Commercial exposures	48,669	28,154	53,193	*130,015*
Credit institution exposures	11,659	593	-	12,253
Sovereign exposures	7,516	-	-	7,516
Equity exposures	-	-	221	221
Assets with no counterparty	-	-	1,596	1,594
Total 2012	**67,844**	**28,747**	**86,730**	**183,321**
Total 2011	61,862	19,800	95,642	177,304

Supervisory Diamond for banks

In the wake of the financial crisis, the Danish FSA launched a so-called Supervisory Diamond in June 2010 applicable to all banks. The Supervisory Diamond is a strictly Danish initiative and does not stem from the general EU legislation.

The Supervisory Diamond sets out the following benchmarks for five key ratios that indicate when a bank is operating at an elevated risk:

- The sum of large exposures must be less than 125% of the capital base.
- Lending growth must be less than 20% year-on-year. The limit value is determined inclusive of repos and after impairments.
- Commercial property exposure must be less than 25% of total lending.
- The funding ratio must be less than 1.00. The ratio is calculated as loans and advances at amortised cost relative to working capital less issued bonds with times-to-maturity of less than 1 year.
- The excess liquidity cover must be greater than 50%. The excess liquidity cover is the excess liquidity after fulfilment of the minimum statutory requirement.

The Nykredit Bank Group has never breached the limit values of the Supervisory Diamond. Further, Nykredit Bank was on most points either better or on a level with the other group 1 banks at 31 December 2011 when Danmarks Nationalbank published the latest comparative bank figures.

According to the new guidelines on the Supervisory Diamond issued by the FSA in December 2012, banks may recognise loans with Danmarks Nationalbank on a par with government-guaranteed bond issues with times-to-maturity above 1 year in the determination of the funding ratio. This change will not affect the funding ratio of the Nykredit Bank Group as the Bank has not utilised the central bank's loan facility.

The Nykredit Bank Group
Supervisory Diamond

COUNTERPARTY RISK

Nykredit applies financial instruments, such as derivatives and repurchase agreements, for serving customers and for managing liquidity and market risk. In addition, repos are applied in the day-to-day liquidity management.

Counterparty risk is a measure of the size of the loss which Nykredit may sustain if a counterparty defaults on its obligations. For the purpose of calculating the capital requirement, 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 Nykredit Realkredit
Credit derivatives in the trading book

Nominal value 2012 DKK million	Risk disposed of	Risk received	Total
Financial institutions	-	-	-
Corporates	-	-	-
Sovereign	558	-	558
Index-linked	-	448	448
Total credit derivatives 2012	**558**	**448**	**1,006**
Total credit derivatives 2011	1,041	1,428	2,469

The Nykredit Realkredit Group
Investment portfolio credit risk

DKK million	2012	2011
Government bonds		
Denmark	3,170	18,216
Exposure to GIISP countries[1]	-	57
Other countries	(5,162)	(715)
Total exposure	**(1,992)**	**17,558**
Covered bonds including ROs and SDOs		
Rating Aaa/AAA	41,136	63,089
Rating Aa1/AA+ – Aa3/AA-	18,336	33,800
Rating A1/A+ – Baa3/BBB-	3,810	1,356
Rating Ba1/BB+ or lower	70	-
Not rated	9	7
Total exposure	**63,362**	**98,252**
Credit bonds		
Rating Aaa/AAA	514	(329)
Rating Aa1/AA+ – Aa3/AA-	-	1,506
Rating A1/A+ – Baa3/BBB-	4,171	4,560
Rating Ba1/BB+ or lower	783	772
Not rated	913	1,672
Total exposure	**6,381**	**8,181**
Of which:		
Subordinate loan capital and hybrid capital in Danish banks[2]	*1,051*	*1,775*
Subordinate loan capital and hybrid capital in other banks[2]	*1,095*	*1,294*
Kalvebod and Scandinotes	*77*	*91*
Structured bonds	*9*	*53*
Hedge funds	*-*	*-*
Collateralised Loan Obligations (CLOs)	*-*	*-*
Total credit exposures	**67,752**	**123,991**

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

The exposure value of counterparty risk amounted to DKK 75.4bn at end-2012, and the capital requirement was DKK1.3bn. The exposure can be broken down into DKK 49.0bn of repos and DKK 26.5bn of derivatives.

Nykredit mitigates its counterparty risk through financial netting agreements as well as agreements on financial collateral. The contractual framework is mainly based on market standards such as ISDA or GRMA agreements.

The use of derivative instruments is governed by the ordinary credit approval rules and credit policies, supplemented with a number of restrictions and policy rules. In addition to limits to amounts and terms, examples are requirements related to the type, size and creditworthiness of customers.

In 2012, Nykredit began clearing derivatives through a clearing broker. The derivatives clearing activity will increase at Nykredit in the course of 2013 as a result of the coming clearing requirement.

Value adjustment of derivatives

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

Nykredit makes fair value adjustments of financial instruments in accordance with the International Financial Reporting Standards (IFRS).

A number of commercial customers with floating-rate mortgages have hedged their interest rate risk through swaps with Nykredit Bank.

The decline in interest rates in recent years has resulted in increasing market values of interest rate swaps and other instruments and has also increased the credit risk exposure in respect of commercial customers that have not pledged collateral on an ongoing basis. As a consequence, a number of fair value adjustments have been made in recent years.

Credit value adjustment (CVA) is made on an ongoing basis for derivatives entered into with customers based on the customer's current credit quality.

Nykredit's interest rate risk on this portfolio is very limited. The risk is hedged by entering into offsetting financial contracts with major European and US banks under netting and financial collateral agreements.

Investment portfolio credit risk

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

At end-2012, the Nykredit Realkredit Group had a net short government bond position of DKK 2.0bn. The Group had no sovereign exposures to GIISP countries.

Of the Nykredit Realkredit Group's total portfolio of ROs, SDOs, other covered bonds and credit bonds of an aggregate DKK 69.7bn, the exposure to securities rated Aa3/AA+ or higher amounted to DKK 60.0bn.

NON-PERFORMING EXPOSURES

Loan impairment

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

Mortgage loans subject to collective provisioning include loans in rating categories 0-2 as well as loans in default for which no individual provisions have been made. Bank loans not provided for individually are included in the calculation of the Bank's collective impairment provisions.

Impairment losses on loans and advances (earnings impact) rose by DKK 795m from end-2011 to DKK 2,181m at end-2012.

Impairment losses on loans and advances came to DKK 1,592m, equivalent to 0.14% of lending, at end-2012. Impairment losses on bank lending came to DKK 589m, equivalent to 1.18% of lending.

Impairment losses on loans and advances are expected to increase slightly in 2013 and will depend on the general economic trends and the development in the housing market.

Impairment losses on group lending are described in detail in the Annual Report of the Nykredit Realkredit Group available at nykredit.com/reports.

Arrears and property portfolio

At end-2012 the arrears ratio had decreased relative to end-2011. At the September due date, the Group's 75-day mortgage loan arrears made up 0.52% of total mortgage payments due compared with 0.60% at the same time in 2011.

During 2012 the Group repossessed 551 properties and sold 542. The property portfolio counted 356 properties at end-2012. In comparison, Nykredit had a portfolio in the region of 1,500 properties in the early 1990s. The amount of impairment losses is limited owing to the Group's mortgages on properties.

Exposures in default

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. For mortgage products, Nykredit considers 75 days past due to be a clear sign that a customer is unable to repay its debt in full, while for bank products the third reminder will constitute such a sign. Exposures for which individual impairment provisions have been made or a direct loss has been incurred are also considered in default.

For Nykredit Bank, exposures in default accounted for just over 14% of the Bank's total exposures at end-2012. Of exposures in default, around 50% had been provided for and around 20% derived from Forstædernes Bank. The remaining around 30% of exposures in default represented 4% the total exposures of Nykredit Bank.

For Nykredit Realkredit and Totalkredit, just under 2% of total mortgage exposures were in default. The default rates should be seen in relation to the fact that a large part of the mortgage loans are secured by mortgages on real property.

For the Nykredit Realkredit Group as a whole, just over 2% of the exposures were in default.

The Nykredit Realkredit Group
Individual and collective impairment provisions

2012 DKK million	Individual impairment provisions	Collective impairment provisions	Total impairment provisions	Total impairment provisions, 2011
Impairment provisions, beginning of year	5,459	1,434	6,893	8,369
Additions relating to acquisitions	-	-	-	-
Impairment provisions for the year	2,458	-	2,458	1,790
Impairment provisions reversed	(1,055)	(95)	(1,150)	(885)
Value adjustment of properties repossessed	(144)	-	(144)	(105)
Impairment provisions recognised as lost	(963)	-	(963)	(2,391)
Impairment provisions, year-end	**5,755**	**1,339**	**7,094**	**6,778**
Loans and advances before impairment provisions	**15,192**	**78,997**	**94,189**	**98,251**
Impairment provisions	5,755	1,339	7,094	6,778
Loans and advances after impairment provisions	**9,437**	**77,658**	**87,095**	**91,473**

The Nykredit Realkredit Group
Individual and collective impairment provisions

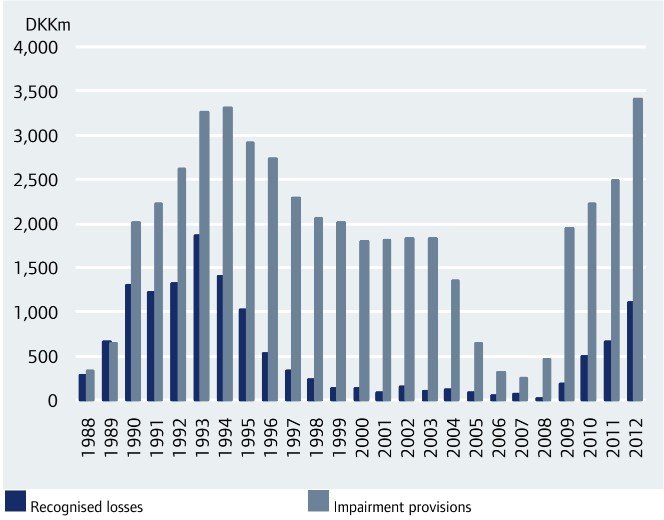
2012 DKK million	Individual impairment provisions	Collective impairment provisions	Total impairment provisions	Total claims in default
Retail exposures	1,129	862	1,991	6,245
Of which	-	-	-	-
- mortgages on real property	*954*	*836*	*1,789*	*5,796*
- revolving exposures, etc	*21*	*11*	*32*	*93*
- other retail exposures	*155*	*15*	*169*	*356*
Commercial exposures	4,626	477	5,103	22,190
Credit institution exposures	-	-	-	244
Sovereign exposures	-	-	-	623
Total	**5,755**	**1,339**	**7,094**	**29,301**

