Risk and Capital Management 2013

The Nykredit Realkredit Group

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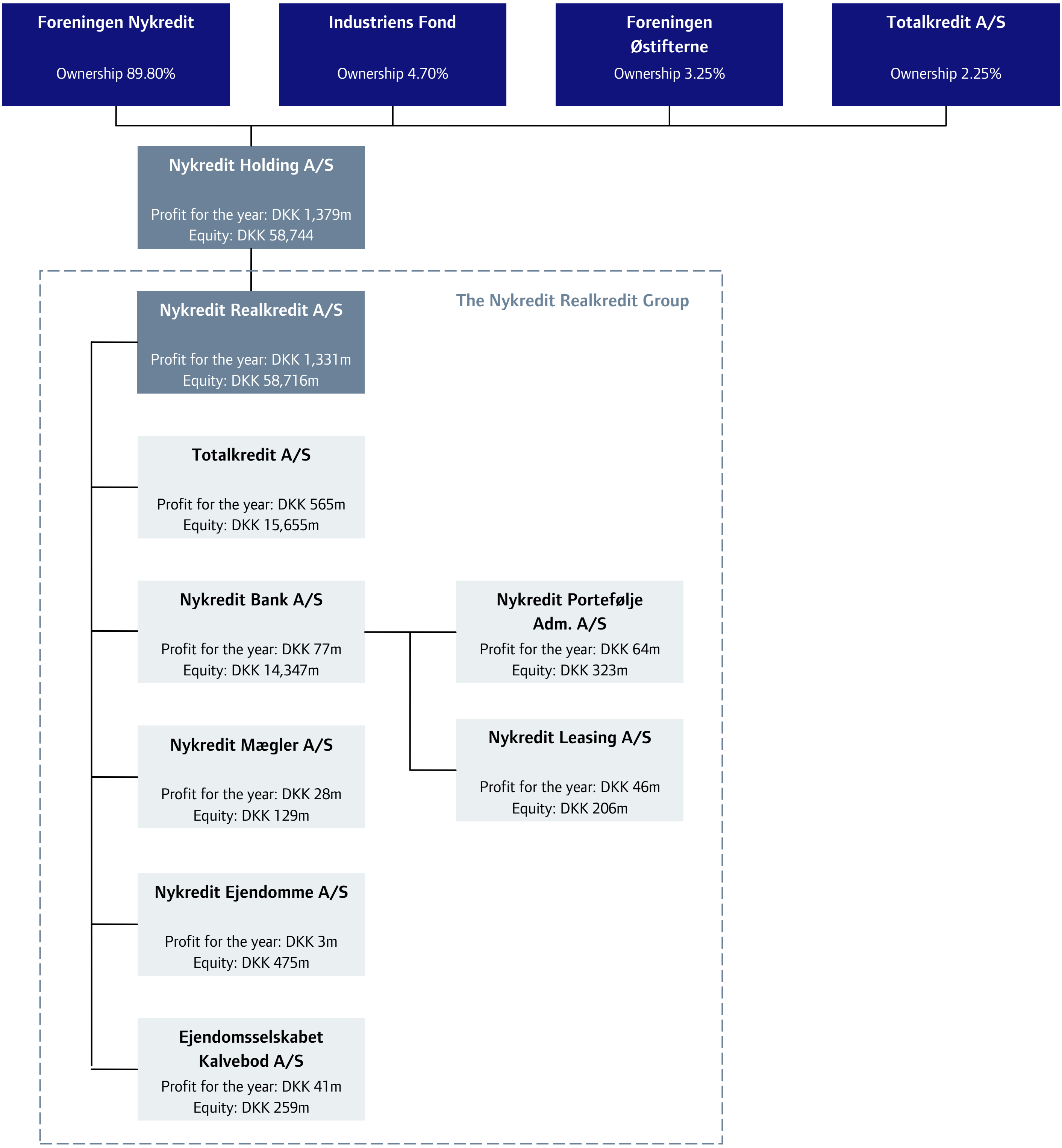
GROUP CHART


Foreningen Nykredit
Ownership 89.80%
Industriens Fond
Ownership 4.70%
Foreningen Østifterne
Ownership 3.25%
Totalkredit A/S
Ownership 2.25%
Nykredit Holding A/S
Profit for the year: DKK 1,379m
Equity: DKK 58,744
The Nykredit Realkredit Group
Nykredit Realkredit A/S
Profit for the year: DKK 1,331m
Equity: DKK 58,716m
Totalkredit A/S
Profit for the year: DKK 565m
Equity: DKK 15,655m
Nykredit Bank A/S
Profit for the year: DKK 77m
Equity: DKK 14,347m
Nykredit Portefølje Adm. A/S
Profit for the year: DKK 64m
Equity: DKK 323m
Nykredit Leasing A/S
Profit for the year: DKK 46m
Equity: DKK 206m
Nykredit Mægler A/S
Profit for the year: DKK 28m
Equity: DKK 129m
Nykredit Ejendomme A/S
Profit for the year: DKK 3m
Equity: DKK 475m
Ejendomsselskabet Kalvebod A/S
Profit for the year: DKK 41m
Equity: DKK 259m

2013 IN BRIEF

Overview
The macroeconomic development in 2013 was characterised by increasing production growth and largely unchanged unemployment at 5.8%. Despite GDP growth, private consumption declined in 2013. The external trade balance showed a large surplus and the public budget for 2013 is expected to balance.

At national level, house prices in 2013 were somewhat above the level of 2012, while prices of flats saw a decent rise. Owing to the development in housing prices, LTV levels saw a stable to slightly downward trend, and the requirement for supplementary collateral declined as well. The LTV level of the Group's private residential lending fell from 75.7% at end-2012 to 75.1% at end-2013, while the requirement for supplementary collateral declined DKK 3.5bn to DKK 44.3bn in the same period.

Due to factors such as the demographic development, the housing market exhibits large regional differences. In Nykredit's opinion, the regional housing markets will operate under highly differing conditions also in the coming years. This affects the geographical distribution of losses on the Group's mortgage lending.

The Group has increased its mortgage lending to both private individuals and businesses in the years after the financial crisis. Total lending growth in the period 2009-2013 amounted to DKK 115.6bn. Of this amount, lending to homeowners expanded by DKK 73.3bn and to businesses by DKK 42.3bn. Lending growth was recorded for 94 of the 98 municipalities in Denmark.

Loan portfolio developing favourably
Based on directly observable key figures, Nykredit's loan portfolio is generally stable.

This is evidenced by, for instance, a continuing decline in arrears ratios for large parts of the Group's mortgage loans. The 75-day arrears ratio for total group mortgage lending dropped from 0.73% to 0.70% over the past year. In respect of private residential mortgage lending, the arrears ratio dropped from 0.51% to 0.48%. With the exception of lending for residential rental housing, the arrears ratios for the Group's commercial mortgage lending also declined.

An exposure is in default where it is deemed improbable that a customer will repay all debt in full. For total group mortgage lending, around 3% of exposures were in default at end-2013, corresponding to the level at end-2012.

Having risen for many years, incurred losses on the Group's mortgage lending activities declined slightly in 2013. However, the loss ratio at end-2013 landed at 0.10%, which was unchanged from end-2012. Incurred losses at Nykredit Bank returned to a more normal level following a number of years of substantial losses. Despite the rise in incurred losses compared with the years before the financial crisis in 2008, the present loss levels are deemed to reflect a more normal situation than the pre-crisis years.

The portfolio of repossessed properties counted 322 at end-2013, a decrease relative to the portfolio of 356 at end-2012. During 2013, 477 properties were sold, of which 364 private residential properties. This is far below the portfolio of some 1,500 properties repossessed during the housing market crisis in the early 1990s, and the upward trend that set in after the financial crisis and lasted until 2012 has furthermore been broken.

Higher credit risk on certain minor portfolios
However, despite the stable development in the credit risk of most of the Group's loan portfolios, certain minor portfolios involve credit risk exceeding the risk following from average exposures.

Nykredit has therefore made individual assessments of some of its commercial customers with an elevated credit risk. These customers are found mainly among small businesses and housing cooperatives. Also, a more general assessment has been made of the portfolios with an elevated credit risk. This assessment included the retail area, particularly homeowners in South and West Sealand.

The assessments have led to a more cautious approach to the exposures assessed. The result was an increased use of individual rating reductions for certain customers as well as larger provisions following management judgement for potential future losses on homeowners in South and West Sealand in particular, but also in other parts of Denmark.

Capital targets towards 2019
The future capital adequacy rules are nearly in place. In the European Union, the CRR/CRD IV have been adopted. In Denmark, a political agreement has been reached on systemically important financial institutions (SIFIs) and a bill has been introduced to amend the Danish Financial Business Act.

Nykredit has developed new IRB models, and the statutory application for approval to introduce advanced IRB models in respect of Nykredit Bank's commercial lending will be submitted in February 2014. The application has awaited the collection of sufficient loss data to develop statistical models.

Nykredit's future capital targets are based on the statutory capital requirements, supplemented with credit rating agencies' and bond investors' expectations for the capitalisation of Nykredit as one of the largest private bond issuers in Europe.

The capital requirements may be met using different types of capital. Both applicable legislation and the markets require that the majority of own funds is equity.

The proposed rules imply that the minimum equity requirement will be at least 9-11.5% of risk-weighted assets (RWA) (11.5% in a favourable economic climate; 9% under adverse economic conditions), to which should be added a requirement of 5-6% of RWA to be met by either equity or certain other types of capital instruments. In addition, capital is required to cover statutory deductions from equity carried for accounting purposes.

However, credit rating agencies and bond investors are expected to require a somewhat higher capital level from a financial services provider such as Nykredit, probably equity to the tune of 15% of RWA and a total capital ratio of 18-20% of RWA. On top of that comes equity to cover statutory deductions.

A strong capital position combined with a market-consistent return on equity will form a good basis for maintaining active lending as well as competitive credit ratings and attractive covered bond prices.

EU-wide capital exercise
The European Banking Authority (EBA) launched an exercise in early November 2013 in which the largest European credit institutions, including Nykredit, must disclose comprehensive data on capital, lending, sovereign exposures, etc.

The purpose of the EBA exercise is to achieve transparency as regards the capital of the largest banks prior to a review of lending by the European banking sector in 2014. The exercise showed that from mid-2012 to mid-2013, Nykredit's Tier 1 capital ratio increased from 17.5% to 20.0%. In the same period, the core Tier 1 capital ratio increased from 14.5% to 16.6%.

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

In 2013 the FSA conducted inspections of Nykredit. The published inspection reports are available at nykredit.dk.

The observations of the FSA have been incorporated in Nykredit's internal capital adequacy requirement.

GOVERNANCE AND MANAGEMENT OF RISK

NYKREDIT'S CHARACTERISTICS
The Group's activities consist mainly of match-funded mortgage lending secured on real estate. Danish legislation stipulates limits to the mortgaging of properties, and losses on mortgage loans are therefore mod-erate. Mortgage lending and the matching funding are regulated by the balance principle, which provides narrow limits to the related liquidity and market risks.

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

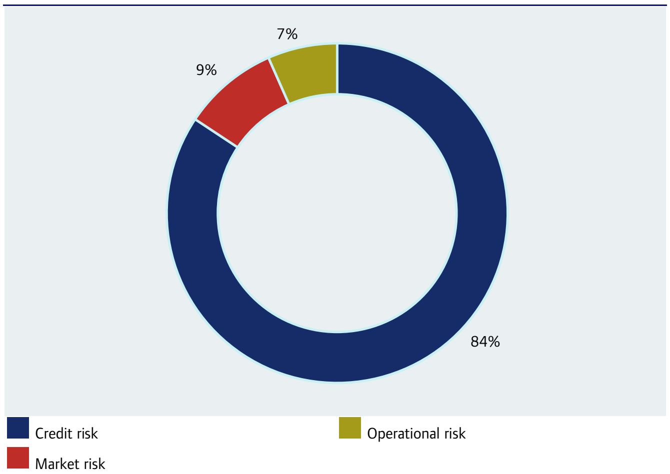
Nykredit strives to meet best international practice for risk management including disclosure of risk exposures. Nykredit's advanced models for quantifying risks are central elements of the Group's risk and capital management.

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

Nykredit distinguishes between four main types of risk. Each type of risk has its own special features, and risk management is structured accordingly.

- *Credit risk* reflects the risk of loss following the non-performance of parties with whom Nykredit has contracted. An element of credit risk is counterparty risk, which is the risk of loss that Nykredit may sustain if a counterparty defaults on its obligations under financial instruments.
- *Market risk* reflects the risk of loss as a result of movements in financial markets (interest rate, foreign exchange, equity price, volatility risks, etc).
- *Operational risk* reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- *Liquidity risk* reflects the risk of loss as a result of insufficient liquidity to cover current payment obligations.

The Nykredit Realkredit Group
Capital requirement by type of risk



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

Credit, market and operational risks are mitigated by the holding of adequate capital, while liquidity risk is mitigated through a sufficient stock of liquid assets.

The determination of risk-weighted assets (RWA) is to ensure that credit institutions hold adequate capital to withstand potential losses. This is described in more detail in the following sections. New liquidity measures are to ensure that credit institutions hold sufficient stocks of liquid assets to fulfil the claims of their creditors. This is described in more detail under "Liquidity and funding".

ORGANISATION, DELINEATION OF RESPONSIBILITIES AND CORPORATE GOVERNANCE
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, the capital requirement rules and the internal models. Risk exposures and business developments are reported to the Board of Directors on a current basis.

The Board of Directors of Nykredit Realkredit A/S counts 15 members, of which ten 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 by the Group Executive Board.

Nykredit is committed to having a board of a suitable size, composition and diversity, which possesses the skills required to perform 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 skills and knowledge as regards:
- Strategy
- The mortgage and banking industry and the real estate area
- Economics, finance and accounting
- Capital markets, securities and funding
- Politics, management and associations
- Legal and regulatory matters of importance to financial business
- Corporate governance
- Financial business management, including IT
- Management of large companies

- Market conditions, customer relations and sales
- Organisation/HR and processes
- Credit matters.

Further details on the competency profile of the Board of Directors, the special skills and experience 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, a Nomination Board and, as at 1 April 2014, a Risk Board. Each of these board committees monitors selected areas and prepares cases for review by the entire Board of Directors.

Audit Board

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 as well as the statutory audit of the financial statements, and to monitor and verify the independence of the auditors.

Organisation and delegation of responsibilities

Board of Directors
- Overall governance and strategic management
- Lays down overall policies and guidelines

Audit Board
- Monitors matters relating to accounting, audit, internal controls and risk management

Remuneration Board
- Prepares and recommends the remuneration policy

Nomination Board
- Nominates candidates for the Committee of Representatives, Board of Directors and Executive Board
- Prepares resolutions on the competency profiles of the Board of Directors and Executive Board

Risk Board

Group Executive Board
- Overall day-to-day management
- Strategic planning and business development
- Operationalises policies and guidelines

Group committees
- Governance and management within selected fields of business

Group Credits Committee
- Manages and formulates the credit policy
- Approves large exposures

Group Treasury Committee
- Manages market risk
- Endorses market risk limits at individual company level
- Operational liquidity management

Group Asset/Liability Committee
- Overall asset/liability and liquidity management
- SDO cover pool management

Group Risk Committee
- General capital and risk management
- General risk policy
- Approves risk models

Group Audit Committee
- Reviews audit-related issues

Group Contingency Committee
- Responsible for compliance with contingency plans and related IT security policy

Group Advisory Committee
- Lays down guidelines for Nykredit's advisory services

Group Products Committee
- Ensures development and maintenance of concepts and products

Group Pricing Committee
- Reviews recommended prices for group products

Group IT Portfolio Committee
- Determines and approves all aspects of IT operations

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

The Audit Board held four meetings in 2013.

Remuneration Board

One of the principal tasks 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. Further, the Remuneration Board makes proposals for remuneration of the Committee of Representatives, the Board of Directors and the Executive Board. It also 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 2013.

Nomination Board

The objective of 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 three meetings in 2013.

Risk Board

Nykredit Realkredit A/S has set up a Risk Board as of 1 April 2014.