The Nykredit Realkredit Group
Loans, advances, guarantees and counterparty exposure as well as impairment losses on loans and advances

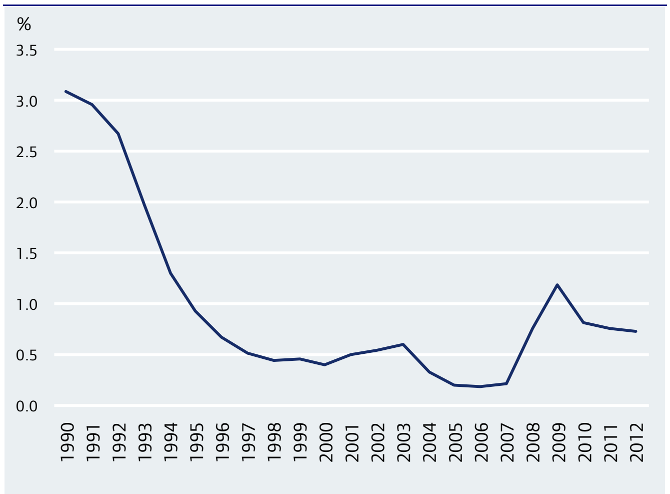
DKK million	Exposure[1]		Exposure in default		Total provisions for loan impairment and guarantees		Impairment losses on loans and advances, earnings impact	
	2012	2011	2012	2011	2012	2011	2012	2011
Mortgage lending								
Nykredit Realkredit	666,583	664,808	17,416	5,474	2,051	1,781	1,052	579
Totalkredit	541,023	503,346	2,277	1,666	903	704	540	447
Total	**1,210,606**	**1,168,164**	**19,693**	**7,140**	**2,954**	**2,485**	**1,592**	**1,026**
Bank lending								
Nykredit Bank	97,383	74,180	7,788	1,371	2,838	2,885	480	453
Terminated exposures from Forstædernes Bank	1,819	2,081	1,819	2,280	1,220	1,409	109	(93)
Total	**99,203**	**76,261**	**9,608**	**3,653**	**4,058**	**4,294**	**589**	**360**
Repo lending	47,258	36,933	-	-	-	-	-	-
Guarantees	4,806	5,375	-	-	82	114	(32)	28
Total	**151,367**	**118,570**	**29,301**	**10,793**	**7,094**	**6,893**	**2,149**	**1,414**

[1] Exposure in the form of loans, advances and guarantees and counterparty exposure.

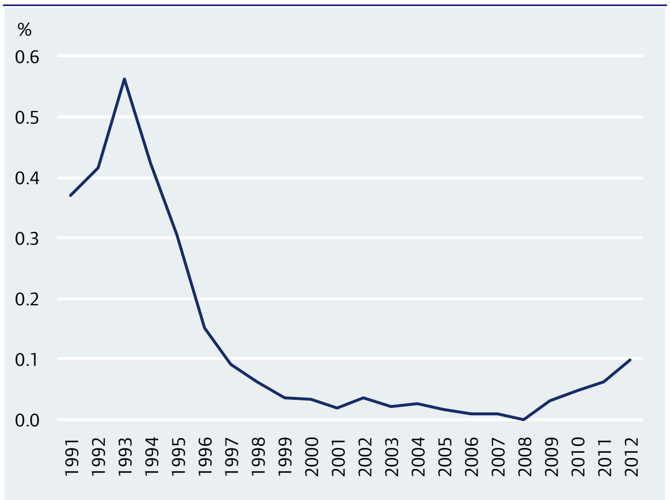
The Nykredit Realkredit Group – mortgage lending
Recognised losses and impairment provisions



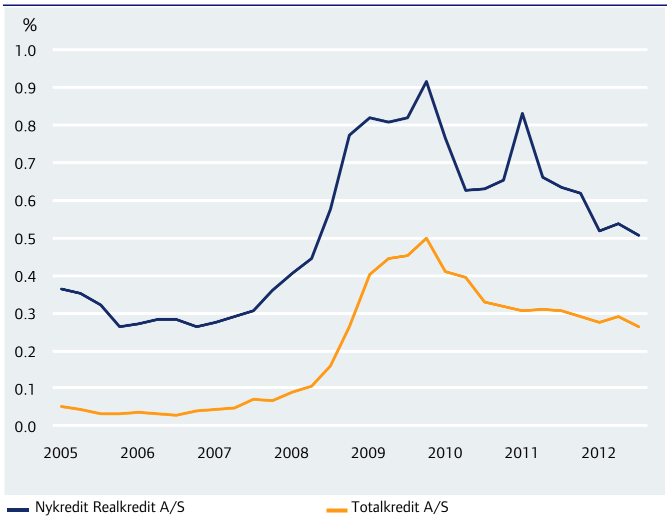
The Nykredit Realkredit Group
Arrears ratio – 75 days past due



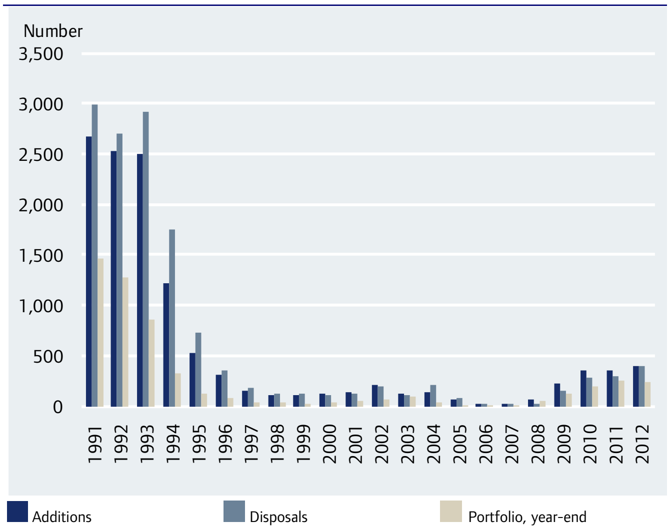
The Nykredit Realkredit Group – mortgage lending
Loss ratios



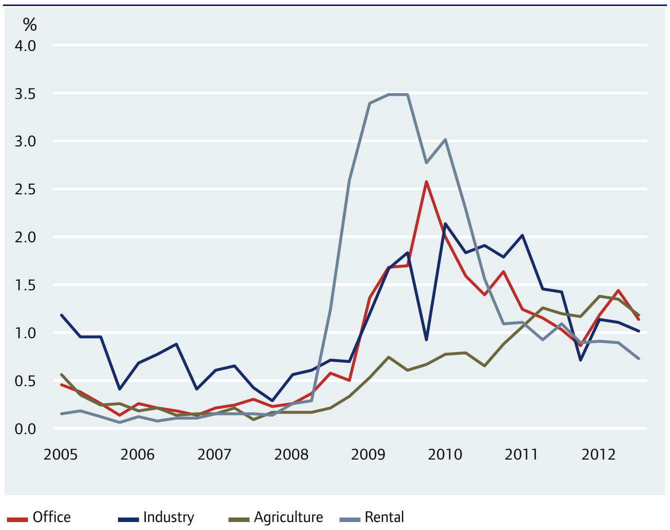
The Nykredit Realkredit Group – personal mortgage lending
Arrears ratio – 75 days past due



The Nykredit Realkredit Group – mortgage lending
Private residential properties repossessed/sold



The Nykredit Realkredit Group – commercial mortgage lending
Arrears ratio by sector – 75 days past due



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

%	Arrears of total mortgage payments	Bond debt outstanding affected by arrears relative to total bond debt outstanding	Bond debt oustanding affected by arrears DKKbn
Due dates			
2012			
- September	0.52	0.51	5.6
- June	0.56	0.63	7.1
- March	0.57	0.56	6.2
2011			
- December	0.58	0.71	7.7
- September	0.60	0.67	7.1

The Nykredit Realkredit Group
Properties repossessed/sold

	2012	2011	2010	2009	2008
Addition of properties	551	529	448	284	79
Of which private residential	*394*	*351*	*324*	*223*	*70*
Disposal of properties	542	455	338	178	29
Of which private residential	*396*	*293*	*255*	*154*	*22*
Property portfolio, year-end	356	347	273	163	57
Of which private residential	*246*	*248*	*190*	*120*	*51*

The Nykredit Realkredit Group
Arrears by due date by property category

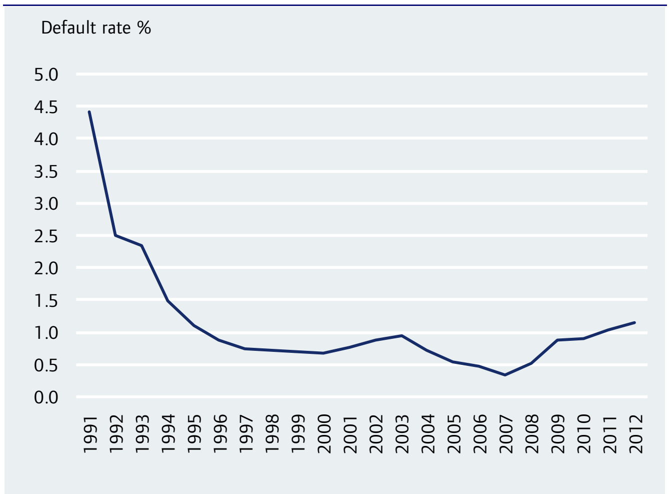
DKK million	Loans and advances end-2012	Loans and advances subject to individual provisioning	Total arrears	Arrears Q4/2012	Arrears Q3/2012	Arrears Q2/2012	Arrears Q1/2012	Arrears pre-2012
Private residential property	682,859	3,700	229	165	27	14	8	15
Private residential rental	115,777	1,922	72	48	8	6	3	7
Industry and trades	23,578	299	27	15	3	3	2	4
Office and retail	108,103	807	80	48	11	7	5	9
Agriculture	97,688	1,663	52	34	9	6	2	1
Non-profit housing	63,237	118	15	8	1	1	1	4
Other	17,554	94	10	7	1	1	-	1
Total	**1,108,796**	**8,603**	**485**	**325**	**60**	**38**	**21**	**41**

The Nykredit Bank Group
Loans, advances and guarantees by sector

DKK million	Loans, advances and guarantees		Provisions for loan impairment and guarantees	
	2012	2011	2012	2011
Public authorities	**513**	**542**	**4**	**0**
Agriculture, hunting, forestry and fishing	1,957	2,448	167	120
Manufacturing, mining and quarrying	6,377	5,652	155	105
Energy supply	523	1,306	9	33
Construction	1,816	1,687	279	254
Trade	2,217	2,472	237	287
Transport, accommodation and food service activities	2,135	2,308	101	90
Information and communication	879	964	73	65
Financial and insurance activities	39,703	28,656	742	935
Property	13,136	14,613	1,367	1,312
Other trade and industry	8,109	7,767	397	530
Total commercial customers	**76,852**	**67,873**	**3,527**	**3,731**
Personal customers	**20,010**	**19,636**	**608**	**676**
Total	**97,375**	**88,051**	**4,139**	**4,407**

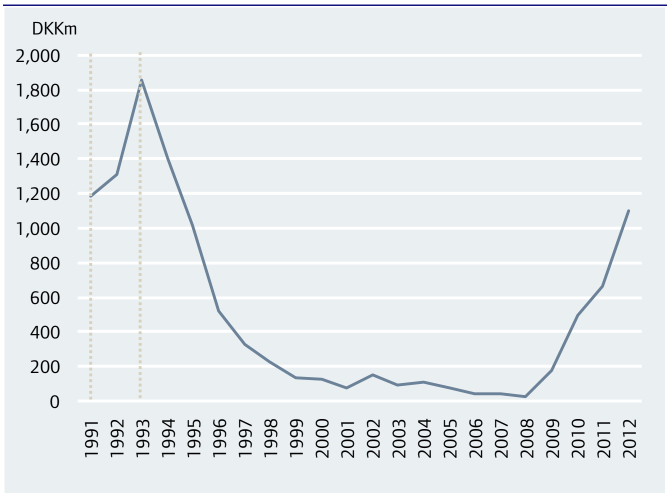
Note: As the breakdown is based on public sector statistics, it is not directly comparable with the Bank's business areas.

Nykredit Realkredit A/S
Data behind PD – observed default rates



Note: Stated as number of customers.

The Nykredit Realkredit Group – mortgage lending
Data behind LGD – recognised losses



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

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 Realkredit 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 (personal customers have two PDs – a bank PD and a mortgage bank PD), while each of the customer exposures has separate LGDs and EVs.

Modelling principles

According to the Danish 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 that recession when developing models.

PD is calibrated by weighting current data against data dating back to the early 1990s at a 40:60 ratio. 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 upturn, 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 an obligation to the Nykredit Group.

The PDs of personal customers and small enterprises are determined using credit scoring models. The credit score denotes the creditworthiness of a customer, and the calculation includes data on the customer's financial position and payment behaviour.

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 about 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 for the year. Observed PD is the observed default rate of Nykredit's exposures and thus reflects the current economic situation. To obtain a meaningful comparison, it is therefore necessary to recalculate the estimated PDs at the beginning of the year into estimates which reflect only the current economic trends (point-in-time estimates).

The table below shows applied PD stated as point-in-time PD (value at the beginning of the year), 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. Therefore, they are not directly comparable with the observed default rates or point-in-time PDs. As shown, the applied PDs are higher than the observed PDs.

PD: Example of mortgage exposures

The capital requirement calculation is based on "applied PD", which reflects economic downturn periods. The capital requirement determination was based on the assumption that 1.36% of Nykredit's customers would default on their loans.

To enable a comparison of the "applied PD" with the actual share of loans in default, "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 the economic trends prevailing at the beginning of the period.

The actual default rate, "observed PD", was 0.94%. 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 2012	Observed PD End-2012	Applied PD End-2012	Point-in-time PDBeginning of 2011	Observed PD End-2011	Applied PD End-2012
Mortgage exposures						
Retail exposures	1.86	0.69	1.20	0.75	0.75	1.32
Of which:						
- mortgages on real property	*1.86*	*0.69*	*1.20*	*0.75*	*0.75*	*1.32*
- revolving exposures, etc	-	-	-	-	-	-
- other retail exposures	-	-	-	-	-	-
Commercial exposures	1.38	1.30	1.68	0.82	0.93	1.57
Total mortgage exposures	**1.70**	**0.89**	**1.36**	**0.77**	**0.81**	**1.40**
Bank exposures						
Retail exposures	1.79	0.82	1.10	1.53	0.83	1.20
Of which:						
- mortgages on real property	*1.57*	*0.94*	*1.00*	*1.49*	*0.65*	*1.03*
- revolving exposures, etc	*1.59*	*0.71*	*1.05*	*1.18*	*0.65*	*1.11*
- other retail exposures	*2.63*	*1.37*	*1.38*	*1.81*	*1.66*	*1.76*
Commercial exposures	2.65	1.37	1.49	1.74	0.90	2.98
Total banking exposures	**2.48**	**1.28**	**1.40**	**1.68**	**0.89**	**2.49**
Total exposures						
Retail exposures	1.85	0.70	1.19	0.78	0.76	1.32
Of which:						
- mortgages on real property	*1.85*	*0.69*	*1.19*	*0.77*	*0.75*	*1.31*
- revolving exposures, etc	*1.59*	*0.71*	*1.05*	*1.18*	*0.65*	*1.11*
- other retail exposures	*2.63*	*1.37*	*1.38*	*1.81*	*1.66*	*1.76*
Commercial exposures	1.69	1.32	1.63	0.98	0.92	1.81
Total exposures, total	**1.79**	**0.94**	**1.36**	**0.85**	**0.82**	**1.50**

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

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 periods of high business activity, 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 approval procedures and to monitor exposures of low credit quality. Group Credits may, if so recommended, allow that a calculated rating be replaced by a rating assigned by a credit specialist.

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

2012 Rating category	PD floor %	PD ceiling %	Average applied PD%
10	> 0.00	≤ 0.15	0.10
9	> 0.15	≤ 0.25	0.20
8	> 0.25	≤ 0.40	0.33
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	1.66
3	> 2.00	≤ 3.00	2.50
2	> 3.00	≤ 7.00	4.46
1	> 7.00	≤ 25.00	13.25
0	> 25.00	< 100.00	51.19
Exposures in default	100.00	100.00	100.00

Note: Average applied PD has been weighted by exposure.

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

2012 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	50,711	8	5.0	1.3	54
9	82,193	24	7.1	3.1	201
8	175,428	31	9.3	5.7	807
7	149,371	80	12.0	9.8	1,169
6	114,590	20	13.3	14.3	1,313
5	48,325	45	13.3	18.5	715
4	37,500	35	14.0	25.1	754
3	15,589	7	13.1	30.4	379
2	17,928	92	11.9	39.0	560
1	15,225	2	12.3	64.2	782
0	4,533	1	14.2	80.1	290
Exposures in default[2]	5,514	0	14.6	90.9	401
Total	**716,907**	**346**	**10.7**	**12.9**	**7,424**

[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 determination 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 determination of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions.

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

2012 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	13,262	75	13.5	15.4	163
9	39,738	207	14.7	21.4	680
8	90,178	673	13.6	24.1	1,742
7	87,185	433	13.5	27.0	1,882
6	52,224	2,057	13.4	29.7	1,243
5	24,614	241	12.6	30.0	591
4	26,981	155	12.2	35.3	762
3	11,787	846	14.8	45.0	424
2	9,473	606	14.6	49.2	373
1	1,789	7	12.8	56.2	80
0	5,574	18	12.6	53.1	237
Exposures in default[1]	12,725	40	17.0	45.2	460
Total	**375,530**	**5,357**	**13.6**	**28.7**	**8,637**

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

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

2012 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	9,211	1,280	29.0	4.5	33
9	3,715	1,061	30.7	10.0	30
8	3,287	864	31.0	15.3	40
7	2,728	623	30.7	21.0	46
6	2,637	582	31.1	27.4	58
5	2,653	542	31.0	36.7	78
4	3,135	517	30.9	45.0	113
3	1,645	204	37.2	64.1	84
2	1,488	229	32.4	72.6	86
1	392	50	31.6	95.8	30
0	100	9	37.1	113.5	9
Exposures in default[2]	731	45	39.2	360.1	211
Total	**31,722**	**6,006**	**31.0**	**32.2**	**817**

[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 determination 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 determination of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions.

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

2012 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	21,375	2,918	12.6	9.1	156
9	9,824	2,144	25.9	25.5	200
8	22,228	3,386	34.0	42.4	753
7	14,345	2,361	43.9	65.5	751
6	27,924	499	12.6	21.1	470
5	5,575	417	44.8	85.4	381
4	2,989	170	44.5	94.8	227
3	8,137	464	37.6	95.1	619
2	2,158	249	40.6	112.8	195
1	788	38	44.8	191.1	120
0	1,270	29	44.9	163.0	166
Exposures in default[1]	8,877	365	44.7	0.0	0
Total	**125,490**	**13,041**	**28.1**	**40.2**	**4,038**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] The determination of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions. No calculation is made of the capital charge for exposures in default under the IRB foundation approach, cf the Excutive Order on Capital Adequacy.

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

2012 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	59,922	3,366	2.7	1.8	87
9	85,908	1,048	8.1	3.4	231
8	178,715	895	9.7	5.9	847
7	152,099	703	12.3	10.0	1,214
6	117,227	602	13.7	14.6	1,371
5	50,978	587	14.2	19.4	793
4	40,635	552	15.3	26.7	867
3	17,234	211	15.4	33.6	463
2	19,417	321	13.5	41.6	646
1	15,617	52	12.8	65.0	812
0	4,633	10	14.7	80.8	300
Exposures in default[2]	6,245	46	17.5	122.4	611
Total	**748,629**	**8,429**	**11.1**	**13.8**	**8,242**

[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 determination 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 determination of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions.

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

2012 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	34,353	2,993	12.7	11.3	3,011
9	49,557	2,351	16.9	22.1	878
8	112,395	4,059	17.6	27.7	2,494
7	101,522	2,794	17.7	32.2	2,617
6	80,147	2,556	13.1	26.6	1,708
5	29,944	658	18.3	39.7	951
4	29,970	325	15.4	41.2	988
3	17,205	1,310	20.8	57.6	792
2	11,630	854	19.4	61.0	567
1	2,576	45	22.6	97.5	201
0	6,843	47	18.6	73.5	402
Exposures in default[1]	21,602	405	27.4	26.6	460
Total	**497,745**	**18,398**	**17.2**	**31.1**	**12,369**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] The determination of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions. The low risk weight of exposures in default in the Nykredit Realkredit Group results from the fact that the risk weight of commercial exposures in default in the Nykredit Bank Group is calculated using the IRB foundation approach under which the risk weight is nil.