The tasks of the Risk Board will be determined in accordance with statutory requirements once they have reached their final form.

Group committees

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

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

The Group Treasury Committee is charged with ensuring efficient management of securities and funding activities in the Nykredit Group.

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

The Group Risk Committee is charged with overseeing the overall risk profile 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 contingencies (major accidents and catastrophes) and Nykredit's 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 systems development, management and operation as well as outsourced activities.

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

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 organisation and corporate governance is available at nykredit.com/corporategovernanceuk.

REMUNERATION

Risk-takers

The Group has identified a total of 86 risk-takers:

- Members of boards of directors: 31
- Group managing directors: 6
- Subsidiary managing directors: 9
- Other risk-takers: 40.

The group of other risk-takers is designated by the Board of Directors primarily 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 ability to inflict credit losses on Nykredit.

Remuneration of risk-takers

Pursuant to the Danish Financial Business Act, risk-takers are subject to special restrictions, chiefly in relation to variable remuneration. 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 the possibility that Nykredit may retain the deferred amount under special circumstances.

Members of the Board of Directors and group managing directors do not receive variable remuneration, nor bonus awards.

The 2013 bonus provisions in respect of subsidiary managing directors and other risk-takers amounted to DKK 18m, which was on a level with the bonus for 2012. The 2013 bonus provisions corresponded to 24% of the group's total salaries.

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 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 Provisions for guarantees, loan impairment, arrears and incurred losses Counterparty risk ▪ 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 ▪ Liquidity risk Liquidity and excess coverage for the period Stress tests
Exposure review	Review and assessment of exposures above a certain limit

Bonus programmes
Individual bonus programmes apply to Nykredit's senior executives and specialists in key areas.

Special individual bonus programmes apply to some of the staff of Nykredit Markets, Nykredit Asset Management and Group Treasury who have major earnings responsibility, in line with market standards for such positions. The remuneration of these staff members is based on their job performance. The 2013 bonus provisions in respect of these staff members (excl risk-takers) amounted to DKK 64m compared with the awarded bonus of DKK 77m for 2012. The 2013 bonus provisions corresponded to 35% of the group's total salaries.

In addition, a limited number of individual bonus programmes apply to staff with responsibility for corporate and institutional clients. The 2013 bonus provisions in respect of these staff members (excl risk-takers) amounted to DKK 18m compared with the bonus of DKK 15m for 2012. The 2013 bonus provisions corresponded to 11% of the group's total salaries.

Management staff and certain individual staff members placed at a high level in Nykredit's job structure participate in an individual programme with a potential bonus of up to three months' salary. The 2013 bonus provisions in respect of these staff members (excl risk-takers) amounted to DKK 11m, which is on a level with the bonus for 2012. The 2013 bonus provisions corresponded to just over 4% of the group's total salaries.

The bonus programmes do not apply to other management or staff members, but they may receive an individual performance award. For 2013, provisions of DKK 11m were made for performance awards compared with performance awards of DKK 9m for 2012. The performance award provisions for 2013 corresponded to 0.6% of the group's total salaries.

Details on bonuses to risk-takers, remuneration policy and practices are 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 monitoring and control of risk. Risk exposure is reported regularly in material areas such as credit risk, market risk, liquidity risk and operational 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 and capital adequacy. Risk Management is responsible for ensuring that the Group's risk reporting and calculation of the Group's capital and capital adequacy 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 RWA.

The Executive Board and a number of group committees, each chaired by a member of the group executive board, 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 the 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 units and for implementing satisfactory permanent internal controls for the handling of business operations.
- *Risk functions* – comprise a number of intercompany areas, such as Group Credits, Group Finance, decentralised finance functions, 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:
- The value of the Group's assets, including efficient management of relevant risks
- Reliable internal and external reporting
- Compliance with legislation, other external rules and internal guidelines.

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 regularly to the Group's boards of directors and executive boards. Internal reporting contains analyses of material matters in, for instance, the Group's business areas and subsidiaries.

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

CHIEF RISK OFFICER AND RISK REPORTING

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, 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.

Risk 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 and validation 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.

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 granting and is presented with the Group's largest credit applications for approval or briefing on a current basis. Within the framework laid down by the Board of Directors, the Group Executive Board sets out 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 which reflects a conversion of a customer's probability of default (PD) computed by Nykredit's own credit models. 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.

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 forms part of the monitoring of credit exposures and is based on updated financial and customer information. In addition, all bank exposures showing signs of risk are reviewed at least quarterly.

Risk areas reviewed by group committees

Group Risk Committee	
Capital policy and requirement	Review of Nykredit's required capital base and future capital requirements
Models and methodology	Review of analyses and model-related initiatives and changes, including: ▪ New models and risk assessment methods ▪ Sensitivity analyses and stress tests ▪ Validation and back tests
Risk reporting	Review and analysis of: ▪ Credit risk, including LTVs ▪ Market risk ▪ Liquidity risk ▪ Operational risk ▪ Other risks ▪ New products ▪ Rating of bonds and companies
Legislative measures	Assessment of amendments to financial legislation from the Danish FSA and 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 balance sheet	Capital structure of group entities Current funding capacity
SDOs (Danish covered bonds)	Assessment of development in prices of mortgaged properties Required supplementary collateral and issuance of junior covered bonds
Legislative measures	Assessment of amendments to financial legislation from the Danish FSA and 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 Interest rates: 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 reporting	Review of internal and external audit reporting

CAPITAL AND CAPITAL ADEQUACY

The Nykredit Realkredit Group
Own funds

DKK million	2012	2013	01.01.2014
CET1 before deductions	**57,534**	**58,511**	**58,511**
CET1 primary deductions			
Proposed dividend	(150)	-	-
Intangible assets, including goodwill, and deferred capitalised tax assets	(3,705)	(3,054)	(3,054)
Current loss for the year	-	-	-
Exposures exempt from limits applicable to large exposures	-	-	-
Additional CET1 deductions			
Equity investments >10%	(63)	(399)	-
Sum of equity investments >10%	-	-	-
Deduction for the difference between IRB losses and impairments	(917)	(90)	(180)
Deduction for expected losses on equity investments	(30)	(25)	(50)
Other deductions	(769)	(277)	0
Total CET1 deductions	**(5,634)**	**(3,845)**	**(3,283)**
Additional Tier 1 capital	**10,690**	**10,678**	**8,542**
Tier 1 capital	**62,410**	**65,344**	**63,770**
Tier 2 capital			
Subordinated debt	-	-	-
Revaluation reserves	202	205	205
Reserves in series	38	32	32
Charge for the difference between IRB losses and impairments	-	-	-
Total Tier 2 capital	**241**	**237**	**237**
Tier 2 deductions			
Equity investments >10%	(63)	(399)	(98)
Sum of equity investments >10%	-	-	-
Deduction for the difference between IRB losses and impairments	(917)	(90)	-
Deduction for expected losses on equity investments	(30)	(25)	-
Other deductions	769	277	-
Total Tier 2 deductions	**(241)**	**(237)**	**(98)**
Own funds	**62,410**	**65,344**	**63,909**

Capital glossary

Until 31 December 2013	As of 1 January 2014
Capital base	Own funds
Subordinate loan capital	Subordinated capital
Core Tier 1 capital ratio	Common Equity Tier 1 capital ratio (CET1)
Hybrid capital	Additional Tier 1 capital (AT1)

OWN FUNDS

Nykredit's own funds (previously capital base) stood at DKK 65.3bn at end-2013 against DKK 62.4bn at end-2012.

Nykredit's Tier 1 capital consists mainly of equity. As shown in the table, Tier 1 capital after deductions amounted to DKK 65.3bn, of which Additional Tier 1 (AT1) capital accounted for DKK 10.7bn.

The AT1 capital is expected to be replaced by new subordinated capital in 2014-2015, as the AT1 capital is subject to special redemption terms in 2014 and 2015.

In accordance with the Danish Executive Order on capital base determination, Common Equity Tier 1 (CET1) capital and own funds must be adjusted for the difference between the IRB losses and impairment and value adjustment for accounting purposes of exposures subject to internal ratings-based (IRB) approaches.

In line with FSA guidelines, IRB losses are determined based on the Basel parameter Loss Given Default (LGD) for the period 1991-1993, cf "IRB losses". IRB losses are a concept applied for regulatory purposes and does not correspond to Nykredit's own loss expectations.

The table shows a specification of capital in accordance with the new capital adequacy rules applicable from 1 January 2014, including the phase-in rules applicable for 2014. The Danish FSA has determined a gradual phase-in of the own funds requirements up until 2018.

The main change relative to the previous rules is that all deductions from Tier 2 capital must be deducted from CET1 capital in future. As Nykredit had not issued a significant amount of Tier 2 capital as at end-2013, largely all deductions are already made from CET1 capital. Accordingly, the change is only of modest importance in practice. Furthermore, 80% of the value of issued AT1 capital may be included.

From 2014 the requirement for equity and CET1 capital increases from 2% to 4% and from 4% to 5.5%, respectively. The statutory minimum requirement for own funds is still 8%.

The Nykredit Realkredit Group
Loan capital

	Interest rate	Call option	Maturity	Capital included, DKKm	
Nykredit Realkredit A/S				2013	01.01.2014
Hybrid capital	4.9% until 22.09.2014, then floating	22.09.2014	Perpetual	3,976	3,181
Hybrid capital	9.0% until 01.04.2015, then floating	01.04.2015	Perpetual	6,702	5,361
Total				**10,678**	**8,542**
Nykredit Bank A/S					
Hybrid capital	6.3% until 22.10.2014, then floating	22/10/2014	Perpetual	150	120
Hybrid capital	3M Cibor + 1.7% until 01.05.2016, then floating	01.05.2016	Perpetual	100	80
Total				**250**	**200**

From 2015 and 2016 additional buffers will be phased in, increasing the requirements for both equity and total own funds. Nykredit's capital policy is described in detail under "Nykredit's capital targets towards 2019".

DETERMINATION METHODS

Credit risk

Nykredit has been authorised by the Danish FSA to use the advanced IRB approach to determine RWA for credit risk in relation to:

- Retail and commercial exposures of Nykredit Realkredit A/S
- Retail exposures of Totalkredit A/S and Nykredit Bank A/S.

The foundation IRB approach is applied to determine RWA for credit risk in relation to:

- Commercial exposures of Nykredit Bank A/S.

Nykredit has developed models in order that the part of the portfolio that is subject to the foundation IRB approach can be determined by means of the advanced IRB approaches. Nykredit Bank expects to submit an application to the Danish FSA in H1/2014.

The standardised approach is applied to determine RWA for credit risk in relation to:

- Sovereign and credit institution exposures
- A few minor portfolios.

Market risk

For the determination of RWA 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, debt instruments 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 debt instruments and foreign exchange.

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

Operational risk

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

Transitional rules

RWA are subject to a transitional rule under the Danish Executive Order on Capital Adequacy. The 2013 RWA must constitute at least 80% of RWA determined under Basel I.

CONSOLIDATION METHODS

RWA are 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 Nykredit in this report.

The consolidated risk exposures include:

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

Together with other enterprises, Nykredit has joint control of an enterprise, JN Data, which does not form part of the Group. JN Data is regarded as a joint venture. Nykredit's 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 covered by different approaches to credit risk determination

2013	Advanced IRB approach	Foundation IRB approach	Standardised approach	Total	Total exposures
	%	%	%	%	DKK million
Retail exposures	99.9	-	0.1	100.0	761,869
Of which					
- Mortgages over real estate	*99.9*	-	*0.1*	*100.0*	*748,822*
- revolving exposures, etc	*100.0*	-	-	*100.0*	*6,241*
- other retail exposures	*100.0*	-	-	*100.0*	*6,806*
Commercial exposures	72.2	26.7	1.1	100.0	524,167
Credit institution exposures[1]	-	-	100.0	100.0	51,050
Sovereign exposures	-	-	100.0	100.0	38,918
Equity exposures [2]	96.8	-	3.2	100.0	3,054
Securitisations	100.0	-	-	100.0	1
Assets with no counterparty	100.0	-	-	100.0	4,535
Total 2013	**82.9**	**10.1**	**7.0**	**100.0**	**1,383,593**
Total 2012	**83.1**	**8.9**	**8.0**	**100.0**	**1,364,349**

[1] Credit institution exposures include guarantees issued by banks of a total of DKK 7.6bn.
[2] RWA for equity exposures have been determined using the simple risk weight approach. Of the total exposure of DKK 3.1bn, DKK 1.8bn is unlisted equities and is assigned a risk weight of 370%.

DIFFERENCES COMPARED WITH FINANCIAL STATEMENTS

Unexercised loan offers, credit and loan commitments, and potential future credit exposures in financial instruments are included in exposures used for the determination of risk-weighted assets (RWA). The same applies to guarantees.

RWA for securities are calculated at ISIN level.

The Nykredit Realkredit Group
Risk-weighted assets and capital adequacy

DKK million	2012	2013	01.01.2014
Credit risk			
Standardised approach	16,872	15,173	15,173
IRB approach	274,822	283,388	283,388
Securitisation positions, IRB approach	1,380	14	14
New capital adequacy rules	-	-	2,357
Total credit risk	**293,073**	**298,574**	**300,931**
Market risk			
Internal models	18,976	19,472	19,472
Standardised approach	10,629	9,099	9,099
Total market risk	**29,606**	**28,571**	**28,571**
Operational risk			
Basic indicator approach	21,530	18,818	18,818
Total operational risk	**21,530**	**18,818**	**18,818**
Total RWA	**344,209**	**345,963**	**348,320**
Loss guarantee	(17,434)	-	-
Total RWA after loss guarantee	**326,775**	**345,963**	**348,320**
Own funds	62,410	65,344	63,909
Total capital ratio, %	19.1	18.9	18.3
CET1 capital ratio, %	15.8	15.8	15.9
Internal capital adequacy requirement, %	9.6	10.4	-
Basel II transitional rule			
RWA subject to transitional rule[1]	**775,046**	**790,340**	**790,340**

Note: "01.01.2014" shows RWA according to the new rules applicable from 2014.
[1] RWA subject to the transitional rule have been determined in accordance with the transitional provisions of the Danish Executive Order on Capital Adequacy. RWA in 2013 must constitute at least 80% of RWA determined under Basel I.

RISK-WEIGHTED ASSETS

At end-2013 Nykredit's RWA totalled DKK 346.0bn. With own funds at DKK 65.3bn, this corresponds to a total capital ratio of 18.9% against 19.1% at end-2012. The CET1 capital ratio was 15.8%, which was unchanged from end-2012.

The table states RWA taking into account the new capital adequacy rules effective from 1 January 2014.

This corresponds to a CET1 capital ratio of 15.9%. Nykredit's future capital requirement is described in detail under "Nykredit's capital targets towards 2019".

Nykredit's RWA subject to the transitional rule came to DKK 790.3bn at end-2013. The current transitional rule has been extended and will apply up to and including 2015.

The required capital base stood at DKK 35.9bn at end-2013, equal to an internal capital adequacy requirement of 10.4%. The required capital base expresses the amount of capital required to cover the Group's risks in the medium term. The determination of capital is described further under "Required capital base".

OWN FUNDS AND RISK-WEIGHTED ASSETS OF GROUP COMPANIES

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

At end-2013 Nykredit Realkredit A/S had DKK 367.9bn of RWA and DKK 62.7bn of own funds. Totalkredit A/S had DKK 87.7bn of RWA and DKK 18.7bn of own funds. The Nykredit Bank Group had DKK 88.7bn of RWA and DKK 14.9bn of own funds.

The Nykredit Realkredit Group
Own funds and risk-weighted assets of group companies

2013 DKK million	Nykredit Realkredit A/S	Totalkredit A/S	The Nykredit Bank Group	The Nykredit Realkredit Group
Credit risk	342,562[1]	82,156	69,481	298,575
Market risk	15,744	2,476	13,291	28,571
Operational risk	9,599	3,077	5,937	18,818
Total RWA not subject to transitional rule	**367,905**	**87,708**	**88,709**	**345,963**
Total RWA subject to transitional rule[2]	**411,136**	**215,043**	**63,794**	**632,272**
Own funds	**62,710**	**18,689**	**14,912**	**65,344**

[1] Including intercompany exposures, for which reason the credit and market risks are greater for the company than for the Group.
[2] RWA subject to the transitional rule have been determined in accordance with the transitional provisions of the Executive Order on Capital Adequacy. RWA in 2013 must constitute at least 80% of RWA determined under Basel I.