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.

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

LGD: Example of mortgage exposures

The capital requirement determination is based on "applied LGD", which reflects economic downturn period 1991-1993. The capital requirement determination is based on the assumption that Nykredit would sustain a loss equal to 13.28% of lending in case of default.

To enable a comparison of the "applied PD" with the actual share of losses on loans in default, "observed LGD", the applied PD 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 12.37%. The levels of the capital requirement calculation were thus higher than the actual levels for the period.

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 a 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.

LGDs vary with economic trends. In periods of high business activity, 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 Nykredit Realkredit Group
Loss given default, LGD

%	Point-in-time LGDBeginning of 2012	Observed LGD End-2012	Applied LGD End-2012	Point-in-time LGDBeginning of 2011	Observed LGD End-2011	Applied LGD End-2011
Mortgage exposures						
Retail exposures	9.59	12.49	10.70	7.31	6.96	11.56
Of which						
- mortgages on real property	*9.59*	*12.49*	*10.70*	*7.31*	*6.96*	*11.56*
- revolving exposures, etc	-	-	-	-	-	-
- other retail exposures	-	-	-	-	-	-
Commercial exposures	7.72	7.02	13.52	8.05	4.63	13.63
Total mortgage exposures	**8.97**	**9.83**	**11.65**	**7.55**	**6.08**	**12.25**
Bank exposures						
Retail exposures	31.02	29.49	30.79	31.34	38.12	29.73
Of which						
- mortgages on real property	*26.50*	*35.04*	*25.27*	*26.59*	*50.02*	*23.59*
- revolving exposures, etc	*38.08*	*15.87*	*39.93*	*38.04*	*24.17*	*40.28*
- other retail exposures	*37.72*	*26.63*	*36.61*	*37.06*	*31.09*	*37.75*
Commercial exposures[1]	50.12	22.09	26.84	50.83	38.42	44.33
Total banking exposures	**40.91**	**23.46**	**27.67**	**44.06**	**38.34**	**40.35**
Total exposures						
Retail exposures	10.41	13.78	11.05	8.28	9.36	11.81
Of which						
- mortgages on real property	*9.99*	*13.40*	*10.56*	*7.75*	*8.40*	*11.39*
- revolving exposures, etc	*38.08*	*15.87*	*39.93*	*38.04*	*24.17*	*40.28*
- other retail exposures	*37.72*	*26.63*	*36.61*	*37.06*	*31.09*	*37.75*
Commercial exposures	12.60	11.19	16.73	13.39	13.68	18.95
Total exposures, total	**11.18**	**12.37**	**13.28**	**10.29**	**11.24**	**14.44**

Note: Exposure-weighted and excl exposures in default. Applied 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.
[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 the period 1991-1993 and corresponds to the loss ratio 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 approved credit commitments, in terms of conversion factors (CF).

CF is estimated for banking products subject to flexible utilisation, such as revolving exposures, equity withdrawal credits, credit lines and loan offers. In respect of exposures in default 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 commitments and credit lines at default, conversion factor (CF)

	Observed CF End-2012	Applied CF End-2012	Observed CF End-2011	Applied CF End-2011
Banking exposures[1]				
Retail exposures	1.04	1.11	1.03	1.11
Of which				
- mortgages on real property[2]	*1.04*	*1.13*	*1.03*	*1.15*
- revolving exposures, etc	*1.04*	*1.07*	*1.02*	*1.07*
- other retail exposures	*1.03*	*1.06*	*1.04*	*1.04*
Total banking exposures	**1.04**	**1.11**	**1.03**	**1.11**

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

IRB-calculated losses

The IRB-calculated loss is a concept applied for regulatory purposes, which is calculated on the basis of the loss given default in a severe recession scenario. The IRB-calculated loss of DKK 9.6bn is therefore somewhat higher than Nykredit's current loan impairment provisions of DKK 7.0bn, as the latter reflects the risk of loss in the current economic climate.

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 of high business activity and during a mild recession. The calculation includes the expected losses on loans in default.

The level of recognised losses remained low in 2012 in the Nykredit Realkredit Group. Total recognised losses amounted to DKK 1,291m in 2012 against DKK 1,143m in 2011.

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 approval 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 regular validation – at least once a year. Model development and model validation are separate functions. The overall validation results are reported to the Group Risk Committee.

The ongoing validation includes:

- *Quarterly monitoring:* Monitoring of the models' customer ranking, comparison of the observed and the actual number of defaults, rating distributions and migration.
- *Annual back test:* 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 over the year and parameters applied to determine the statutory capital requirement.
- *Annual analysis of qualitative credit assessments:* As an integral part

The Nykredit Realkredit Group
Impairment losses, IRB-calculated and recognised losses

DKK million	Total impairment provisions 2012[1]	Recognised losses 2012[2]	IRB-calculated losses 2013[3]
Mortgage exposures			
Retail exposures	1,581	610	1,889
Of which			
- Mortgages on real property	*1,581*	*610*	*1,889*
- Revolving exposures, etc	*0*	*0*	*0*
- Other retail exposures	*0*	*0*	*0*
Commercial exposures	1,374	487	2,893
Total mortgage exposures	**2,954**	**1,097**	**4,782**
Bank exposures			
Retail exposures	410	25	441
Of which			
- Mortgages on real property	*209*	*9*	175
- Revolving exposures, etc	*32*	*13*	66
- Other retail exposures	*169*	*4*	200
Commercial exposures	3,729	168	4,384
Total banking exposures	**4,139**	**194**	**4,825**
Total exposures			
Retail exposures	1,087	635	2,330
Of which			
- Mortgages on real property	*1,789*	*619*	2,063
- Revolving exposures, etc	*32*	*13*	66
- Other retail exposures	*169*	*4*	200
Commercial exposures	5,103	655	7,276
Total exposures, total	**7,094**	**1,291**	**9,606**

Note: Includes exposures determined subject to both the advanced IRB approaches and the foundation IRB approaches. The IRB-calculated loss on retail exposures has been determined on the basis of LGD after adjustment ensuring compliance with the 10% requirement, cf section 70(5) of the Danish Executive Order on Capital Adequacy.

[1] Individual and collective impairment provisions incl provisions for guarantees.

[2] Not including recognised losses on properties repossessed as they cannot be distributed over exposure categories.

[3] IRB-calculated losses are stated at end-2012 and express the model-based expected loss for the coming year. The loss has been determined exclusive of exposures in default. The IRB-calculated loss has been determined using LGDs for 1991-1993 pursuant to the rules of the Executive Order on Capital Adequacy. This should be seen in the light of Nykredit's own loan impairment estimate for 2013 of DKK 2bn-3bn.

of the credit process, a qualitative assessment is made regularly of the ratings of the individual exposures. Overrides are made with respect to individual customers as required. Overrides and the qualitative assessments are reviewed annually.
- *Expert forums:* Nykredit's experienced credits and case officers and analysts compile and analyse any discrepancies between model estimates and internal assessments of business risks.
- *Validation of sub-elements*: At least every three years, the sub-elements of the individual models are assessed. It is assessed whether the model's input factors are still significant and representative and thereby contribute to correct customer ranking by the model.
- *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 entry control:* Nykredit's controllers review the case processing at all centres at least once a year, including data entry.

Internal estimates

For a number of years, Nykredit has applied credit models for risk management, capital management, customer assessment, collective impairment provisions and pricing. The credit models have become an integral part of 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.
- *Loan approval:* 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 valuation of the security provided and the nature of the transaction concerned.

The credit assessment of customers and the approval 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 approving loans to personal 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 approval approach is used for retail exposures secured on 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 approval 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 a valuation 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 the credit risk substantially. The mortgageable value of a property is determined at the time of loan granting. Valuations are based on the marketability, stability of value, alternative use, letting potential, etc of a property. Typically, no losses will be incurred on mortgage loans secured on properties with a high

The Nykredit Realkredit Group
Types of security and credit exposures

2012 DKK million	Real property[1]	Guarantees received	Financial collateral	Total collateral value	Total exposure
Retail exposures	700,971	22,077	0	723,048	749,861
Of which					
- Mortgages on real property	700,971	*22,077*	*0*	*723,048*	*736,094*
- Revolving exposures, etc	0	0	0	0	*6,067*
- Other retail exposures	0	0	0	0	*7,700*
Commercial exposures	362,834	30,740	49,347	442,921	500,408
Credit institution exposures	0	0	0	0	58,967
Sovereign exposures	0	0	0	0	43,886
Equity exposures	0	0	0	0	3,696
Securitisations	0	0	0	0	110
Assets with no counterparty	0	0	0	0	5,421
Total 2012	**1,063,805**	**52,817**	**49,347**	**1,165,969**	**1,364,349**
Total 2011	1,080,778	44,676	3,754	1,129,208	1,332,738

Note: Exposures also include guarantees issued by banks (DKK 22.1bn), which have been recognised under credit institution exposures, and government guarantees (DKK 30.7bn), which have been recognised under sovereign exposures.

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

homeowner's equity at the time of loan granting.

Nykredit has FSA approval to apply a statistical model in setting lending limits for private residential property. 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 current valuation is also 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 mitigate 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 as soon as a loan falls into arrears.

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

Guarantees are widely applied in the day-to-day management of the Group's credit risk, particularly in customer relationships where a parent company contributes capital to group companies. The determination of the statutory capital requirement and required capital base includes guarantees whereby the guarantor assumes primary liability from limited liability companies, production farming businesses and large privately owned enterprises, but excludes guarantees from small privately owned enterprises and private individuals. On inclusion of a guarantee, the customer's rating is replaced by the guarantor's rating if the latter is better.

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.

Under Nykredit's partnership agreement with the banks behind Totalkredit, mortgage loans to personal 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.

Financial collateral

Financial collateral includes deposits in DKK or other currencies, positions in listed Danish government and covered bonds, other liquid Danish and foreign bonds with high ratings, listed and liquid equities, etc. Financial collateral is included in the determination of the capital requirement.

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 GRMA 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 required capital base, where netting is applied as well.

CONCENTRATION RISK

Concentration risk arises from uneven distribution of exposures. The semi-annual risk reports submitted to the boards of directors in 2012 included analysis of the Group's concentration risk. The analysis focused on any concentration risk related to individual exposures and industries. In its Guide on the required capital base and internal capital adequacy requirement, the Danish FSA applies a number of benchmarks which credit institutions must take into consideration in assessing the concentration by industry and in terms of individual exposures.

Nykredit's internal credit models factor in the concentration of loans by industry. This is done by taking into account the correlations between the individual industries and the aggregate portfolio. The above-mentioned analyses and benchmark calculations do not give rise to any additional concentration risk in the Nykredit Realkredit Group.

Nykredit continually assesses concentration risks in accordance with the FSA recommendations.

CONCENTRATION RISK BY INDUSTRY

Institutions that have experienced difficulties have typically extended a significant part of their lending to relatively few industries. The commercial exposures of Nykredit Realkredit and Nykredit Bank are generally of high quality, as a large proportion of the exposures are in the high rating categories. In spite of this, it is relevant to consider the distribution of commercial exposures by industry.

The so-called Herfindahl Hirschmann Index (HHI) may be applied in the assessment of concentration risk. HHI ranges from 0 to 1 – the closer to 1, the greater the indication of concentration risk. According to the FSA, a HHI above 0.2 indicates a concentration risk.

The HHI of Nykredit Realkredit's commercial lending was 0.21 at end-2012, and the same value applied at end-2011.

The HHI of Nykredit Bank's commercial lending was 0.26 at end-2012, compared with 0.22 the year before. Increased repo lending, mainly issued against collateral in the form of bonds, is the cause of the increase in the HHI.

Given the general economic trends in the agricultural sector in Denmark, financial institutions' exposures to this sector have seen increased focus recently. Nykredit Bank received an inspection visit from the FSA in February 2012, the purpose of which was to examine agricultural exposures. The inspection did not cause the FSA to change its assessment of the Bank's internal capital adequacy requirement. The Nykredit Realkredit Group's total agricultural exposures represented 9% of total lending at end-2012 – the same percentage as at end-2011.

CONCENTRATION RISK ON INDIVIDUAL EXPOSURES

Relative to total lending, the share of the Nykredit Realkredit Group's 20 largest exposures was unchanged. They amounted to DKK 64.5bn, or 5% of total lending at both end-2012 and end-2011.

The substantial security behind the largest exposures of the Nykredit Realkredit Group should be taken into account when assessing the concentration risk by individual exposures. The security behind the 20 largest exposures totalled DKK 60.1bn at end-2012.

Nykredit Bank had no large exposures at end-2012 in a legal sense, ie defined as exposures exceeding 10% of the capital base. Nykredit Realkredit had one large exposure, and Totalkredit had three large exposures at end-2012.

Nykredit Realkredit A/S

The 20 largest exposures of Nykredit Realkredit increased to DKK 59.6bn at end-2012 from DKK 53.6bn at end-2011. Relative to total lending, the 20 largest exposures represented 10% at both end-2012 and end-2011. The 20 largest exposures accounted for 103% of equity at end-2012. The corresponding share at end-2011 was 97%. Mortgage loans are backed by solid security. The security behind the 20 largest exposures largely matched the exposure amounts at end-2012.

Nykredit Bank A/S

The 20 largest exposures of Nykredit Bank decreased to DKK 15.4bn at end-2012 from DKK 16.3bn at end-2011. The Bank's 20 largest exposures accounted for 8% of total bank lending at end-2012, compared with 9% at end-2011. At end-2012 the Bank's 20 largest exposures made up 107% of equity. The corresponding share the preceding year was 114%.

The Nykredit Realkredit Group
Large exposures by company

2012	No of large exposures (>10% of capital base)	Sum of large exposures relative to capital base, %
Nykredit Realkredit A/S	1	11
Totalkredit A/S	3	48
Nykredit Bank A/S	0	0

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

MARKET RISK

The Nykredit Realkredit Group assumes various market risks in the course of its business activities. Market risk reflects the risk of loss as a result of movements in financial markets (interest rate, foreign exchange, equity price, volatility risks, etc).

By far the greater part of group lending is mortgage lending. In practice, the Group incurs only negligible market and liquidity risks on these loans – regardless of the development in financial markets. This is because mortgage lending is governed by a statutory balance principle and handled according to the match-funding principle, cf the description under "Liquidity and funding".

Nykredit's market risk relates mainly to the investment of equity and liquidity reserves. In addition, Nykredit Bank incurs market risk in connection with trading in bonds, swaps and other financial products with its customers. The trading activities imply that the Bank quotes bid and ask prices for a large number of products, thereby entering into long-term and short-term positions for the Bank's account.

Nykredit's Board of Directors lays down market risk limits. Through the Group Treasury Committee and within the limits provided by the Board of Directors, the Executive Board approves and delegates market risk limits to 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 measured 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 Group Treasury Committee or Nykredit Realkredit'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 (VaR model) approved by the Danish FSA for the determination of capital requirements, Nykredit uses an internal VaR model covering the market risk of the entire Group.

THE GROUP'S INVESTMENT POLICY

The Group pursues a long-term investment policy that implies low credit risk on the investment portfolio. The primary investments are Danish and European covered bonds. Other investments include high-rated bank bonds. The interest rate risk involved is reduced by offsetting selling of government bonds and the use of interest rate derivatives. This creates an exposure to spreads between covered bond/credit bond yields and swap rates. This exposure is not hedged, cf "Spread risk" below.

The Nykredit Realkredit Group
Capital requirement for items involving market risk

2012 DKK million	Specific risk	General risk	Total capital requirement	Total capital requirement 2011
Value-at-Risk (99%, 10 days)	-	377	377	744
Stressed Value-at-Risk (99%, 10 days)	-	1,141	1,141	1,292
Outside Value-at-Risk model:				
Instruments of debt	5	121	127	931
Equities	33	20	53	70
Foreign exchange risk	0	-	0	2
Collective investment schemes	44	0	44	47
Total market risk	**82**	**1,660**	**1,742**	**3,086**

The Nykredit Realkredit Group
The Board of Directors' principal market risk limits at group level, end-2012

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
Credit 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 -Ba1/BB+ and not rated	*Measured at book value*	*DKK (1,000)m to 2,000m*
Volatility risk	Measured as loss on a general rise in interest rate volatility of 1 percentage point	DKK (200)m to 200m

MARKET RISK MEASURES

Market risk cannot be assessed adequately on the basis of a single risk measure. To obtain a full overview of the Group's market risk, Nykredit combines various measures that express sensitivity to the development in financial markets.

Parameters used to determine Value-at-Risk

Value-at-Risk (VaR) 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 VaR subject to a 99% confidence level and a time horizon of one day. The risk is determined using a VaR model that includes the risk relating to spreads between covered bond yields and swap rates as well as selected government and credit bonds, and Nykredit Realkredit's covered bonds.

Parameters used to determine VaR:

Risk factors:	All exposures are transformed into a number of risk factors for equity price, interest rate, interest rate volatility and foreign exchange risks.
Volatilities and correlations:	Daily volatilities and correlations for the above-mentioned risk factors. In calculating the volatilities, last-dated observations have the highest weighting. Volatilities and correlations are calculated on the basis of data for the last 250 banking days.
Time horizon:	Value-at-Risk is determined on the basis of a time horizon of 1 day, but the figure 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
Confidence level:	VaR is calculated at the following confidence levels: ▪ Capital requirement for market risk: 99% ▪ Day-to-day business management: 99%

Back tests:
The model results are tested on a daily basis against actual realised returns on the investment portfolios through back tests. The purpose of the back tests is 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
Internal Value-at-Risk (99%, 1 day)

DKK million	Average	Min	Max	Year-end
2012	110	66	155	78
2011	140	89	321	120

The Nykredit Realkredit Group
Value-at-Risk

2012 DKK million	1 day	10 days
Internal VaR (99.00%)	78	246
VaR for capital requirement (99.00%)[1]	38	119
Stressed VaR for capital requirement (99.00%)[2]	118	372

Note: Contrary to VaR for capital requirement, internal VaR includes strategic equities, unlisted equities and assets in subsidiaries for Nykredit Realkredit A/S.
[1] Capital requirements for VaR is determined as VaR (99%, 10 days) x statutory FSA spread, the latter depending on the number of back test exceedings within the past year.
[2] Stressed VaR is calculated using volatilities and correlations from a period of significant stress.

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.

VaR models are applied to calculate the maximum value decrease of a given 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.

Value-at-Risk

Internal management

VaR is applied in the day-to-day internal management and determination of the required capital base.

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 confidence level of the VaR model is 99%, while the choice of time horizon depends on the specific purpose of the calculations. For the day-to-day internal management, a time horizon of one day is applied in the VaR model, while a time horizon of 10 business days is applied for the determination of the required capital base.

Nykredit Realkredit A/S extended its VaR model in 2012 so as to include interest rate volatility as a separate risk factor. The same applies to the model applied to determine the required capital base.

The Group's internal VaR totalled DKK 78m at end-2012 against DKK 120m at end-2011. This means that, according to Nykredit's model, the Group would, at a 99% probability, lose a maximum of DKK 78m in one day in consequence of market fluctuations. The decrease in VaR was mainly due to lower volatilities, but reductions in certain positions have also contributed to the decrease.

Capital requirement

Nykredit has the approval of the Danish FSA to apply VaR in determining the capital charge for the market risk of Nykredit Realkredit A/S and Nykredit Bank A/S. The VaR model for determining capital requirements 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 calculates VaR for the trading book as well as the banking book excluding equities – together a slightly smaller portfolio than the one used for the internal management.

Like for credit risk, the calculations are "mechanical" and based on historical data on financial market trends. During a financial crisis, however, the current conditions in financial markets may not always correspond to the historical conditions. The maximum expected loss calculated using a VaR model may therefore during the first stages of a crisis present an overly optimistic view of the risk of loss.

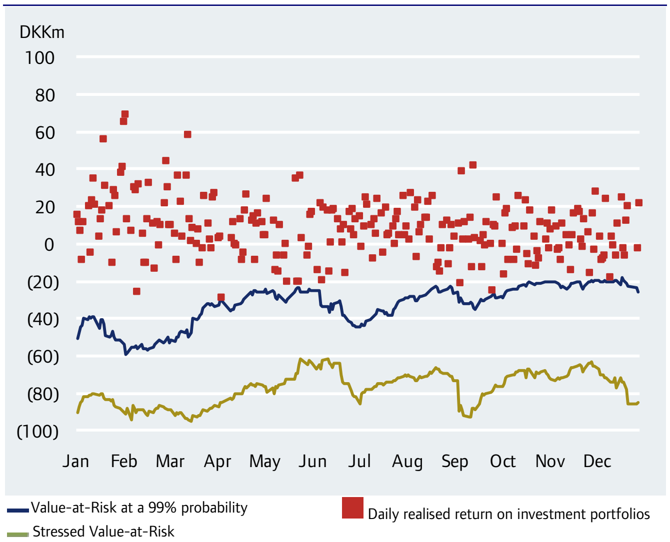
The Danish Executive Order on Capital Adequacy therefore requires Nykredit Realkredit A/S and Nykredit Bank A/S to calculate a stressed VaR in addition to the current VaR for determining the total VaR for the capital requirement.