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

The determination of the internal capital adequacy requirement of both the Group and the group companies involves a comparison of Nykredit's own assessment of the required capital base and the results obtained using the 8+ method of the Danish FSA. This ensures that Nykredit uses the most conservative approach to determine the internal capital adequacy requirement.

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".

The Nykredit Realkredit Group
Required capital base

2013 DKK million	Nykredit Realkredit A/S[1]	Totalkredit A/S	The Nykredit Bank Group	The Nykredit Realkredit Group
Credit risk (internal credit risk model)	27,405 [2]	6,806	4,588	20,014
Market risk (internal Value-at-Risk model)	2,791	239	966	3,996
Of which stressed VaR	*1,875*	*113*	*555*	*2,543*
Operational risk (standardised approach)	772	183	487	1,461
Risk relating to own properties	-	-	-	130
Total Pillar I	**30,969**	**7,227**	**6,041**	**25,601**
Model and calculation uncertainties	1,366	813	860	3,158
Slightly weaker economic climate (stress test, etc)	1,346	904	604	2,854
Other factors[3]	131	0	1,953	3,129
ICAAP buffer of Nykredit Bank	-	-	1,202	1,202
Total Pillar II	**2,842**	**1,717**	**4,619**	**10,343**
Total required capital base	**33,810**	**8,945**	**10,660**	**35,944**

[1] The credit risk of Nykredit Realkredit A/S includes the capital charge for 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.
[2] Applies CRD Pillar I.
[3] Other factors include assessment of control risk, strategic risk, external risk, concentration risk, liquidity risk, etc.

The Nykredit Realkredit Group
Internal capital adequacy requirement

2013 % of RWA	Nykredit Realkredit A/S	Totalkredit A/S	The Nykredit Bank Group	The Nykredit Realkredit Group
Credit risk (internal credit risk model)	7.4	7.8	5.2	5.8
Market risk (internal Value-at-Risk model)	0.8	0.3	1.1	1.2
Operational risk (standardised approach)	0.2	0.2	0.5	0.4
Risk relating to own properties	-	-	-	0.0
Total Pillar I	**8.4**	**8.2**	**6.8**	**7.4**
Model and calculation uncertainties	0.4	0.9	1.0	0.9
Slightly weaker economic climate (stress tests, etc)	0.4	1.0	0.7	0.8
Other factors[1]	0.0	0.0	2.2	0.9
ICAAP buffer of Nykredit Bank	-	-	1.4	0.3
Total Pillar II	**0.8**	**2.0**	**5.2**	**3.0**
Total internal capital adequacy requirement	**9.2**	**10.2**	**12.0**	**10.4**

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

In determining the required capital base, Nykredit applies statistical confidence levels higher than the 99.9% required by law. The required capital base is determined using a confidence level of 99.97% for all exposures.

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 in 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 or countries.
- 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.

These calculation methods support the aim of maintaining a stable capital level even where the Danish economy moves from an economic 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. About DKK 2.0bn has been provided for the effects of the new models applied for the Bank's commercial exposures.

The new IRB models are described in more detail under "Credit risk models".

Model and calculation uncertainties

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

The capital requirement 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 the determination of the internal capital adequacy requirement of Nykredit Bank, the required capital base determined according to the 8+ method is DKK 1.2bn higher than when using the Bank's own method. To ensure a conservative approach, a charge has been incorporated under Pillar II for Nykredit Bank and at group level corresponding to the difference between the two methods.

Nykredit has considered the other future requirements for assessing the internal capital adequacy requirement. They are covered by the existing determination method. The assessments do not give rise to further capital charges in the determination of the required capital base and internal capital adequacy requirements for Nykredit 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 capital policy, risk profile and capital structure.

The capital projection model includes the macroeconomic factors of greatest importance historically to Nykredit's customers.

The most important macroeconomic factors identified are:

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

Nykredit generally operates with three scenarios for 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). These correlations are an essential element of the capital projection model.

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 2014-2016

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

The capital charge for a slightly weaker economic climate came to DKK 2.9bn at 31 December 2013.

Scenario: Severe recession

A central element of Nykredit's capital policy is to have sufficient capital resources, also in the long term. The assessments are also factored into the current assessment of equity targets going forward.

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's severe recession scenario reflects an extreme, but not unlikely, situation.

In case of a severe recession, RWA will increase by approximately DKK 100bn.

Stress scenarios for determination of capital requirement

%	2014	2015	2016
Base case scenario			
GDP growth	0.2	1.5	1.6
Interest rates[1]	0.9	1.1	1.5
Property prices, growth	2.2	1.8	2.9
Unemployment	2.0	2.0	2.0
Danish equity index, growth	4.4	4.3	4.2
Slightly weaker economic climate (scenario applied under Pillar II)			
GDP growth	(0.5)	0.0	0.4
Interest rates[1]	2.3	2.8	3.7
Property prices, growth	(3.0)	(3.0)	0.0
Unemployment	5.2	6.0	6.2
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.

Other 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 stress scenarios, which cover mortgage banks as well, have not given rise to adjustments of Nykredit's own capital targets.

Nykredit also participates in the stress test exercises of the European Banking Authority (EBA), most recently in 2011. The EBA is planning a new EU-wide stress test in 2014. Nykredit also regularly participates in European studies of capital issues and releases of lending and risk data. The results have confirmed Nykredit's strong capital position.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

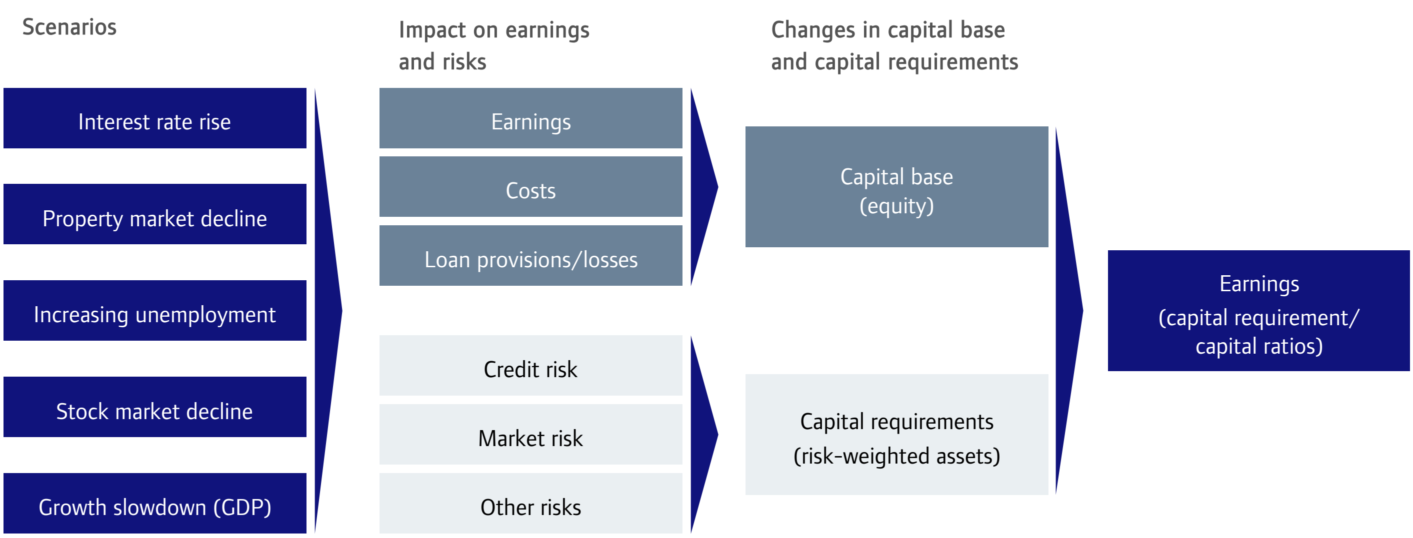
On the basis of an internal capital adequacy assessment process (ICAAP), the boards of directors of the individual group companies determine the required capital base and internal capital adequacy requirement (ICAAP result) of their respective companies during a slightly weaker economic climate at least once a year. In addition, the Board of Directors of the Nykredit Realkredit Group determines the countercyclical buffer, which is an element of Nykredit's capital planning.

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

The determination of the internal capital adequacy requirements 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 and is briefed at least quarterly.

Structure of stress tests and capital projections



NYKREDIT'S CAPITAL TARGETS TOWARDS 2019

Regulatory framework

The future capital adequacy rules are nearly in place. In the European Union, the CRR/CRD IV have been adopted. In Denmark, a political agreement has been reached on systemically important financial institutions (SIFIs) and a bill has been introduced to amend the Danish Financial Business Act.

Nykredit has developed new IRB models, and the statutory application for approval to introduce advanced IRB models in respect of Nykredit Bank's commercial lending will be submitted in February 2014. The application has awaited the collection of sufficient loss data to develop statistical models. The approval process is expected to take about a year.

Nykredit's future capital targets are based on the statutory capital requirements – supplemented with credit rating agencies' and bond investors' expectations for the capitalisation of Nykredit as one of the largest private bond issuers in Europe.

The capital requirements may be met using different types of capital. Both applicable legislation and financial markets require that the majority of own funds is equity. Going forward, the most important capital instruments will be:

- Equity generated through retained earnings is the most important element in the capital structure. Equity is to contribute to safeguarding a strong Nykredit that is able to issue covered bonds with high credit ratings and attractive prices. The return on equity should be market-consistent and form the financial foundation for continuing business growth.
- As a result of the "SIFI agreement", the future rules are expected to enable issuance of non-voting preference shares. Such shares may ensure that new shareholders receive dividends despite Foreningen Nykredit's position as majority shareholder in terms of votes. However, a proposal has been submitted for new dividend regulation in the EU, and any use of the new capital instrument will await the outcome thereof. Preference shares are deemed to be a relatively expensive type of capital and are thus expected to be applied mainly in periods of extraordinarily high business growth.
- A moderate part of the capital requirement may presumably be met by Additional Tier 1 capital. As a result of the SIFI agreement, the so-called triggers for coupon skip and write-down/conversion to shares are expected to be adapted to European market standards, thereby rendering issuance possible. Additional Tier 1 capital is expected to be a somewhat cheaper capital instrument than preference shares.
- A small part of the capital requirement (Pillar II capital requirement) and capital for rating purposes may be met by a special form of subordinate loan capital with a so-called write-down trigger which is activated if equity falls below 7% of RWA.
- Lastly, a small part of the formal capital requirements may be met by conventional subordinated capital. This type of capital cannot be used to fulfil the capital requirements set out by credit rating agencies.

The proposed rules imply that the minimum equity requirement will be at least 9-11.5% of RWA (11.5% in a favourable economic climate; 9% during other economic trends), to which should be added a requirement of 5-6% of RWA to be met by either equity or certain other types of capital instruments, cf above.

In addition, capital is required to cover statutory deductions from equity carried for accounting purposes.

However, rating agencies and bond investors are expected to require a somewhat higher capital level from a financial business such as Nykredit, probably equity to the tune of 15% of RWA and a total capital ratio of 18-20% of RWA. On top of that comes equity to cover statutory deductions.

A strong capital position combined with a market-consistent return on equity will form a good basis for maintaining active lending as well as competitive credit ratings and attractive covered bond prices.

Basis for capital targets

The capital requirement depends on business activity, the economic climate and decisions by regulators and supervisors. Unlike previous requirements, the future capital requirements are not fixed and they will depend on several factors:

- During an economic boom, an extra requirement for equity at 2.5% of RWA (countercyclical buffer) will take effect.
- During a severe recession, losses and arrears will increase, causing a calculated rise in RWA of approximately DKK 100bn given the current business volumes.
- The EBA may regularly prepare technical standards for the determination of RWA, including minimum risk weighting levels. As a new feature, new legislation also authorises the Danish FSA to change calculation rules and risk weights in the capital determination. In respect of Nykredit's capital targets, it implies that Nykredit has to operate with a buffer for regulatory changes.

Nykredit's capital targets are based on the current business volume of DKK 346bn of RWA and an additional amount of approximately DKK 25bn resulting from the changed calculation method for RWA following the statutory implementation of advanced IRB models for Nykredit Bank's lending, equal to total RWA of approximately DKK 370bn.

Capital targets 2015-2019

Nykredit expects to implement the new capital policy in the course of 2014 and 2015, with full effect from end-2015.

- Nykredit's target is equity to the tune of 15% of RWA, to which should be added the statutory deductions from equity carried for accounting purposes of approximately DKK 5bn. An equity level of 15% is significantly higher than the formal statutory requirement, but is assumed to be a market-consistent level in relation to credit ratings and bond markets.
- Nykredit's target is a total capital ratio of 18-20% of RWA. Also this level is markedly above the statutory requirements, but is deemed to be a market-consistent level.
- Nykredit aims to build a buffer of DKK 5bn-10bn for business growth and regulatory changes. Such a buffer will help sustain a stable and active lending policy in relation to our customers.

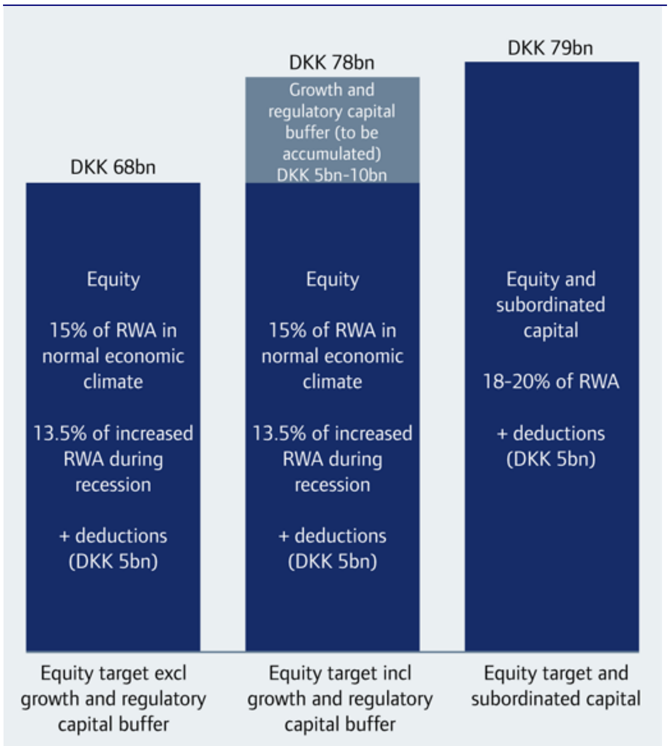
The capital requirement varies according to economic trends. It is deemed that the equity requirement will rise in periods of high unemployment and high interest rates, cf above. This is offset to some extent by the fact that the financial markets' requirement for equity measured as a percentage of RWA is likely to decrease to 13-14% in such a scenario.

Nykredit's equity requirement is estimated as follows:

- In a normal economic climate and during an economic boom: equity of DKK 61bn (15% of DKK 370bn plus DKK 5bn).
- During a recession: equity of DKK 68bn (about 13.5% of approximately DKK 470bn plus DKK 5bn).
- Growth and regulatory capital buffer (to be accumulated) of DKK 5bn-10bn.

All in all, an equity level of DKK 68bn plus a buffer in the range of DKK 5bn-10bn in the long term. In addition to the said equity level, Nykredit has a total capital ratio target of up to 20% of RWA in a normal economic climate. This corresponds to total own funds of about DKK 79bn including subordinated capital.

The Nykredit Realkredit Group
Capital targets at current business volumes



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 the Group's borrowers and counterparties under financial contracts.

Total credit exposures came to DKK 1,384bn at end-2013 against DKK 1,364bn at end-2012. The rise was mainly attributable to increased repo/reverse transactions relating to the Group's commercial lending.

The vast majority of guarantees received in connection with mortgage lending were issued by banks and are recognised as credit institution exposures. At end-2013, guarantees received in connection with mortgage lending amounted to DKK 8.0bn.