Stressed VaR must be calculated for the current portfolio, but using volatilities and correlations (market data) from a period of significant stress. This period is determined annually on the basis of the current portfolios of Nykredit Realkredit A/S and Nykredit Bank A/S, respectively.

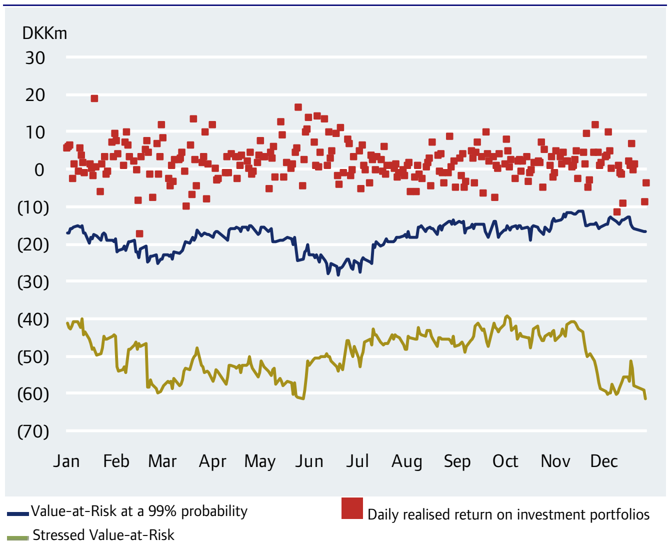
Nykredit Realkredit A/S has FSA approval to apply the period 22 September 2008 - 23 September 2009 for calculating stressed VaR. Nykredit Bank A/S has approval to apply the period 1 September 2008 - 2 September 2009. These two periods were characterised by very substantial fluctuations in the model parameters.

The Group's total VaR for the capital requirement amounted to DKK 1,518m at end-2012 against DKK 2,036m at end-2011. Of this amount, stressed VaR accounted for DKK 1,141m at end-2012 against DKK 1,292m at end-2011. Also in this case, the decrease in VaR was due to lower volatilities and reduced positions.

Nykredit Realkredit A/S
Back test of VaR (99%, 1 day) 2012



Nykredit Bank A/S
Back test of VaR (99%, 1 day) 2012



Back tests and daily stress tests
It is essential that the VaR models are reliable. The model results are therefore tested on a daily basis against realised returns on the portfolios through back tests. The daily earnings (gain/loss) are compared with the models' estimates of the maximum loss. Because of the statistical properties of the models, the actual losses are expected to exceed the maximum loss predicted by the VaR model two or three times a year.

If the actual losses exceed the model's estimates 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.

There were 0 exceedings in the VaR models of Nykredit Realkredit A/S and Nykredit Bank A/S in 2012. In comparison, Nykredit Realkredit A/S had 15 exceedings and Nykredit Bank A/S had 3 in 2011.

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. Stress testing is an attempt to assess the sensitivity of the portfolios to probable events.

The main focus of the daily 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 2012 the stress tests did not give rise to a change of the Nykredit Realkredit 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 models.

Interest rate risk
Interest rate risk is the risk of loss as a result of interest rate changes, and the Group's interest rate risk is measured as the change in market value caused by a general interest rate increase of 1 percentage point in respect of bonds and financial instruments.

The Group's interest rate exposure was DKK 193m at end-2012.

Refinancing risk is the risk of having to refinance debt in a period of high interest rates or unfavourable loan terms. In practice, the interest rate risk relating to bond portfolios on refinancing is passed on to customers.

In order to reduce the refinancing risk, Nykredit spread its refinancing activity over three auctions in 2012. This will be extended to four annual auctions from 2013.

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. Following refinancing, borrowers' loan rate mirrors the yield-to-maturity of the bonds sold. Consequently, interest expenses are fully passed on to customers.

Spread risk

Spread risk is the risk of spread widening between covered bond/credit bond yields and swap rates. The spread risk of the Group's portfolio of covered bonds amounted to DKK 2.6bn at end-2012. This means that Nykredit would lose DKK 2.6bn on its investments in covered bonds if the spread between covered bond yields and swap rates 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 a general equity market decrease of 10%. The equity price risk of the Nykredit Realkredit Group amounted to DKK 345m at end-2012.

The exposure to strategic equities categorised as available for sale under IAS 39 ranged between DKK 1.7bn and DKK 2.5bn in 2012, while private equity exposures ranged between DKK 0.5bn and DKK 0.6bn.

At end-2012, the portfolio of strategic equities stood at DKK 1.8bn, of which DKK 0.8bn in Danish banks and DKK 0.7bn in the property sector.

Foreign exchange risk

Foreign exchange risk is measured as the gain/loss in a given currency resulting from DKK strengthening by 10%. Foreign exchange risk is thus the risk of loss as a result of changes in exchange rates.

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

The Nykredit Realkredit Group hedges its foreign exchange exposures except for some minor tactical foreign exchange positions held to achieve a gain. Therefore, the Group had only minor foreign exchange positions in currencies other than EUR in 2012.

Volatility risk

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

Volatility risk is measured as the change in market value resulting from an increase in volatility of 1 percentage point, increased volatility implying a loss on Nykredit's part.

This risk is determined on a continuous basis for all financial instruments with embedded options and is managed by means of limits.

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

Market value DKK million	2012	2011
Listed equities	1,516	1,804
Unlisted equities	1,308	1,265
Total	**2,824**	**3,069**

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 classifiable under the trading book are placed in the banking book.

Interest rate risk in the banking book

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

- Prepaid funds and proceeds from borrowers with fixed-price agreements and borrowers prepaying their loans. Other funds relate to 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 in the banking book

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

Strategic equities comprise equities in regional banks with which Nykredit cooperates, equities in certain property companies 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.

The Nykredit Realkredit Group
Market risk

2012 DKK million	Interest rate exposure (100bp change)	Interest rate volatility exposure (Vega)	Equity price exposure (10% change)
Money market instruments	(489)	-	-
Government bonds	(270)	-	-
Danish covered bonds (ROs)	1,273	1	-
Danish covered bonds (SDOs)	834	1	-
Other bonds, loans and advances	(627)	-	-
Equities	-	-	352
Derivative financial instruments	(528)	4	(7)
Securitisations	-	-	-
Total	**193**	**7**	**345**

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

The Nykredit Realkredit Group
Market risk

DKK million	2012				2011			
	Average	Min	Max	Year-end	Average	Min	Max	Year-end
Interest rate risk (1 percentage point change)	202	(83)	579	193	163	(261)	455	367
– of which outside trading book	*59*	*(27)*	*155*	*86*	*31*	*(43)*	*134*	*134*
– of which from mortgage activities	*53*	*(31)*	*131*	*69*	*43*	*(7)*	*108*	*50*
Spread risk (OAS)	2,315	1,823	2,854	2,578	2,706	2,331	3,115	2,860
Equity price risk (10% change)	378	318	437	345	414	320	514	369
Foreign exchange risk:								
Foreign exchange positions, EUR	218	8	768	294	199	11	1,222	187
Foreign exchange positions, other currencies	(2)	(264)	120	9	157	8	377	271
Interest rate volatility risk (Vega)	15	3	35	7	39	28	48	30

Note: Calculation of market risk covers both the trading book and the banking book. 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
Losses in stress tests

2012 DKK million	Min	Max	Average	Year-end
Nykredit Bank	**233**	**512**	**360**	**507**
Shock to short-term interest rates (scenario 1)	(12)	82	29	38
20bp rise in DKK rates and 5% devaluation (scenario 2)	(10)	86	47	57
20bp spread widening between govt and swap (scenario 3)	(12)	66	25	29
Credit crunch similar to Lehman (scenario 4)	181	383	258	383
Nykredit Realkredit and Totalkredit[1]	**2,153**	**3,416**	**2,801**	**2,596**
Interest rate rise of 65bp	(85)	298	93	79
Spread widening as during sovereign debt crisis	164	316	218	261
Equity, credit and volatility crisis similar to Lehman	2,074	2,802	2,490	2,256

[1] A scenario in which the impact on interest rates and equities is specified.

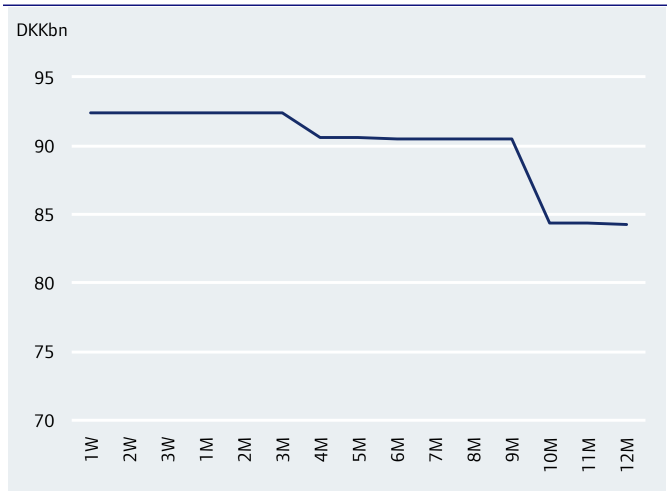
LIQUIDITY AND FUNDING

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

Nykredit has structured its lending in a manner that ensures a high level of liquidity. The greater part of group lending consists of mortgage loans funded by covered bonds in the form of ROs and SDOs according to the match-funding principle. Nykredit's mortgage borrowers make their payments on or before the date on which Nykredit pays bondholders. Accordingly, mortgage lending and the funding thereof produce positive liquidity. Add to this that lending by Nykredit Bank is largely funded by deposits.

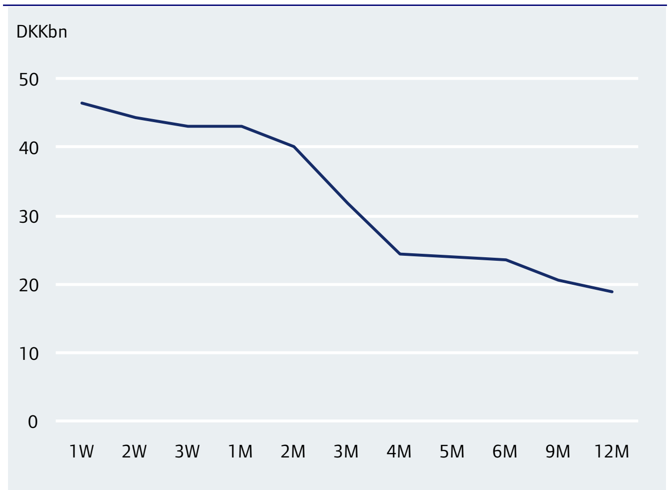
The Group's equity and capital market funding, excluding ROs/SDOs, are placed in liquid Danish and European government and covered bonds. These securities are eligible as collateral with the Danish or other European central banks and thus directly exchangeable into cash. To this should be added a small portfolio of money market deposits, equities, credit bonds and similar assets.