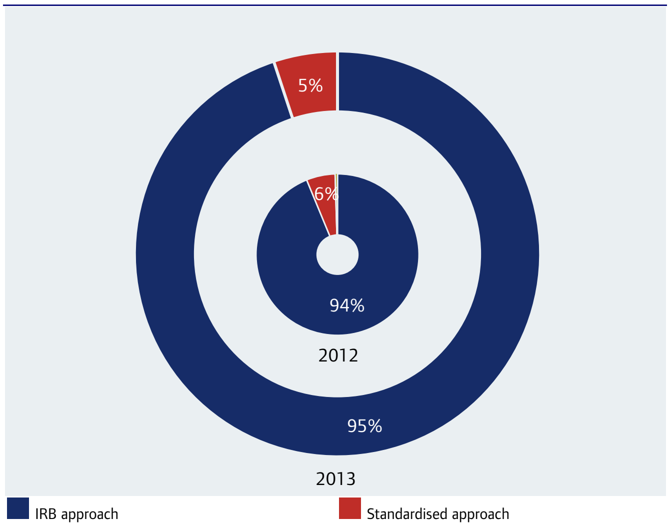
Similarly, guarantees issued by the government are recognised as sovereign exposures under mortgage lending. They amounted to DKK 30.6bn at end-2013.

Elements of credit risk determination

PD	Probability of Default is the probability of a customer defaulting on an obligation to the Nykredit Group.
LGD	Loss Given Default is the loss rate of an exposure in case of a customer's default.
EAD	Exposure At Default is the total estimated exposure to a customer in DKK at the time of default, including any drawn part of a credit commitment.
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.

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 and EAD.

The Nykredit Realkredit Group
Determination of credit risk



The Nykredit Realkredit Group
Credit exposures and risk-weighted assets

2013 DKK million/%	Mortgage lending	Bank lending	Guarantees issued	Other	Total exposures	*Of which undrawn commitments*	Exposure-weighted average risk weight, %	RWA for credit risk
Retail exposures	731,516	24,884	5,468	-	761,869	*8,227*	15.6	119,020
Of which								
- mortgages over real estate[1]	*731,516*	*16,584*	*722*[2]	-	*748,822*	*5,064*	*15.1*	*113,219*
- revolving exposures, etc	-	*6,241*	*0*	-	*6,241*	*2,829*	*23.3*	*1,454*
- other retail exposures	-	*2,060*	*4,746*[3]	-	*6,806*	*334*	*63.9*	*4,347*
Commercial exposures	380,086	50,261	5,740	88,080	524,167	*19,093*	30.1	157,964
Credit institution exposures	7,979	-	751	42,320	51,050	*50*	17.6	9,007
Sovereign exposures	30,579	-	-	8,340	38,918	*23*	0.0	0
Equity exposures	-	-	-	3,054	3,054	-	263.1	8,036
Securitisations	-	-	-	1	1	-	1250.0	14
Assets with no counterparty	-	-	-	4,535	4,535	-	100.0	4,535
Total 2013	**1,150,160**	**75,145**	**11,958**	**146,330**	**1,383,593**	*27,394*	**21.6**	**298,575**
Total 2012	1,148,960	76,549	12,404	126,436	1,364,349	*27,132*	21.5	293,073[4]

[1] Bank loans secured by mortgages over real estate primarily relate to equity release credits (Friværdikonto).
[2] The guarantees include interim loans and buyer's certificates.
[3] The guarantees exclusively comprise mortgage registration guarantees.
[4] RWA for 2012 are exclusive of the loss guarantee provided by Nykredit Holding.

The Nykredit Realkredit Group
Credit exposures by maturity

2013 DKK million	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total exposures
Retail exposures	363	6,885	754,621	761,869
Of which				
- mortgages over real estate[1]	*363*	*6,885*	*741,574*	*748,822*
- revolving exposures, etc	-	-	*6,241*	*6,241*
- other retail exposures	-	-	*6,806*	*6,806*
Commercial exposures	76,373	35,921	411,873	524,167
Credit institution exposures	42,320	751	7,979	51,050
Sovereign exposures	8,340	-	30,579	38,918
Equity exposures	2,956	-	98	3,054
Securitisations	-	-	1	1
Assets with no counterparty	4,535	-	-	4,535
Total 2013	**134,887**	**43,556**	**1,205,150**	**1,383,593**
Total 2012	109,764	65,306	1,189,279	1,364,349

[1] Bank loans secured by mortgages over real estate primarily comprise equity release credits (Friværdikonto).

The Nykredit Realkredit Group
Credit exposures by counterparty

2013 DKK million	Personal	Non-profit housing	Private residential rental	Office and retail	Agriculture	Industry and trades	Other	Total exposures
Retail exposures	721,665	939	10,802	5,500	21,569	1,394	-	761,869
Of which								
- mortgages over real estate	*709,629*	*937*	*10,607*	*5,117*	*21,425*	*1,106*	-	*748,822*
- revolving exposures, etc	*5,975*	*0*	*31*	*101*	*55*	*79*	-	*6,241*
- other retail exposures	*6,062*	*2*	*163*	*262*	*89*	*209*	-	*6,806*
Commercial exposures	2,184	43,227	119,244	154,701	78,294	57,417	69,098	524,167
Credit institution exposures	-	-	-	-	-	-	51,050	51,050
Sovereign exposures	-	-	-	-	-	-	38,918	38,918
Equity exposures	-	-	-	-	-	-	3,054	3,054
Securitisations	-	-	-	-	-	-	1	1
Assets with no counterparty	-	-	-	-	-	-	4,535	4,535
Total 2013	**723,849**	**44,166**	**130,045**	**160,201**	**99,863**	**58,812**	**166,656**	**1,383,593**
Total 2012	708,836	52,996	141,106	139,016	109,365	51,976	161,054	1,364,349

FINANCIAL HEALTH OF CUSTOMERS

2013 saw a favourable development in the Danish labour market and mortgage rates. Average annual gross unemployment was about 5.8% in 2013, displaying a slight decline towards the end of the year. 2013 was also the year when mortgage rates set new record lows.

As a result, customers' ability to pay improved, and several observable indicators such as arrears, loans in default, repossessed properties and incurred losses show that this had a positive overall effect on the Group's portfolio. This is reflected in a continuing decline in arrears ratios for large parts of the Group's mortgage lending. The 75-day arrears ratio for the Group's total mortgage lending dropped from 0.73% to 0.70%, and the arrears ratio for the Group's private residential lending declined from 0.51% to 0.48%. With the exception of lending to the residential rental segment, the arrears ratios for the Group's mortgage lending to commercial customers declined as well.

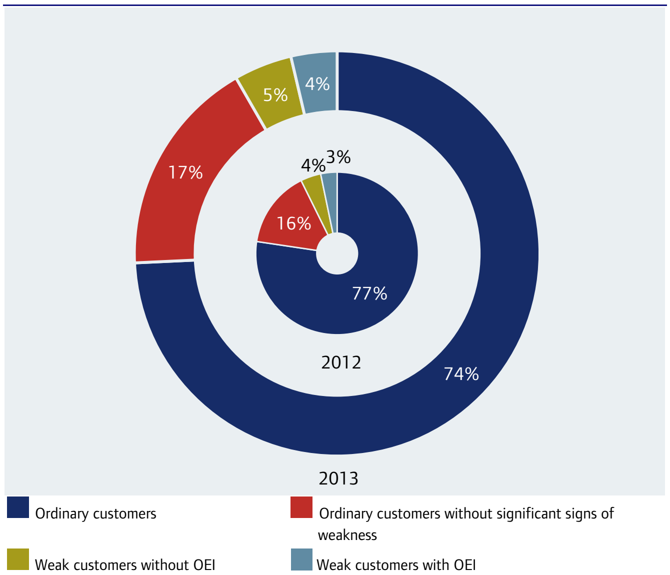
After rising for many years, incurred losses on the Group's mortgage lending declined in 2013, while Nykredit Bank's incurred losses have started normalising following a number of years of substantial losses.

However, despite the stable development in the credit risk relating to most of the Group's portfolios, certain minor portfolios involve a credit risk for the Group exceeding the risk following from average exposures. Nykredit has therefore made individual assessments of some of its commercial customers with an elevated credit risk. These customers are found mainly among small businesses and housing cooperatives. Also, a more general assessment has been made of the portfolios with an elevated credit risk. This assessment included the retail area, particularly homeowners in South and West Sealand.

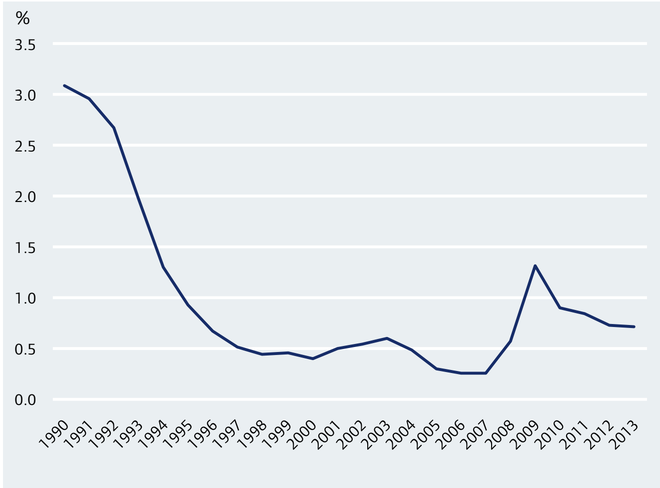
The assessments have led to a cautious approach to the exposures assessed. The result was an increased use of individual rating reductions for certain customers as well as larger provisions following management judgement for potential future losses on homeowners in South and West Sealand in particular.

The financial statements of corporate clients reflect the favourable macroeconomic conditions under which they operate. As a result, Nykredit's arrears and losses on this customer segment have improved quite considerably. By contrast, the economic conditions remain a challenge to small enterprises, especially those manufacturing for the domestic market.

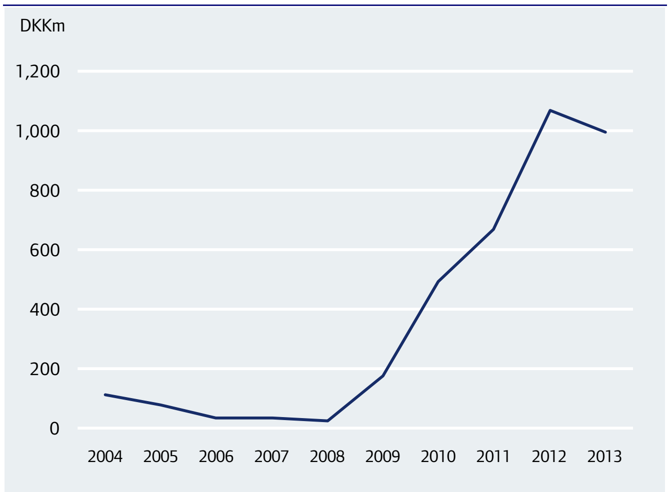
The Nykredit Realkredit Group – mortgage lending
Breakdown of customers



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



The Nykredit Realkredit Group – mortgage lending
Incurred losses



The Nykredit Realkredit Group – bank lending
Incurred losses

Agricultural terms of trade have improved, and incomes in the agricultural sector are historically high these years. Also, the low interest rates have reduced the sector's funding costs. Consequently, the Group's arrears and losses on this segment have improved.

As a result of these generally favourable macroeconomic trends, 74% of Nykredit's mortgage customers are characterised by timely payments and solid financial strength. For Nykredit's personal customers, the percentage is 78%, and for commercial customers 59%. Nykredit denotes these customers as "ordinary customers".

Of the remaining 26% of Nykredit's customers, 18pp are considered "ordinary customers without significant signs of weakness". These customers also make timely payments, but their financial strength is lower than that of "ordinary customers". Personal and commercial customers make up 15% and 28%, respectively, of this group.

The remaining share of Nykredit's customers are considered "weak customers with and without objective evidence of impairment (OEI)". 5% of Nykredit's customers do not show OEI. Weak customers are described in detail below.

Customers with signs of financial weakness
Nykredit considers customers rated 0-2 and customers with exposures in default as weak customers. If a customer belongs to this category, the probability of default is in the range of 3-100%.

A growing proportion of Nykredit's customers have been categorised as weak over the past year. At end-2013 8% of Nykredit's customers were categorised as weak compared with 7% at end-2012. Small businesses remain challenged by the economic conditions, and they account for most of the increase in the share of lending to weak commercial customers in Retail. Also, a few large commercial customers and housing cooperatives have been identified as weak, and their ratings have consequently been lowered.

Arrears
At end-2013 the arrears ratio was down compared with end-2012. At the September due date, the Group's 75-day mortgage loan arrears made up 0.70% of total mortgage payments due compared with 0.73% at the same time in 2012.

The Nykredit Realkredit Group
Weak customers

Compared with the peak at end-2009, the arrears ratios for Nykredit Realkredit's private residential lending and Totalkredit's lending have nearly halved. The 75-day arrears ratio was 0.48% for Nykredit Realkredit's private residential lending and 0.21% for Totalkredit. The arrears ratio for the Group's total personal lending was 0.28% at end-2013 against 0.33% at end-2012.

In the commercial area, arrears ratios plummeted for the Corporate & Institutional Banking clients in particular, but the arrears ratio for commercial customers in Retail, although still relatively high, dropped as well. In the commercial segment, the agricultural sector stands out in terms of the 75-day arrears ratio. The ratio dropped from about 1.17% in September 2012 to 0.77% in September 2013.

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 OEI and an expected adverse effect on future cash flows from an exposure. If necessary, impairment provisions are subsequently made for individual exposures.

Where OEI is identified for private residential mortgage lending, individual impairment provisions are calculated using a statistical model. Bank exposures are reviewed manually to identify any need for individual provisioning in case of OEI.

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

Collective impairment provisions are calculated using a rating model that uses adjusted key parameters from the advanced credit models. Mortgage loans subject to collective provisioning include loans rated 0-2 as well as loans in default for which no individual provisions have been made. All bank loans not provided for individually are included in the calculation of collective impairment provisions.

Impairment losses on loans and advances (earnings impact) rose by DKK 615m from end-2012 to DKK 2,764m at end-2013.

Impairment losses on mortgage loans and advances amounted to DKK 4,378m, equal to 0.39% of lending, at end-2013. Impairment losses on bank loans and advances came to DKK 4,096m at end-2013, equal to 3.7% of lending.

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

Exposures in default

For Nykredit as a whole, 4% of the exposures were in default.

For Nykredit Bank, loans in default accounted for just over 4.7% of the Bank's total exposures at end-2013. A breakdown shows that about 50% of exposures in default were subject to individual impairment provisioning. Of these, about 45% derived from the real estate and construction sectors. About 40% was broadly distributed across other business sectors and about 15% stemmed from the personal segment.

For Nykredit Realkredit and Totalkredit, 3% of total mortgage exposures were in default. The share of exposures provided for relative to exposures in default is considerably lower for Nykredit Realkredit and Totalkredit than for Nykredit Bank, as their mortgage exposures are fully secured on real estate.

Loan losses

Total incurred loan losses on the Group's customers in 2013 were DKK 995m, equal to a loss ratio of 0.10%. The ratio is almost unchanged from 2012, indicating that the increase in Nykredit's loan losses in the wake of the financial crisis has stabilised.

The slowdown in losses on the Group's mortgage lending was mainly driven by losses on private residential lending, with Totalkredit's losses accounting for the largest decline. The losses on the commercial segment of Retail were due to the still difficult economic conditions for this segment. The challenging economic conditions for SMEs were also reflected in the fact that the vast majority of closed loss cases in 2013 concerned small enterprises.

The overall picture of losses on Nykredit's banking activities is quite positive; this is largely due to the Bank's personal customers, showing a loss ratio of 0.53% at end-2013. At 0.54%, the losses on the Bank's commercial customers were at the same level, reflecting a few large loss cases.

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 cash 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. Through the set-off agreements with the partner banks, Totalkredit offset losses in the amount of DKK 333m in 2013.

REPOSSESSED PROPERTIES

During 2013 the Group repossessed 356 properties and sold 477. The property portfolio counted 322 properties at end-2013. By comparison, the Group had a portfolio in the region of 1,500 properties in the early 1990s.

The Nykredit Realkredit Group
Properties repossessed/sold

	2013	2012	2011	2010	2009
Addition of properties	356	551	529	448	284
Of which private residential	*326*	*394*	*351*	*324*	*223*
Disposal of properties	477	542	455	338	178
Of which private residential	*364*	*396*	*293*	*255*	*154*
Property portfolio, year-end	322	356	347	273	163
Of which private residential	*208*	*246*	*248*	*190*	*120*

The Nykredit Realkredit Group
Total individual and collective impairment provisions for loans and advances

2013 DKK million	Provisions, individual impairment and other	Collective impairment provisions	Total impairment provisions	Total impairment provisions 2012
Impairment provisions, beginning of year	5,755	1,339	7,094	6,778
Additions acquired	-	-	-	-
Impairment provisions for the year	2,680	898	3,578	2,422
Impairment provisions reversed	(990)	-	(990)	(1,082)
Value adjustment of repossessed properties	(150)	-	(150)	(144)
Impairment provisions written off	(1,048)	-	(1,048)	(963)
Impairment provisions, year-end	**6,248**	**2,237**	**8,484**	**7,011**
Loans and advances before provisions	**18,108**	**121,558**	**139,666**	**94,189**
Provisions	6,248	2,237	8,484	7,094
Loans and advances after provisions	**11,860**	**119,321**	**131,182**	**87,095**

The Nykredit Realkredit Group
Total individual and collective impairment provisions for loans and advances

2013 DKK million	Provisions, individual impairment and other	Collective impairment provisions	Total impairment provisions	Total default
Retail exposures	1,413	1,349	2,762	7,397
Of which				
- mortgages over real estate	*1,126*	*1,322*	*2,448*	*6,917*
- revolving exposures, etc	*41*	*9*	*50*	*100*
- other retail exposures	*246*	*18*	*264*	*380*
Commercial exposures	4,808	886	5,694	23,955
Credit institution exposures	28	1	29	238
Sovereign exposures	-	-	-	386
Total	**6,248**	**2,236**	**8,484**	**31,976**

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 a		Impairment losses on loans and advances, earnings impact	
	2013	2012	2013	2012	2013	2012	2013	2012
Mortgage lending								
Nykredit Realkredit	646,897	666,583	20,372	17,416	3,204	2,051	1,826	1,052
Totalkredit	568,719	541,023	2,662	2,277	1,174	903	578	540
Total mortgage lending	**1,215,616**	**1,210,606**	**23,034**	**19,693**	**4,378**	**2,954**	**2,404**	**1,592**
Bank lending								
Nykredit Bank	86,563	97,383	7,740	7,788	3,161	2,838	597	480
Terminated exposures from Forstædernes Bank	1,202	1,819	1,202	1,819	813	1,220	(288)	109
Total bank lending	**87,766**	**99,203**	**8,942**	**9,608**	**3,974**	**4,058**	**309**	**589**
Repo lending	73,901	47,238	-	-	-	-	-	-
Guarantees	6,311	4,806	-	-	103	82	21	(32)
Total	**1,383,593**	**1,361,973**	**31,976**	**29,301**	**8,455**	**7,094**	**330**	**2,149**

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

The Nykredit Realkredit Group
Arrears by property category and due date

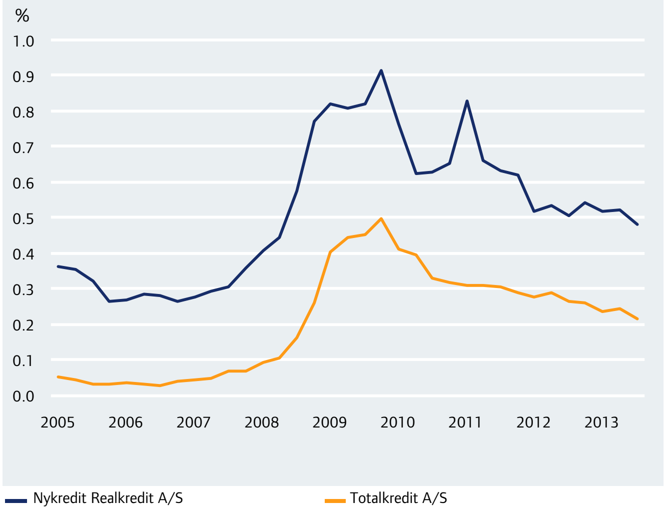
DKK million	Loans and advances at fair value end-2013	Loans and advances with individual provisioning	Total arrears	Arrears Q4/2013	Arrears Q3/2013	Arrears Q2/2013	Arrears Q1/2013	Arrears pre-2013
Private residential property	689,093	4,841	200	149	22	10	6	13
Private residential rental	79,686	1,615	53	37	7	3	3	3
Industry and trades	25,117	452	34	13	5	4	4	8
Office and retail	111,206	1,395	83	57	11	5	4	6
Agriculture	97,209	2,113	33	22	5	2	1	2
Non-profit housing	61,380	126	12	7	0	1	0	3
Cooperative housing	38,646	1,748	5	3	0	0	0	2
Other	17,634	215	11	9	1	0	0	1
Total	**1,119,970**	**12,506**	**432**	**297**	**51**	**25**	**18**	**38**

The Nykredit Bank Group
Total loans, advances and guarantees by sector

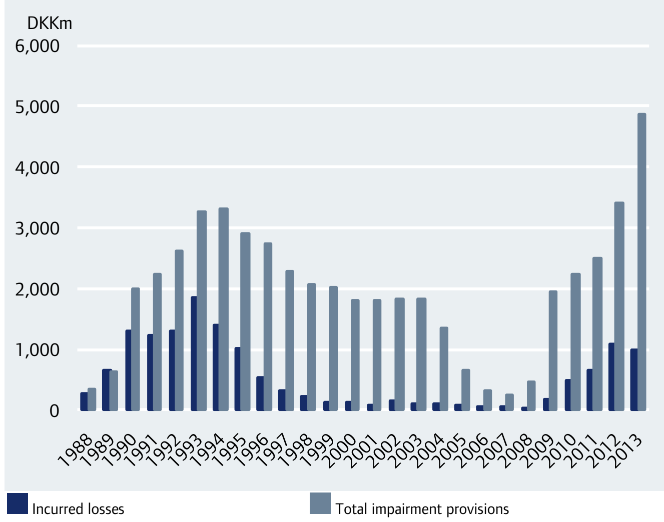
DKK million	Loans, advances and guarantees		Provisions for loan impairment and guarantees	
	2013	2012	2013	2012
Public sector	**493**	**513**	**8**	**4**
Agriculture, hunting, forestry and fishing	2,026	1,957	177	167
Manufacturing, mining and quarrying	5,026	6,377	261	155
Energy supply	1,743	523	8	9
Construction	1,796	1,816	262	279
Trade	2,557	2,217	195	237
Transport, accommodation and food service activities	3,025	2,135	126	101
Information and communication	948	879	68	73
Finance and insurance	61,568[1]	39,703	445	742
Real estate	10,676	13,136	1,465	1,367
Other trade and industry	7,811	8,109	422	397
Total commercial customers	**97,176**	**76,852**	**3,429**	**3,527**
Personal customers	**17,789**	**20,010**	**641**	**608**
Total	**115,458**	**97,375**	**4,078**	**4,139**

Note: The breakdown is based on public sector statistics and is therefore not directly comparable with Nykredit Bank's business areas.
[1] A significant part of lending for financial and insurance activities is based on lending with bonds serving as collateral (repo/reverse transactions).

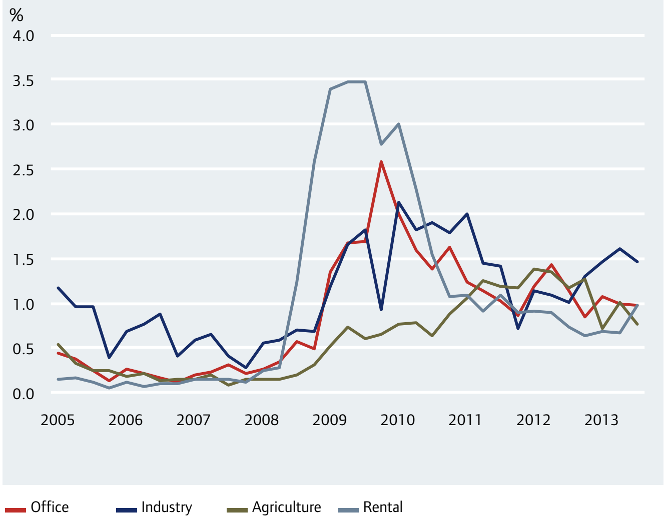
The Nykredit Realkredit Group – personal mortgage lending
Arrears ratio – 75 days past due



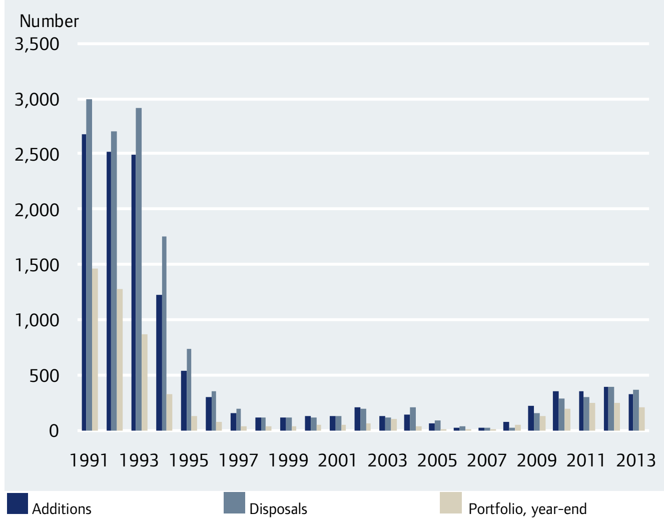
The Nykredit Realkredit Group – mortgage lending
Incurred losses and total impairment provisions



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



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



CREDIT RISK – THE REGIONAL ANGLE

The current growth upturn is mainly observed in the Copenhagen area. The same applies to the rise in employment and incomes. Following a crisis, it is natural for growth to return first in and about a country's cities. This time, however, there is a risk that the growth upturn in the Copenhagen area will not spread as fast to the rest of Denmark as after previous crises.

This phenomenon is related to recent years' structural rural-urban migration. As the urbanisation trend is part of a global megatrend, we expect it to continue over the next years.

The development may have significant implications for several areas of the Danish economy, for instance the housing market. The housing market is clearly divided, with a sound development in housing prices in and about the major urban areas and downward pressures on housing prices in rural districts. The excess supply of homes left by migration is a significant factor behind the downward price pressures in these areas.

However, Nykredit offers lending services in all parts of Denmark. There are no "dark spots" on the map where the Group does not offer loans. A customer's ability to pay, not their geographical location, determines whether or not Nykredit grants a mortgage or bank loan. This is evidenced by the fact that the DKK 115.6bn rise in the Group's mortgage lending after the financial crisis derived from 94 of Denmark's 98 municipalities.

The regional distribution of the Group's credit risk is affected by regional imbalances. In general, major parts of Jutland and the Copenhagen area perform remarkably better than the rest of Denmark, measured by largely all credit risk parameters, while the rest of Sealand, Lolland/Falster and partly Funen are challenged in terms of the same parameters.

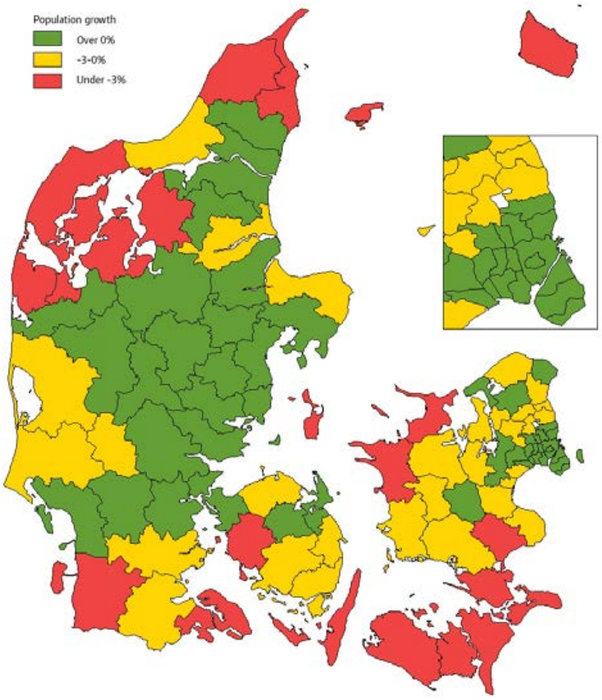
The average 75-day arrears ratio for the Group's private residential lending was 0.48% at end-2013. In none of the municipalities in Jutland did the average arrears ratio exceed 0.50%, whereas especially the West Sealand municipalities closest to Copenhagen were characterised by arrears ratios exceeding 0.50%. In general, Sealand, exclusive of the Copenhagen area, and Lolland/Falster were characterised by high arrears ratios, whereas Copenhagen, North Sealand and Jutland performed significantly better. Funen was less challenged in terms of arrears ratios than Sealand, exclusive of the Copenhagen area, but considerably more so than Jutland.

At national level, the loss ratio for the Group's private residential lending was 0.11% at end-2013. The Group's losses on private residential property were mainly attributable to South and West Sealand, but also several municipalities on Funen caused losses. Average loss ratios exceeding 0.20% were seen in only three municipalities in Jutland, but in most municipalities on Funen and Sealand, exclusive of the Copenhagen area. Conversely, loss ratios were quite low in Copenhagen and North Sealand.

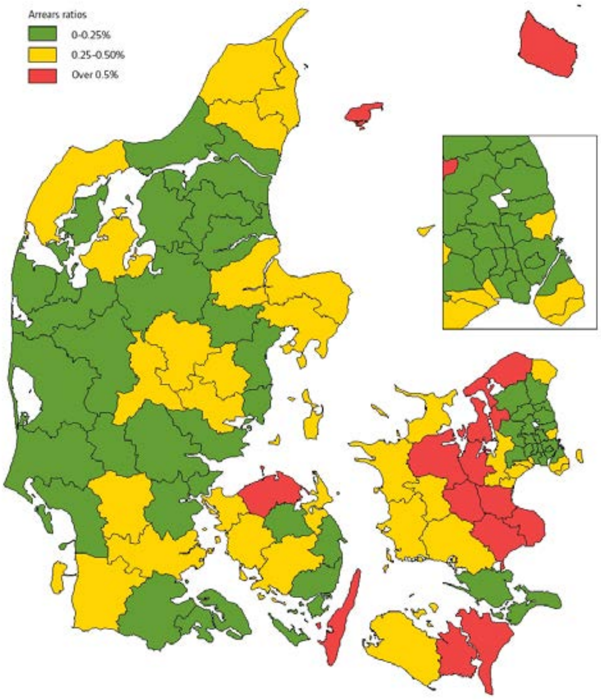
A characteristic of the current situation is that losses on properties repossessed are substantially larger than previously. A low housing market turnover and substantial depopulation are common features of the municipalities where losses on the properties repossessed are high. This means that several municipalities in Jutland with low loan arrears and loss ratios are characterised by high loan loss ratios for repossessed properties. By contrast, the highest loss ratios are found in South and West Sealand, in the municipalities that are at the greatest distance from the Copenhagen area.

The combination of low funding costs and high loss ratios for repossessed properties means that from a business point of view, it may make sense to offer forbearance and other assistance to distressed homeowners if the reasons for their payment difficulties are deemed to be temporary.