Mortgage lending
Liquidity stress testing (internal methodology)



Note: Liquidity raised through issuance of junior covered bonds is included up to their maturity.

Banking operations
Liquidity stress testing (internal methodology)



Nykredit's stock of liquid assets constitutes a sizeable buffer against liquidity movements driven by customer flows, loan arrears, current costs and maturing capital market funding.

In addition, the Group applies its stock of liquid assets to ensure compliance with statutory liquidity requirements, including the requirement of supplementary collateral on falling property prices in connection with the issuance of SDOs, and the credit rating agencies' requirements in order to maintain the current high ratings. Nykredit aims to comply with all the above-mentioned requirements with an appropriate margin.

The Group's total liquidity risk is monitored closely and assessed by the Group Asset/Liability Committee. The committee lays down liquidity policies for the group companies and monitors the development regularly. The individual companies manage the day-to-day liquidity risk on that basis.

The graphs show the development in liquidity reserves for mortgage lending and Nykredit Bank in a stressed scenario. As shown, the group companies are highly liquid for at least 12 months ahead.

LATEST LIQUIDITY INITIATIVES

Nykredit Bank has adjusted its liquidity risk management according to its business development and the Danish Executive Order on the governance and management of credit institutions. Legislation lays down detailed liquidity policy requirements, including requirements for liquidity stress testing and a liquidity buffer. In order to reduce the refinancing risk, Nykredit has spread its refinancing activity over three auctions in 2012. This will be extended to four annual auctions from 2013. Two-tier mortgaging also reduces the refinancing risk in the second tier.

The regulatory requirements for the stock of liquid assets will change further in connection with the implementation of Basel III.

NEW LIQUIDITY STANDARDS

Nykredit expects to become subject to the new international regulatory framework regarding the Liquidity Coverage Ratio (LCR) in 2015. A number of issues still need to be clarified relative to the current proposal for Basel III, including the treatment of Danish covered bonds (ROs/SDOs). On this point, Nykredit expects that the draft rules will be changed to the effect that credit institutions may continue to include Danish covered bonds in their stocks of highly liquid assets.

The LCR of group companies at end-2012 under the proposed rules and given the expected reallocation of the securities portfolio:

The Nykredit Realkredit Group	319%
Nykredit Realkredit A/S	219%
Totalkredit A/S	346%
Nykredit Bank A/S	136%

Given Nykredit's liquidity reserve combined with measures already initiated, Nykredit expects to fulfil the expected LCR requirements well ahead of schedule regardless of the final implementation.

The LCR requirements may be complied with merely through reallocation of the securities portfolio and operational measures such as changes to the schedule of refinancing auctions. In that connection, reallocation of the bond portfolio may be required as well as minor changes to the product range offered to customers.

A measure of stable funding is also being discussed – the Net Stable Funding Ratio (NSFR). So far, the NSFR is only a reporting requirement. If the NSFR is introduced as a hard requirement in its present form, Nykredit will probably have to restrict borrowers' access to ARMs with very short-term funding.

However, as the final wording of the NSFR rules has yet to be laid down, Nykredit will await the final draft of Basel III before initiating any major operational adjustments.

MORTGAGE LENDING

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

Despite the persisting difficult conditions in financial markets, Nykredit was able to issue bonds on a daily basis throughout 2012. The order-based market worked satisfactorily throughout the year.

The Nykredit Realkredit Group
Supplementary collateral requirement (Capital Centres E and H)

DKK billion	2012
Current supplementary collateral requirement	47.8
Supplementary collateral requirement in case of housing price decline by another 5%	65.4
Capital provided as supplementary collateral	71.9
- of which funded with junior covered bonds[1]	*42.5*

[1] Exclusive of Nykredit Realkredit A/S's own portfolio of junior covered bonds.

The Nykredit Realkredit Group
Issued junior covered bonds

DKK million	Maturity	Nominal outstanding amount
JCB 13 Apr (DKK)	01-04-2013	2,000
JCB 13 Oct (DKK)	01-10-2013	5,825
JCB 14 Jan (DKK)	15-01-2014	2,000
JCB 14 Apr (EUR)	01-04-2014	3,725
JCB 14 Oct (DKK)	01-10-2014	4,500
JCB 15 Jan (DKK)	01-01-2015	2,325
JCB 15 Apr (DKK)	01-04-2015	2,800
JCB 15 Oct (DKK)	01-10-2014	3,500
JCB 16 Jan (DKK)	01-04-2016	7,000
JCB 16 Oct (DKK)	01-10-2016	2,000
JCB 17 Apr (DKK)	01-04-2017	1,000
JCB 17 Jun (EUR)	01-06-2017	5,595
Private placements > 5 years		1,045
Total		**42,470**

At the refinancing auctions in December 2012, Nykredit issued bonds worth DKK 123bn.

SDOS (COVERED BONDS)

SDOs held by credit institutions and ROs 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.

ROs issued after 1 January 2008 carry a higher risk-weighting in terms of capital requirement and counterparty exposure.

SDOs must satisfy certain requirements under the special SDO legislation and 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 private residential properties or 60% of the value of commercial properties
- Government bonds or other claims against EU/EEA member states, etc.
- 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 (LTV) 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.

If LTV ratios determined continually exceeds the statutory LTV limits, mortgage banks must provide supplementary collateral for the individual loans secured by mortgages on real property and funded by way of issuance of covered bonds.

Nykredit Realkredit A/S and Totalkredit A/S may raise supplementary collateral 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 Centres E and H. In addition, Nykredit Realkredit A/S and Totalkredit A/S may provide supplementary collateral by using guarantees, including intercompany guarantees.

It is Nykredit's policy to maintain an appropriate cover pool buffer against declining property prices. Nykredit therefore monitors the requirement for supplementary collateral closely. In this connection, various stress tests are conducted at least quarterly to assess the sensitivity of such requirement to refinancing surges, declining property prices, etc.

The requirement for supplementary collateral was DKK 47.8bn at end-2012. The total requirement for supplementary collateral will potentially increase to DKK 65.4bn if housing prices are stressed. The requirement for supplementary collateral should be seen in relation to Nykredit's capital base in excess of DKK 62.4bn and issued junior covered bonds of nearly DKK 43.3bn. To this should be added the option provided by law to use guarantees, including intercompany guarantees. Nykredit has currently not taken up this option.

TWO-TIER MORTGAGING

The Group introduced two-tier mortgaging for personal customers in June 2012. Two-tier mortgaging implies that loans of up to 60% of the property value (base loans) are funded with SDOs, whereas loans for the 60-80% bracket (top loans) are funded with ROs. Two-tier mortgaging reduces the supplementary collateral which Nykredit must provide under SDO legislation in case of declining property prices. Two-tier mortgaging already applies for commercial customers.

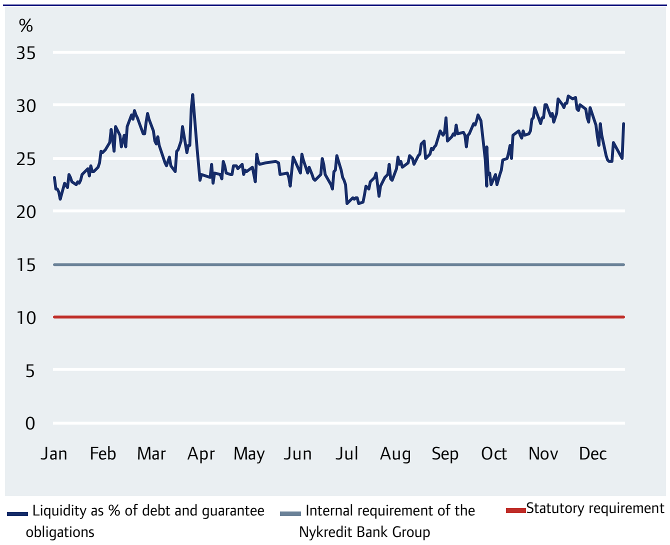
Furthermore, Nykredit requires longer refinancing intervals, and principal payments are mandatory for top loans, which contributes to improving their quality.

The Nykredit Realkredit Group opened a new capital centre (I) for the issuance of ROs to fund personal and commercial customers' top loans not subject to refinancing. Top loans subject to refinancing are funded with bonds issued out of Capital Centre G.

At end-2012, a nominal amount of DKK 908bn of SDOs and DKK 375bn of ROs had been issued, of which DKK 28bn provides funding for personal and commercial customers' top loans.

The introduction of two-tier mortgaging means that the issuance of ROs by the Nykredit Realkredit Group will increase. The majority of the Group's issues will still be SDOs.

The Nykredit Bank Group
Liquidity relative to statutory requirement 2012



BANKING

Nykredit Bank monitors its balance sheet and liquidity on a daily basis as part of its liquidity risk management. The management of the Bank's structural liquidity risk is based on an internal model relating to the liquidity of assets and liabilities.

Securities in the trading book not serving as collateral constitute a short-term liquidity buffer that may be applied in the case of unforeseen drains on the Bank's liquidity. These securities consist mainly of liquid Danish and European government and covered bonds eligible as collateral with the Danish central bank or other European central banks.

Stress testing is performed on a continuous basis using bank-specific, sector-specific and combination scenarios as prescribed by the Danish Executive Order on the governance and management of banks.

According to a stress test of the Bank's liquidity based on scenarios involving no access to funding markets, the Bank will have positive liquidity for at least 12 months.

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 minimum 50% relative to the statutory requirement.

At 31 December 2012, the excess cover was 183% against 176% at end-2011, corresponding to a liquidity reserve of DKK 44.8bn compared with DKK 41.2bn at end-2011. In 2012 the liquidity reserve averaged DKK 36.6bn compared with DKK 31.3bn for 2011.

The Bank's long-term funding activities progressed as planned, with EMTN issues totalling DKK 20.9bn at 31 December 2012.

Further, the Bank continued its current refinancing of short-term ECP issues, which totalled DKK 8.8bn at 31 December 2012.

The aggregate amount issued under the ECP and EMTN programmes was DKK 29.7bn at end-2012 against DKK 26.8bn at end-2011.