The Nykredit Realkredit Group
Population growth towards 2022

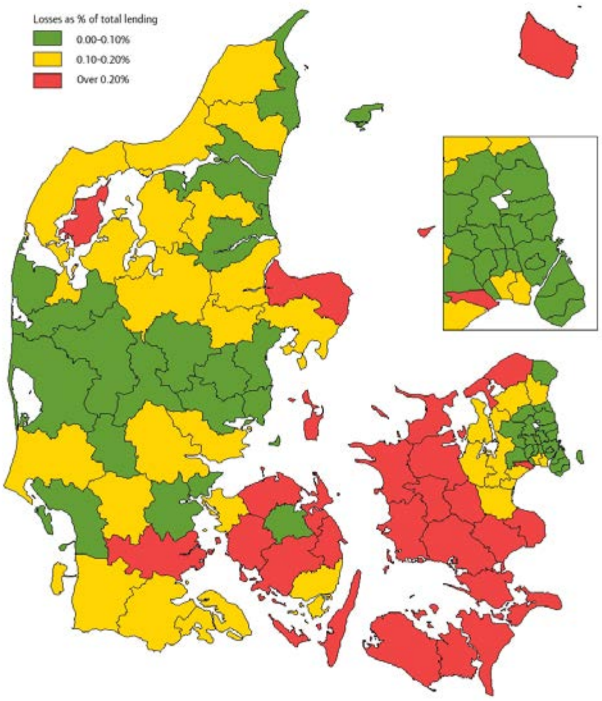


The Nykredit Realkredit Group – private residential property
Arrears ratios



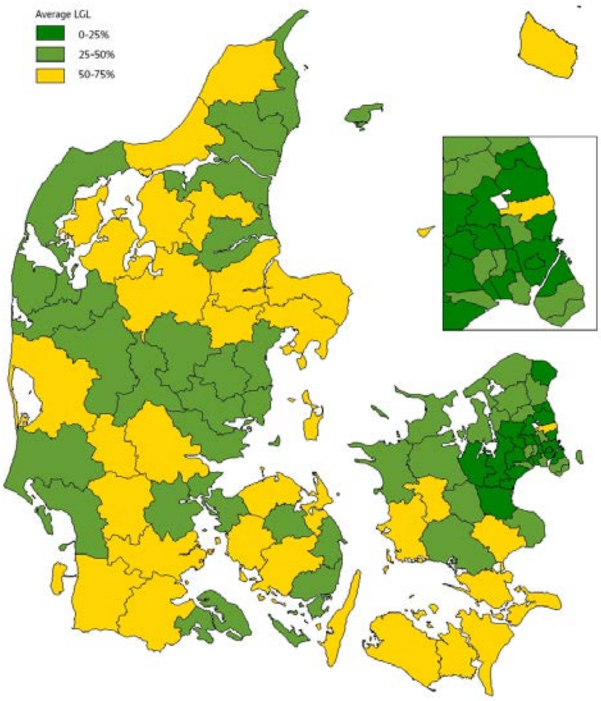
- Arrears are highest on Sealand and Funen.
- A favourable development in unemployment keeps down arrears in Jutland, while financially challenged SMEs have an adverse impact on arrears on Sealand.

The Nykredit Realkredit Group – private residential property
Losses relative to total lending



- During the housing market boom, Copenhagen price rises spilled over into the rest of Sealand.
- This resulted in a surge in new building, which led to an imbalance between housing supply and demand.
- Housing prices are thus under pressure, and in case of repossession, the risk of losses is consequently higher here than elsewhere in Denmark.

The Nykredit Realkredit Group – private residential property
Loss ratios by LGL



- Municipalities with high loan loss ratios are characterised by quite low or non-existent housing marketability.
- Also, property values are low in these municipalities, and the fixed costs of repossession are therefore proportionally higher than in municipalities where property values are higher.

MORTGAGE LENDING

Group mortgage lending at fair value was DKK 1,138bn at end-2013, which is unchanged on end-2012.

The portfolio is highly diversified in terms of loan type, geography, loan term and size of debt outstanding. At 61%, the majority of the mortgage loans are for homeowners. Nykredit's lending to industry and trades and to office and retail amounted to 12%, while lending to agricultural customers accounted for 9%. Nykredit's lending to residential rental customers (non-profit housing and private rental) and housing cooperatives amounted to 13% and 3%, respectively.

The Group's portfolio of fixed-rate loans grew by DKK 4bn during 2013. The rise exclusively derived from fixed-rate loans with an interest-only (IO) period. The portfolio of this type of loan increased by DKK 9bn, while fixed-rate repayment loans dropped by DKK 5bn. The portfolio of adjustable-rate mortgage loans (ARMs) grew by DKK 5bn to DKK 551bn at end-2013. ARMs with 1-year funding went down by DKK 19bn in the period under review, whereas ARMs with interest periods exceeding one year rose by DKK 24bn. The rise was mainly attributable to repayment ARMs.

58% of all mortgage loans have an IO option attached. 61% of mortgage loans for private residential property have an IO option attached. The IO periods of loans totalling about DKK 13bn will expire in 2014.

Geographically, around half of the loan portfolio is in Jutland, just over a quarter in the Copenhagen area and the remainder on Funen and the rest of Sealand.

Concentration risk

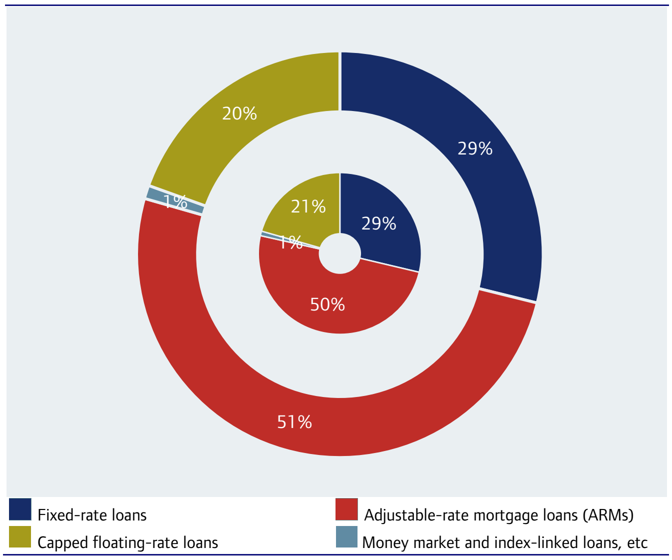
Based on indicators from the Danish FSA, the Group's mortgage lending is not deemed to be geographically concentrated. Nor is there any sector concentration in relation to commercial lending, in Nykredit's opinion.

Nykredit's international credit exposures represent about 5% of the total portfolio. Nykredit has no lending for activities outside Europe.

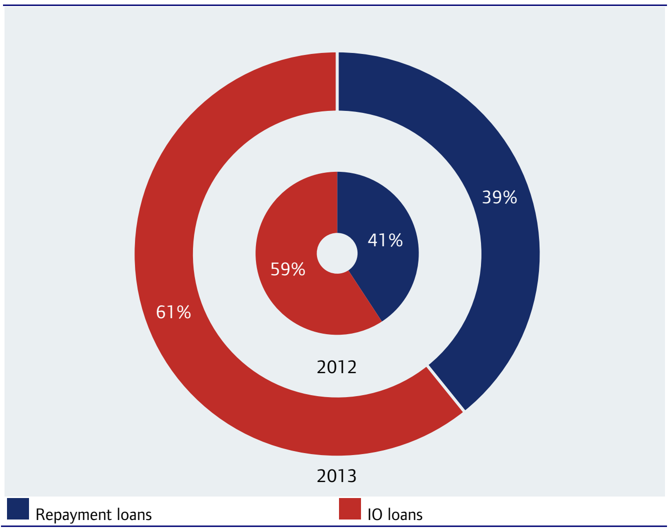
The Nykredit Realkredit Group
International lending at fair value

DKK million	2013	2012
Poland	1,095	1,188
Sweden	21,577	21,891
Germany	15,183	14,349
United Kingdom	5,276	5,726
France	4,479	4,149
Spain	4,695	4,009
Other	6,277	4,172
Total international lending	**58,583**	**55,483**
Total lending	**1,137,843**	**1,137,797**

The Nykredit Realkredit Group
Private residential lending by loan type



The Nykredit Realkredit Group
Private residential lending with/without IO periods



The Nykredit Realkredit Group
Private residential lending with expiry of IO periods

The Nykredit Realkredit Group
Mortgage lending

Fair value at end-2013 DKK million	Private residential property	Non-profit housing	Cooperative housing	Private residential rental	Office and retail	Agriculture	Industry and trades	Other	Total
Bond debt outstanding by property type									
- Bond debt outstanding	696,373	64,543	39,246	80,325	112,944	101,456	25,160	17,796	1,137,843
- Number of loans	739,550	18,310	6,114	25,064	22,563	41,764	3,476	3,005	859,846
Bond debt outstanding by loans involving:									
- Public guarantees[1]	1	49,532	3,033	18	16	293	0	131	53,023
- Bank guarantees	19,760	0	0	0	0	0	0	0	19,760
- Set-off agreement with partner banks	520,884	0	0	0	0	0	0	0	520,884
- No guarantee	155,729	15,011	36,213	80,307	112,928	101,163	25,160	17,665	544,176
Total	**696,373**	**64,543**	**39,246**	**80,325**	**112,944**	**101,456**	**25,160**	**17,796**	**1,137,843**
Bond debt outstanding by loan type									
Fixed-rate loans									
- repayment loans	129,595	19,469	7,484	4,283	7,414	7,162	1,448	3,070	179,927
- interest-only loans	71,364	16	1,600	2,200	2,381	2,415	20	164	80,160
Adjustable-rate mortgages (ARMs)									
- repayment loans, 1-year funding	42,528	847	488	8,050	12,900	15,245	2,876	1,226	84,161
- other repayment loans	47,868	19,694	1,077	4,001	6,946	3,644	3,222	704	87,156
- interest-only loans, 1-year funding	130,382	64	728	22,128	26,536	24,828	2,031	759	207,457
- other interest-only loans	131,345	93	6,690	13,680	11,546	5,633	3,067	252	172,306
Money market-linked loans									
Loans with interest rate cap									
- repayment loans	52,344	82	536	887	1,159	2,938	222	740	58,908
- interest-only loans	83,534	7	467	802	572	3,364	13	54	88,812
Loans without interest rate cap									
- repayment loans	625	269	1,191	5,237	17,338	8,422	7,168	5,977	46,227
- interest-only loans	6,781	186	16,471	18,907	26,130	27,532	5,094	4,636	105,738
Index-linked loans	6	23,815	2,513	149	23	273	1	215	26,995
Total	**696,373**	**64,543**	**39,246**	**80,325**	**112,944**	**101,456**	**25,160**	**17,796**	**1,137,843**
Bond debt outstanding by region									
- Capital Region of Denmark	162,476	23,230	20,696	20,643	27,767	2,564	1,666	5,902	264,944
- Sealand Region	96,558	7,588	3,759	4,368	8,713	15,178	2,817	1,880	140,861
- North Denmark Region	94,681	6,576	3,663	8,603	9,555	25,144	3,533	1,565	153,322
- Central Denmark Region	177,055	12,673	5,337	18,520	22,763	31,597	8,181	4,922	281,049
- South Denmark Region	153,039	14,475	5,594	11,886	19,140	26,804	4,620	3,526	239,085
- Faroe Islands and Greenland	2,174	0	196	147	180	0	0	2	2,698
- International	10,390	0	0	16,158	24,825	169	4,343	2	55,885
Total	**696,373**	**64,543**	**39,246**	**80,325**	**112,944**	**101,456**	**25,160**	**17,796**	**1,137,843**
Bond debt outstanding by debt outstanding									
0-2	538,440	6,189	1,752	15,549	12,956	22,328	1,774	1,148	600,135
2-5	143,361	7,571	5,718	13,516	13,984	31,735	2,419	1,966	220,270
5-20	13,411	25,230	18,268	19,262	24,799	40,273	4,931	6,180	152,355
20-50	1,111	17,430	8,091	9,448	13,828	5,752	2,848	3,792	62,301
50-100	50	5,325	1,769	5,410	9,627	956	1,411	1,308	25,856
100-…	0	2,797	3,648	17,139	37,750	412	11,778	3,402	76,927
Total	**696,373**	**64,543**	**39,246**	**80,325**	**112,944**	**101,456**	**25,160**	**17,796**	**1,137,843**
Bond debt outstanding by remaining loan term									
0-10	22,981	2,801	449	11,259	29,456	2,485	3,034	745	73,210
10-15	26,601	7,279	895	11,676	29,858	3,606	11,973	2,311	94,199
15-20	59,030	11,788	2,752	8,156	30,350	10,927	4,640	3,177	130,820
20-25	274,807	7,890	17,753	25,434	14,829	57,499	2,637	4,808	405,657
25-30	312,955	20,545	16,417	23,765	8,451	26,940	2,876	6,753	418,701
30-35	0	12,958	866	35	0	0	0	0	13,859
35-…	0	1,283	113	1	0	0	0	2	1,398
Total	**696,373**	**64,543**	**39,246**	**80,325**	**112,944**	**101,456**	**25,160**	**17,796**	**1,137,843**

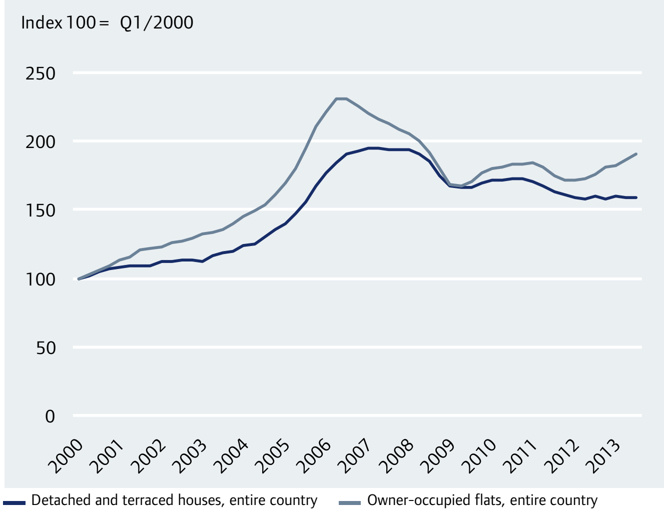
Note: Incl lending to Nykredit Ejendomme.
[1] Bank guarantees denote debt outstanding covered by loss guarantee.

Housing prices
The housing market improved in 2013. The improvement was particularly pronounced for the prices of owner-occupied flats, which were up more than 8% at national level at end-Q3/2013 compared with a year earlier. House prices were largely unchanged throughout 2013, while prices of holiday homes remained challenged. These general trends reflect significant regional housing market imbalances.

Copenhagen leads the housing market improvement. House prices rose by almost 8% in Copenhagen over the first nine months of 2013, whereas they declined by up to 7% in South and West Sealand. These two areas are the two extremes of regional price development. Unlike many other places in Denmark, Copenhagen is recording relatively high economic growth, rising employment and a high net inflow of migrants, which underpins housing prices. Nykredit's expects the regional imbalances to continue in 2014.

Unlike house prices, flat prices rose quite considerably in 2012, and with an 8% rise at national level, this development accelerated further in 2013. Prices were up 12% in Copenhagen, which led to speculation about a local price bubble in central Copenhagen. In our opinion, the growing supply of owner-occupied flats following the price rises reduces the risk of a price bubble significantly, and the price rises should be seen against the backdrop of sharp declines in the years 2009-2011.

Housing prices in Denmark



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.

LTV development and regional distribution of IO loans
The Loan-To-Value (LTV) ratio expresses the debt outstanding relative to the estimated property value.

At end-2013, the LTV level of the Group's total loan portfolio was 68.2%, which is almost unchanged from end-2012.

The LTV level of the Group's private residential lending declined slightly from 75.7% at end-2012 to 75.1% at end-2013.

The LTV level of total commercial lending excluding the agricultural and residential rental segments was 54.0% at end-2013, which was a rise of 2 percentage points on end-2012. The rise was attributable to increasing LTV levels of industrial properties. At 59.8% at end-2013, the LTV of agricultural lending was slightly down from 60.6% at end-2012.

At end-2013, 8.3% of the Group's private residential mortgage lending had LTV levels over 100%. This was a decline of about 2 percentage points compared with the beginning of the year. The bulk of the Group's loans with LTV levels over 100% were granted to homeowners in South and West Sealand.

The expiry of IO periods is mainly a problem if the LTV exceeds 80% at the time of expiry. In the Copenhagen area where IO loans are quite popular, the average LTV level is relatively low. Sealand, exclusive of the Copenhagen area, and Funen are characterised by having Denmark's highest LTV levels, but at the same time a low proportion of IO loans. However, a few municipalities in South and West Sealand bordering on Copenhagen have high proportions of IO loans as well as high LTV levels. The lowest proportions of IO loans combined with low LTV levels are found in a number of municipalities in Jutland.

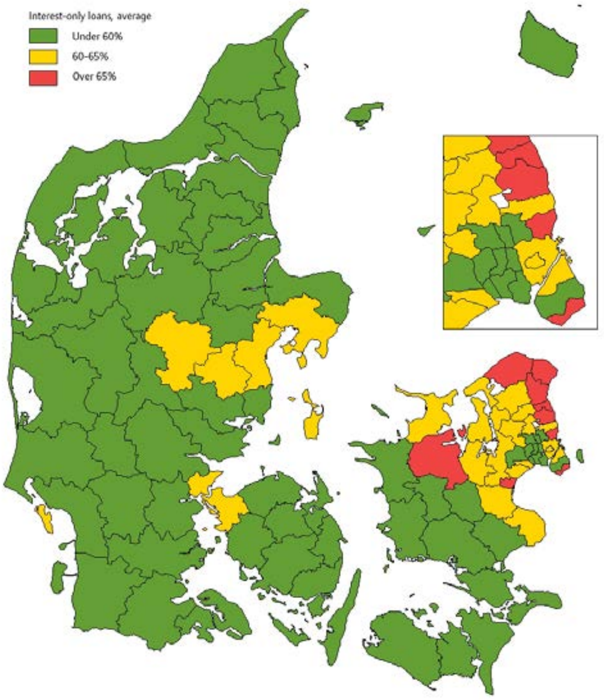
In Nykredit's opinion, the expiry of IO periods only poses a limited challenge to the Group. This view is supported by Nykredit's own studies of the financial circumstances of customers whose IO periods are expiring as well as by studies by the Danish Ministry of Business and Growth.

Statutory LTV limits by property category

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

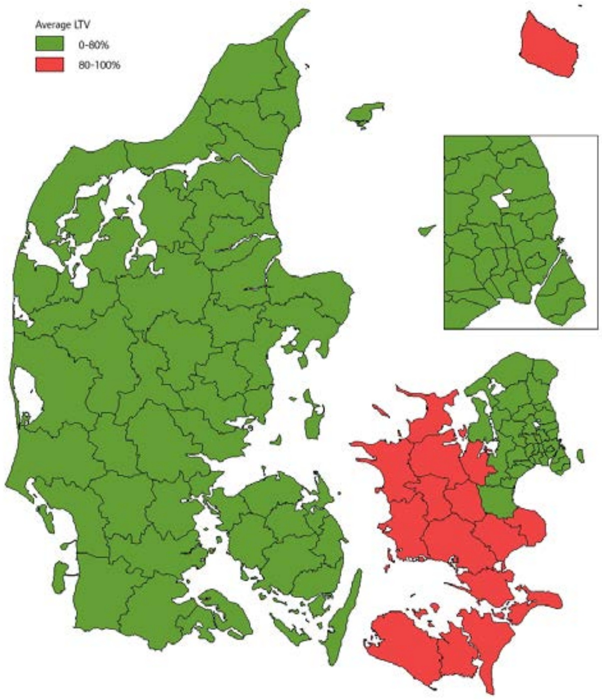
[1] Some loan types offered for residential properties are subject to a lower LTV limit than 80%, but no supplementary collateral is required unless the LTV ratio subsequently exceeds 80%.
[2] The LTV limit may be extended up to 70% against supplementary collateral for the part in excess of 60%.

The Nykredit Realkredit Group – private residential property
Distribution of IO loans to personal customers



- IO loans are most prevalent in and about Copenhagen and Aarhus.
- IO loans are less popular with Nykredit's customers in Jutland and on Funen than among its customers on Sealand.
- In South and West Sealand, IO loans are most popular with customers close to Copenhagen.

The Nykredit Realkredit Group – private residential property
Regional distribution of LTVs



- The low LTVs in Jutland are due to less volatile housing prices – during economic upturns as well as downturns.
- The approx 15% flat price rise over the past year is a main reason for the relatively low LTVs in Copenhagen.
- The high LTVs in South and West Sealand put a damper on home sales and consequently on housing market activity in this area.

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 residential mortgage lending.

Nykredit uses the setup to calculate the impact of the expected economic development on the LTV levels of the Group's residential mortgage lending and to analyse the impact in stressed economic scenarios. The results of these stress tests are submitted quarterly to an internal monitoring forum charged with overseeing housing market developments.

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

Supervisory Diamond for mortgage lenders

In the autumn of 2013, a committee investigating the causes of the financial crisis in Denmark chaired by Professor Jesper Rangvid presented 18 recommendations for measures to prevent a future crisis in the financial sector. One of the measures was a so-called Supervisory Diamond model applicable to the Danish mortgage sector.

No specific goals have been set for it yet, but Nykredit welcomes the new Supervisory Diamond model. However, it is essential that it should allow for the sector's different anatomy compared with that of the banking sector, which is already subject to a Supervisory Diamond. For instance, the Supervisory Diamond for the mortgage sector should take into account the time lag from when mortgage lenders start observing the limit values of the Supervisory Diamond until the effects materialise.

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

Fair value 2013				LTV			
%	0-40	40-60	60-80	80-90	90-100	Over 100	Total
Ordinary customers (rating categories 6-10)	316,661	120,162	74,649	14,631	6,582	5,929	538,614
Ordinary customers without significant signs of weakness (rating categories 3-5)	55,536	25,953	20,532	4,252	1,843	1,658	109,774
Weak customers with and without OEI (rating categories 0-2)	24,531	11,334	8,568	1,665	853	1,033	47,985
Total	**396,728**	**157,449**	**103,749**	**20,548**	**9,279**	**8,621**	**696,373**

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
Debt outstanding relative to estimated property values

DKK million	0-40	40-60	60-80	LTV 80-90	90-100	>100	Total	LTV average, %[1]
Private residential property	396,728	157,449	103,749	20,548	9,279	8,621	696,373	75
Private residential rental	72,973	26,234	13,865	2,012	843	626	116,552	67
Industry and trades	16,555	5,258	2,145	594	368	241	25,160	66
Office and retail	85,373	22,917	3,609	541	245	258	112,944	54
Agriculture	71,527	19,766	7,544	1,283	632	704	101,456	60
Non-profit housing	-	-	-	-	-	-	67,562	-
Other	13,238	3,095	1,242	84	50	86	17,796	55
Total 2013	**656,393**	**234,719**	**132,155**	**25,063**	**11,416**	**10,536**	**1,137,843**	**68**
Total 2012	**654,182**	**231,850**	**135,812**	**26,864**	**10,781**	**8,456**	**1,137,797**	**61**

Note: The figures are actual LTV ratios including any financed costs. Public authority guarantees reduce the credit risk relating to subsidised housing that 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, 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 range 0-40% and one third in the LTV range 40-60%.
[1] Determined as the top part of the debt outstanding relative to estimated property values.

The Nykredit Realkredit Group
Debt outstanding relative to estimated property values

%	0-40	40-60	LTV 60-80	80-90	90-100	>100
Private residential property	57	23	15	3	1	1
Private residential rental	63	23	12	2	1	1
Industry and trades	66	21	9	2	1	1
Office and retail	76	20	3	0	0	0
Agriculture	71	19	7	1	1	1
Non-profit housing	-	-	-	-	-	-
Other	74	17	7	0	0	0
Total 2013[1]	**61**	**22**	**12**	**2**	**1**	**1**
Total 2012[1]	**61**	**22**	**13**	**3**	**1**	**1**

Note: In the table, 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 range 0-40% and one third in the LTV range 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%.
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The Nykredit Realkredit Group
Change in debt outstanding relative to estimated property values in 2013

Fair value 2013			LTV			
Percentage point	0-40	40-60	60-80	80-90	90-100	>100
Private residential property	1	0	(1)	0	0	0
Private residential rental	(2)	1	0	0	0	0
Industry and trades	(7)	0	3	2	1	1
Office and retail	0	0	0	0	0	0
Agriculture	1	(1)	0	0	0	0
Non-profit housing	-	-	-	-	-	-
Other	(5)	2	2	0	0	0
Total change	**0**	**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%.

BANK LENDING

The credit exposures of the Nykredit Bank Group totalled DKK 190bn at end-2013, up DKK 7bn compared with end-2012.

The rise in total credit exposures was driven by increased repo/reverse transactions. Viewed separately, these are up DKK 20bn and now account for 46% of the Bank's credit exposures. A characteristic of repo/reverse transactions is that the risk of the loan is hedged by bonds of extremely high credit quality. The credit risk of repo/reverse transactions is consequently marginal. The credit risk relating to the Bank's lending thus derives from its traditional banking activities. For the purpose of this section, the Bank's credit exposures are therefore exclusive of repo/reverse transactions.

Traditional banking activities

The Nykredit Bank Group's total credit exposure to traditional banking activities amounted to DKK 88bn, a decline of DKK 6bn. Of this amount commercial exposures accounted for DKK 57bn and retail exposures for DKK 30bn, equal to 65% and 34%, respectively. To this comes DKK 1bn of credit institution exposures, or 1%. The Nykredit Bank Group has reduced its lending to the property sector over the past few years. The Bank's lending to this sector amounted to DKK 12bn at end-2013, or 14% of total lending. At end-2012 the Bank's lending to the property sector was DKK 13bn, equal to 14%. A significant portion of these loans were for relatively non-cyclical purposes such as construction of subsidised housing and rental properties.

Compared with the banking sector in general, the Nykredit Bank Group has a limited exposure to the agricultural segment. At end-2013, only 2% of commercial exposures related to agricultural customers. For the banking sector as a whole, the proportion was 4%.

Guarantees issued amounted to DKK 12bn, or 6% of total exposures at end-2013, while undrawn commitments amounted to DKK 21bn, or 11% of total exposures.

Concentration risk

The Danish FSA has defined large exposures as exposures exceeding 10% of own funds. Based on own funds of DKK 15bn, the large exposure limit at end-2013 was DKK 1,491m. Nykredit Bank has no large exposures in relation to commercial customers and credit institutions.

Nykredit Bank's 20 largest exposures have risen to DKK 16.7bn at end-2013 from DKK 15.4bn at end-2012. The Bank's 20 largest exposures represented 9% of total bank lending at end-2013, compared with 8% at end-2012. At end-2013 the Bank's 20 largest exposures

The Nykredit Realkredit Group – banking activities
Credit exposures and risk-weighted assets

2013 DKK million/%	Bank lending	Guarantees issued	Other	Total exposures	*Of which undrawn commitments*	Exposure-weighted average risk weight, %	RWA for credit risk
Retail exposures	24,884	5,468	-	30,352	*6,839*	52.4	15,899
Of which							
- mortgages over real estate[1]	*16,584*	*722*	*-*	*17,305*	*3,676*	*58.4*	*10,098*
- revolving exposures, etc	*6,241*	*-*	*-*	*6,241*	*2,829*	*23.3*	*1,454*
- other retail exposures	*2,060*	*4,746*	*-*	*6,806*	*334*	*63.9*	*4,347*
Commercial exposures	51,422	5,740	88,080	145,242	*13,766*	34.6	50,202
Credit institution exposures	-	751	9,401	10,152	*50*	20.0	2,035
Sovereign exposures	-	-	3,383	3,383	*23*	-	0
Equity exposures	-	-	163	163	-	287.7	468
Assets with no counterparty	-	-	925	925	-	100.0	925
Total 2013	**76,303**	**11,958**	**101,952**	**190,216**	*20,679*	**36.6**	**69,530**
Total 2012	82,161	12,404	88,757	183,321	*19,458*	38.2	69,948

[1] Bank loans secured by mortgages over real estate primarily relate to equity release credits (Friværdikonto).

The Nykredit Realkredit Group – banking activities
Credit exposures by maturity

2013 DKK million	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total exposures
Retail exposures	-	-	30,352	30,352
Of which				
- mortgages over real estate	-	-	*17,305*	*17,305*
- revolving exposures, etc	-	-	*6,241*	*6,241*
- other retail exposures	-	-	*6,806*	*6,806*
Commercial exposures	74,585	17,794	52,862	145,242
Credit institution exposures	9,401	751	-	10,152
Sovereign exposures	3,383	-	-	3,383
Equity exposures	-	-	163	163
Assets with no counterparty		-	925	925
Total 2013	**87,369**	**18,545**	**84,303**	**190,216**
Total 2012	67,844	28,747	86,730	183,321

made up 117% of equity. The corresponding share the preceding year was 107%. Nykredit had 25 non-financial counterparties to which approved exposures represented over 2% of own funds.

The Supervisory Diamond for banks
In the wake of the financial crisis, the Danish FSA launched a Supervisory Diamond model 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 model sets out the following limit values 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 own funds.
- Lending growth must be less than 20% year-on-year. The limit value is determined exclusive of reverse lending 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 coverage must be greater than 50%. The excess liquidity coverage 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. The current limit values of the Supervisory Diamond model are shown in the table below. As appears, Nykredit Bank is comfortably within the limits, meeting all requirements to a higher extent than in 2012.

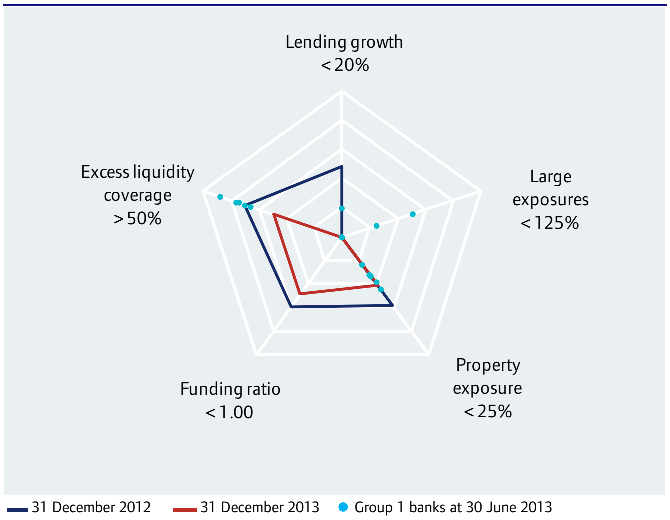
Lending exclusive of repo/reverse transactions shows negative growth. Negative lending growth has been observed for the real estate and construction sectors, which are relevant to the property exposure ratio. The funding and liquidity ratios are also well above the limit values, as Nykredit Bank's internal requirements are considerably stricter than 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 30 June 2013 when Danmarks Nationalbank published the latest comparative bank figures.

Nykredit Bank A/S
Supervisory Diamond

	2013	2012
Lending growth (limit value <20%)	-7.6	9.6
Large exposures (limit value <125%)	0.0	0.0
Property exposure (limit value <25%)	10.4	14.6
Funding ratio (limit value <1.0%)	0.5	0.6
Excess liquidity coverage (limit value 50%)	276.0	183.1

The Nykredit Bank Group
Supervisory Diamond



COUNTERPARTY RISK

Nykredit applies financial instruments, such as derivatives and repurchase agreements (repos), 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 in case of non-payment by a counterparty. For the purpose of calculating the capital requirement, counterparty risk exposures are calculated according to the market value method, ie as any positive market value of the transaction plus a potential future credit exposure.

Counterparty risk exposures amounted to DKK 92.8bn at end-2013, and RWA accounted for DKK 11.2bn. Of this amount DKK 1.3bn were repos and DKK 9.9bn derivatives.

Nykredit mitigates its counterparty risk through financial netting agreements as well as agreements on financial collateral. The contractual framework is 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.

Nykredit uses central counterparties for professional derivatives clearing. Interest rate swaps, FRAs and repo transactions are cleared through direct membership of NASDAQ OMX Stockholm; moreover, interest rate swaps are cleared through indirect membership of the London Clearing House.

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 variable-rate mortgage loans have hedged their interest rate risk through swaps with Nykredit Bank.

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

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 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.

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.