OPERATIONAL RISK

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

The Nykredit Realkredit Group is constantly working to create a risk culture where the awareness of operational risk is a natural part of everyday work. The Group strives always to limit operational risk taking into consideration the costs involved.

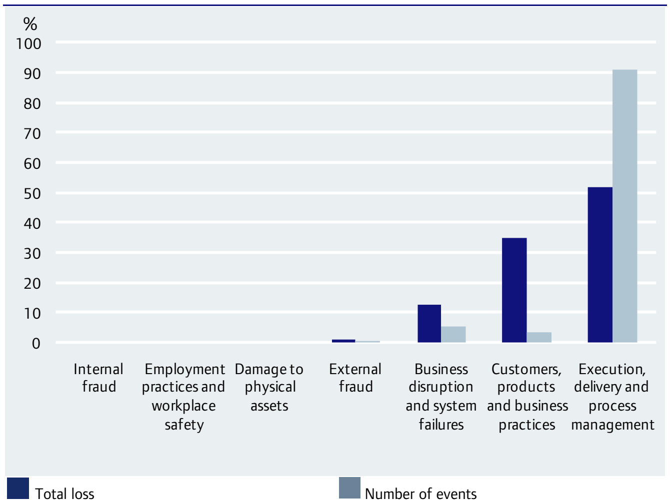
The operational risk relating to the Group's primary activities, mortgage banking, is inherently limited as mortgage products are highly standardised.

The responsibility for the day-to-day management of operational risk is decentralised and lies with the individual business areas. Operational risk management activities are coordinated centrally to ensure consistency and optimisation across the Group.

As part of operational risk management, operational loss events are systematically recorded, categorised and reported with a view to identifying loss sources and gaining experience for sharing across the organisation. In respect of all operational events causing losses of over DKK 10,000, information is recorded about the type of product, process or risk the event concerned as well as on any insurance cover and time consumption relating to the event. In 2012 both the number of operational events and group losses centred around the risk type "execution, delivery and process management", which includes human errors occurring in connection with manual daily routines.

In addition to the collection of data on operational loss events, the Nykredit Group is continuously working on identifying significant operational risks. Operational risks are mapped on the basis of input supplied by each business area about its own significant risks to the Group's centralised operational risk function. Operational risk mapping provides a valuable overview of particularly risky processes and systems at Nykredit and therefore constitutes an excellent management tool.

The Nykredit Realkredit Group
Operational loss events in 2012



Note: Operational loss events are classified according to the Danish Executive Order on Capital Adequacy.

Lastly, under the ambit of the Board of Directors and the Audit Board, efforts are made to identify highly improbable operational events with far-reaching consequences, known as black swans. One of the main purposes of this work is to coordinate the business contingency plans that should be applied if the Group experiences such an event.

Besides the more general approach to identifying operational risks, Nykredit also applies specific risk management procedures in key areas such as IT supply and approval of new products and IT solutions. The comprehensive contingency plans are to ensure constant and secure operations in case of a shutdown of the IT supply or other emergencies. Similarly, a structured approval process is to create a full overview of the risks relating to development, implementation and management of new – as well as significant changes to existing – products and IT solutions.

The process of adapting the business to "Sustainable mortgage lending" exposed the Nykredit Group to elevated operational risks in 2012. More specifically, because of the implementation of two-tier mortgaging and the sale of Nykredit loans through Totalkredit, the Group had to adapt its mortgage systems, developed over a period of over 25 years, so that they could handle the changes to the business model. Thus, changes in IT systems combined with concurrent commissioning of many different systems in both Nykredit Realkredit A/S and Totalkredit A/S represented an operational risk in 2012.

To minimise the operational risk pertaining to the introduction of two-tier mortgaging and the sale of Nykredit loans through Totalkredit, the implementation was preceded by some of the most comprehensive system tests in Nykredit's history in terms of resources. Moreover, at the launch of the new business concepts, increased IT resources and a task force were on stand-by so that any errors and questions could be addressed and resolved quickly. Lastly, both before, during and after the launch of the new initiatives, the Group has focused intensely on education and training of staff members so that they remain well equipped to handle the new business procedures and serve the interests of the Group's customers. All in all, the new business concept was launched without any major problems and focus remains on minimising any operational risks relating to the new initiatives.

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 of the past three years. The capital charge for operational risk was DKK 1.7bn throughout 2012. In the internal capital adequacy assessment process (ICAAP), the capital requirement is determined using the standardised approach. In 2012, the Group's required capital base included DKK 1.7bn to cover operational risk.

Appendix: comparative tables

The Nykredit Realkredit Group
Credit exposures and capital charge

2011 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	695,427	24,233	3,833	-	723,493	*7,681*	15.3	8,849
Of which								
- mortgages on real property	*695,427*	*16,237*	*398*	-	*712,061*	*4,849*	*14.9*	*8,481*
- revolving exposures, etc	-	*5,249*	-	-	*5,249*	*2,259*	*15.7*	*66*
- other retail exposures	-	*2,748*	*3,435*	-	*6,183*	*573*	*61.1*	*302*
Commercial exposures	360,509	56,787	5,750	55,504	478,550	*17,581*	37.2	13,110
Credit institution exposures	18,478	-	598	48,638	67,714	*173*	18.1	980
Sovereign exposures	26,198	-	105	28,246	54,548	-	-	-
Equity exposures	-	-	-	3,906	3,906	-	302.8	946
Securitisations	-	-	-	274	274	-	1,325.0	290
Assets with no counterparty	-	-	-	4,253	4,253	-	100.0	340
Total 2011	**1,100,611**	**81,021**	**10,285**	**140,821**	**1,332,783**	**25,435**	**23.6**	**24,516**
Total 2010	**1,043,011**	**98,120**	**15,603**	**115,591**	**1,272,325**	**27,158**	**23.6**	**23,269**

The Nykredit Realkredit Group
Credit exposures by maturity

2011 DKK million	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total exposures
Retail exposures	299	7,211	715,983	723,493
Of which				
- mortgages on real property	*299*	*7,211*	*704,551*	*712,061*
- revolving exposures, etc	-	-	*5,249*	*5,249*
- other retail exposures	-	-	*6,183*	*6,183*
Commercial exposures	38,571	40,264	399,713	478,550
Credit institution exposures	48,638	598	18,478	67,714
Sovereign exposures	28,246	105	26,198	54,548
Equity exposures	-	-	3,906	3,906
Securitisations	-	-	274	274
Assets with no counterparty	4,253	-	-	4,253
Total 2011	**120,007**	**48,178**	**1,164,551**	**1,332,738**
Total 2010	**123,179**	**42,502**	**1,106,540**	**1,272,325**

The Nykredit Realkredit Group
Credit exposures by counterparty

2011 DKK million	Personal	Non-profit housing	Private residential rental	Office and retail	Agriculture	Industry and trades	Other	Total exposures
Retail exposures	679,423	892	12,529	6,549	22,544	1,556	-	723,493
Of which								
- mortgages on real property	*668,799*	*891*	*12,366*	*6,342*	*22,441*	*1,223*	-	*712,061*
- revolving exposures, etc	*5,058*	-	*35*	*52*	*19*	*84*	-	*5,249*
- other retail exposures	*5,566*	*1*	*128*	*155*	*84*	*249*	-	*6,183*
Commercial exposures	463	57,744	127,422	132,169	89,988	53,340	17,423	478,550
Credit institution exposures	-	-	-	-	-	-	67,714	67,714
Sovereign exposures	-	-	-	-	-	-	54,548	54,548
Equity exposures	-	-	-	-	-	-	3,906	3,906
Securitisations	-	-	-	-	-	-	274	274
Assets with no counterparty	-	-	-	-	-	-	4,253	4,253
Total 2011	**679,886**	**58,636**	**139,951**	**138,717**	**112,532**	**54,896**	**148,118**	**1,332,738**
Total 2010	**640,206**	**51,265**	**129,429**	**129,449**	**109,028**	**55,203**	**157,744**	**1,272,325**

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

2011 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	48,672	2,888	2.4	1.9	74
9	70,876	979	8.3	3.5	199
8	134,185	829	8.5	5.9	633
7	183,065	599	12.3	10.2	1,499
6	124,791	558	14.7	16.0	1,602
5	54,534	578	15.6	21.4	932
4	38,710	551	16.3	27.9	865
3	17,146	238	15.7	34.4	471
2	23,181	318	14.4	43.8	811
1	15,392	94	14.4	71.5	880
0	4,793	11	15.3	71.4	274
Exposures in default[2]	6,894	39	15.6	103.5	571
Total	**722,240**	**7,681**	**11.8**	**15.2**	**8,811**

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 determination 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 determination of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions.

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

2011 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	14,473	2,115	22.9	19.5	226
9	40,246	2,937	20.6	25.3	814
8	107,590	5,630	17.7	27.8	2,393
7	102,127	1,663	18.7	34.0	2,776
6	48,545	939	17.3	34.9	1,355
5	31,407	1,874	19.2	46.3	1,163
4	26,868	678	16.5	43.9	944
3	15,871	488	19.9	58.4	742
2	19,076	593	23.7	77.7	1,186
1	4,714	82	23.7	102.1	385
0	6,350	80	24.5	88.1	448
Exposures in default[1]	18,668	500	28.8	20.8	311
Total	**435,937**	**17,581**	**19.4**	**36.5**	**12,741**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] The determination of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions.

The Nykredit Realkredit Group
Types of security and credit exposures

2011 DKK million	Real property[1]	Guarantees received	Financial collateral	Total collateral value	Total exposures
Retail exposures	941,898	18,478	-	960,375	723,493
Of which					
- mortgages on real property	*941,898*	*18,478*	-	*960,375*	*712,061*
- revolving exposures, etc	-	-	-	-	*5,249*
- other retail exposures	-	-	-	-	*6,183*
Commercial exposures	462,248	26,198	39,748	492,200	478,550
Credit institution exposures	-	-	-	-	67,714
Sovereign exposures	-	-	-	-	54,548
Equity exposures	-	-	-	-	3,906
Securitisations	-	-	-	-	274
Assets with no counterparty	-	-	-	-	4,253
Total 2011	**1,404,146**	**44,675**	**39,748**	**1,452,576**	**1,332,738**
Total 2010	**1,029,724**	**54,064**	**46,479**	**1,090,152**	**1,272,325**

Note: Exposures also include guarantees issued by banks, which have been recognised under credit institution exposures, and government guarantees, which have been recognised under sovereign exposures.
[1] The collateral value of real property is measured at nominal value.