CREDIT RISK MODELS

Credit risk is determined using three key parameters:

- PD: Probability of Default – the probability of a customer defaulting on an obligation to Nykredit.
- LGD: Loss Given Default – the loss rate of an exposure given a customer's default.
- EAD: Exposure at Default – the total estimated 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. A PD is therefore assigned to each customer, while each of the customer's products has a separate LGD and EV. However, personal customers have two PDs, one assigned by Nykredit Bank and one assigned by Nykredit Realkredit/Totalkredit.

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 experience gained during that recession when developing models.

PDs are 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 beginning of the 1990s. However, for Nykredit Bank's personal lending, some models use a gross unemployment rate of 10% to indicate an economic downturn, which is almost twice as high as the current level.

The Nykredit Realkredit Group
Counterparty risk

2013	2013			2012		
DKK million	Derivatives	Repos	Total	Derivatives	Repos	Total
EAD before netting	41,342	75,308	116,650	65,211	49,023	114,234
Netting benefits	19,784	3	19,786	34,082	27	34,109
EAD after netting	21,558	75,305	96,863	31,128	48,996	80,124
Collateral received	4,086	71,823	75,909	5,660	46,385	52,045
EAD after netting and collateral	**17,473**	**3,482**	**20,955**	**25,468**	**2,611**	**28,079**

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 RWA 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 the Group's RWA remain 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. 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 SMEs 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. External credit ratings are used to a very limited extent for a few types of counterparty. External credit 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.

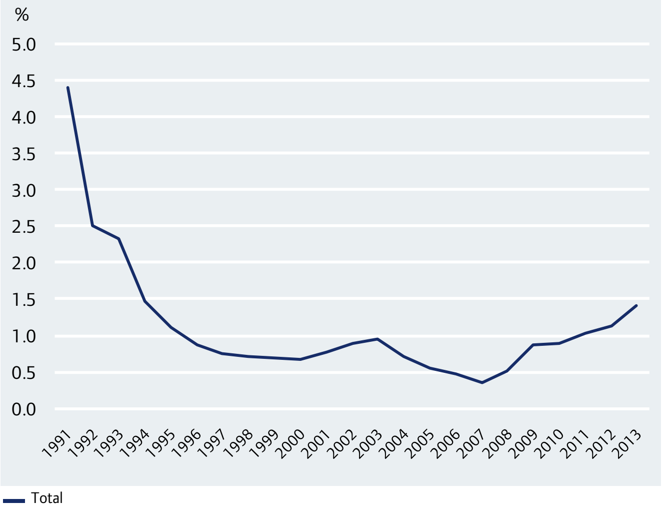
The accuracy of the estimated PDs can be assessed by comparing the estimates at the beginning of the year with the PDs observed for the year. Observed PD is the observed default rate of the Group's customers and thus reflects the current economic situation. To obtain a meaningful comparison, it is therefore 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 PD estimates applied for calculating RWA 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 on mortgage and bank exposures are higher than the observed PDs.

From PD to rating
The PDs of individual customers are converted into ratings from 0 to 10, 10 being the highest rating. The individual rating categories are defined based on fixed PD ranges. This means that, in periods of high business activity, a high rating will be assigned to relatively more customers, while the opposite will apply during an economic downturn.

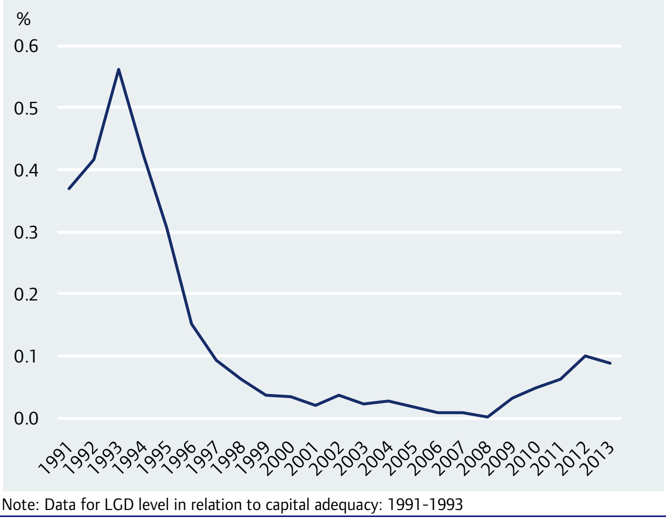
Customer ratings are an important element of the credit policy and customer assessment. Ratings are also applied to increase the efficiency of credit approval procedures and to monitor exposures of low credit quality. Group Credits may, if so recommended, allow that a calculated rating be replaced by a rating assigned by a credit specialist. This is referred to as an override.

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 – loss ratios



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

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

2013 Rating category	PD floor %	PD ceiling %	Average applied PD %
10	> 0.00	≤ 0.15	0.11
9	> 0.15	≤ 0.25	0.21
8	> 0.25	≤ 0.40	0.32
7	> 0.40	≤ 0.60	0.49
6	> 0.60	≤ 0.90	0.73
5	> 0.90	≤ 1.30	1.07
4	> 1.30	≤ 2.00	1.59
3	> 2.00	≤ 3.00	2.52
2	> 3.00	≤ 7.00	4.47
1	> 7.00	≤ 25.00	13.85
0	> 25.00	< 100.00	53.06
Exposures in default	100.00	100.00	100.00

Note: Average applied PD has been weighted by exposure.

PD: Example of mortgage exposures

The calculation of RWA is based on "applied PD", which reflects economic downturns. RWA determination was based on the assumption that 1.67% 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 1.18%. The levels of RWA 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 2013	Observed PD End-2013	Applied PD End-2013	Point-in-time PD Beginning of 2012	Observed PD End-2012	Applied PD End-2012
Mortgage exposures						
Retail exposures	1.27	0.80	1.30	1.64	0.69	1.20
Of which:						
- mortgages over real estate	*1.27*	*0.80*	*1.30*	*1.64*	*0.69*	*1.20*
- revolving exposures, etc	-	-	-	-	-	-
- other retail exposures	-	-	-	-	-	-
Commercial exposures	1.81	1.81	2.31	0.78	1.30	1.68
Total mortgage exposures	**1.45**	**1.14**	**1.64**	**1.38**	**0.89**	**1.36**
Bank exposures						
Retail exposures	1.46	0.98	1.49	1.20	0.82	1.10
Of which:						
- mortgages over real estate	*1.34*	*1.06*	*1.53*	*0.88*	*0.94*	*1.00*
- revolving exposures, etc	*1.30*	*1.01*	*1.33*	*0.91*	*0.71*	*1.05*
- other retail exposures	*1.97*	*0.76*	*1.54*	*2.44*	*1.37*	*1.38*
Commercial exposures	1.7	2.18	2.64	2.15	1.37	1.49
Total bank exposures	**1.61**	**1.70**	**2.18**	**1.72**	**1.28**	**1.40**
Total exposures						
Retail exposures	1.28	0.81	1.31	1.63	0.70	1.19
Of which:						
- mortgages over real estate	*1.27*	*0.81*	*1.31*	*1.63*	*0.69*	*1.19*
- revolving exposures, etc	*1.30*	*1.01*	*1.33*	*0.91*	*0.71*	*1.05*
- other retail exposures	*1.97*	*0.76*	*1.54*	*2.44*	*1.37*	*1.38*
Commercial exposures	1.79	1.85	2.35	0.92	1.32	1.63
Total exposures, total	**1.46**	**1.18**	**1.67**	**1.40**	**0.94**	**1.36**

Note: Exposure-weighted and excl exposures in default. Includes exposures determined subject to the advanced as well as the foundation IRB approaches not using internal LGD estimates.

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

2013 Rating category	Total exposures DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD[1] %	Exposure-weighted average risk weight %	RWA for credit risk DKKm
10	35,315	5	4.5	1.2	436
9	73,772	10	6.7	2.9	2,154
8	169,630	19	9.1	5.7	9,587
7	160,610	12	12.2	9.9	15,878
6	124,460	9	13.9	15.0	18,646
5	58,759	40	13.7	18.9	11,131
4	39,111	19	14.2	25.6	9,997
3	18,460	28	13.3	30.8	5,677
2	19,870	69	11.8	38.9	7,727
1	18,990	2	12.3	64.1	12,175
0	4,803	0	15.3	87.6	4,205
Exposures in default[2]	6,616	2	15.3	76.7	5,074
Total	**730,397**	**214**	**11.2**	**14.1**	**102,686**

[1] Pursuant to section 70(5) of the Danish Executive Order on Capital Adequacy, the exposure-weighted average LGD for retail exposures secured by mortgages over real estate must be at least 10% in the determination of RWA. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the 10% requirement.
[2] The determination of RWA 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

2013 Rating category	Total exposures DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD[1] %	Exposure-weighted average risk weight %	RWA for credit risk DKKm
10	14,618	668	15.9	18.5	2,706
9	37,331	85	17.0	25.3	9,442
8	85,180	2,032	13.2	21.9	18,616
7	80,435	779	13.4	25.9	20,868
6	56,530	167	12.8	27.2	15,362
5	27,206	87	12.7	29.8	8,118
4	18,367	193	13.0	33.8	6,199
3	23,551	1,205	11.5	32.4	7,642
2	3,078	21	15.2	47.4	1,460
1	8,682	27	15.4	72.6	6,304
0	7,641	55	15.6	62.6	4,780
Exposures in default[1]	15,793	9	18.2	39.0	6,154
Total	**378,413**	**5,327**	**13.8**	**28.4**	**107,652**

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

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

2013 Rating category	Total exposures DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD[1] %	Exposure-weighted average risk weight %	RWA for credit risk DKKm
10	5,202	1,103	45.8	5.8	303
9	2,622	932	44.1	13.4	351
8	2,669	857	42.3	20.1	537
7	2,539	682	42.1	28.0	712
6	2,512	635	42.6	37.7	948
5	4,111	928	42.3	49.5	2,036
4	4,597	824	42.5	63.2	2,903
3	2,739	424	42.8	78.9	2,160
2	1,938	308	43.4	98.6	1,911
1	5,03	87	43.2	144.9	729
0	139	16	47.2	172.9	241
Exposures in default[2]	781	44	45.5	392.9	3,068
Total	**30,352**	**6,839**	**43.3**	**52.4**	**15,899**

[1] Pursuant to section 70(5) of the Danish Executive Order on Capital Adequacy, the exposure-weighted average LGD for retail exposures secured by mortgages over real estate must be at least 10% in the determination of RWA. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the 10% requirement.
[2] The determination of RWA for exposures in default is based on the difference between LGDs and individual impairment provisions.

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

2013 Rating category	Total exposures DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	RWA for credit risk DKKm
10	4,813	2,800	42.6	32.9	1,583
9	25,653	1,476	7.8	7.1	1,832
8	34,670	3,611	18.6	22.9	7,938
7	12,521	3,474	40.0	59.3	7,431
6	13,328	756	25.0	42.3	5,643
5	13,315	348	10.2	19.0	2,532
4	4,390	364	41.1	92.0	4,038
3	18,081	292	11.3	28.5	5,153
2	1,392	195	42.1	113.4	1,578
1	2,364	80	44.8	203.7	4,815
0	1,495	20	44.5	169.9	2,539
Exposures in default[1]	8,099	351	44.4	0.0	-
Total	**140,121**	**13,766**	**21.4**	**32.2**	**45,082**

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

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

2013 Rating category	Total exposures DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD[1] %	Exposure-weighted average risk weight %	RWA for credit risk DKKm
10	40,517	2,282	4.0	1.8	740
9	76,394	942	8.0	3.3	2,504
8	172,298	877	9.7	5.9	10,124
7	163,150	694	12.7	10.2	16,589
6	126,972	644	14.5	15.4	19,593
5	62,870	969	15.6	20.9	13,167
4	43,708	842	17.2	29.5	12,900
3	21,199	452	17.1	37.0	7,837
2	21,809	377	14.6	44.2	9,638
1	19,494	88	13.1	66.2	12,905
0	4,942	16	16.2	90.0	4,446
Exposures in default[2]	7,397	45	18.5	110.1	8,142
Total	**760,749**	**8,227**	**12.1**	**15.6**	**118,585**

[1] Pursuant to section 70(5) of the Danish Executive Order on Capital Adequacy, the exposure-weighted average LGD for retail exposures secured by mortgages over real estate must be at least 10% in the determination of RWA. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the 10% requirement.
[2] The determination of RWA 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

2013 Rating category	Total exposures DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	RWA for credit risk DKKm
10	19,431	3,468	22.5	22.1	4,289
9	62,984	1,560	13.3	17.9	11,274
8	119,850	5,643	14.8	22.2	26,552
7	92,957	4,253	16.9	30.3	28,193
6	69,859	923	14.9	29.7	20,731
5	40,521	435	11.9	26.3	10,650
4	22,756	557	18.4	45.0	10,235
3	41,632	1,497	11.5	30.7	12,790
2	4,470	216	23.6	67.9	3,037
1	11,046	107	21.6	100.5	11,106
0	9,136	75	20.3	80.1	7,320
Exposures in default[1]	23,892	360	27.1	25.8	6,154
Total	**518,534**	**19,093**	**15.9**	**29.4**	**152,331**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] The determination of RWA for exposures in default is based on the difference between LGDs and individual impairment provisions. The low risk weight of the Nykredit Realkredit Group's exposures in default results from the fact that the risk weight of the Nykredit Bank Group's commercial exposures in default is calculated using the foundation IRB 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 LGD calculations factor in any security such as mortgages over real estate, including the type and quality of the security and the ranking in the order of priority.

LGD: Example of mortgage exposures

The determination of RWA is based on "applied LGD", which reflects the economic downturn in 1991-1993. RWA determination is based on the assumption that Nykredit would sustain a loss equal to 14.03% of lending in case of default.

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

The actual loss ratio, "observed LGD", was 17.12%. The levels of RWA calculation were thus lower than the actual levels for the period.

Nykredit determines losses as the part of the Group's claims at the time of realisation which are not subsequently covered by security provided. 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 over real estate. 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 LGD Beginning of 2013	Observed LGD End-2013	Applied LGD End-2013	Point-in-time LGD Beginning of 2012	Observed LGD End-2012	Applied LGD End-2012
Mortgage exposures						
Retail exposures	12.39	14.26	11.12	9.59	13.30	10.70
Of which						
- mortgages over real estate	*12.39*	*14.26*	*11.12*	*9.59*	*13.30*	*10.70*
- revolving exposures, etc	-	-	-	-	-	-
- other retail exposures	-	-	-	-	-	-
Commercial exposures	9.28	10.88	13.66	7.72	3.60	13.52
Total mortgage exposures	**11.34**	**12.63**	**11.97**	**8.97**	**10.52**	**11.65**
Bank exposures						
Retail exposures	31.89	48.35	43.26	31.02	47.71	30.79
Of which						
- mortgages over real estate	*27.68*	*48.41*	*37.65*	*26.50*	*49.17*	*25.27*
- revolving exposures, etc	*38.15*	*42.12*	*57.20*	*38.08*	*41.58*	*39.93*
- other retail exposures	*37.21*	*54.91*	*44.81*	*37.72*	*49.98*	*36.61*
Commercial exposures[1]	51.90	53.73	43.20	50.12	46.67	44.56
Total bank exposures	**42.86**	**52.65**	**43.22**	**42.91**	**46.87**	**40.63**
Total exposures						
Retail exposures	13.20	15.86	12.49	10.41	15.38	11.59
Of which						
- mortgages over real estate	*12.76*	*15.21*	*11.75*	*9.99*	*14.71*	*11.09*
- revolving exposures, etc	*38.15*	*42.12*	*57.20*	*38.08*	*41.58*	*40.00*
- other retail exposures	*37.21*	*54.91*	*44.81*	*37.72*	*49.98*	*36.94*
Commercial exposures	15.76	18.29	16.87	12.07	21.15	18.86
Total exposures, total	**13.20**	**17.12**	**14.03**	**11.18**	**17.63**	**14.34**

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 Danish Executive Order on Capital Adequacy. Applied LGDs for the Bank's commercial exposures are excl repos.
[1] LGD after credit risk hedging. Nykredit Bank's commercial lending is determined using the foundation IRB approach.

Applied LGD used to calculate RWA 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 loss ratios 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 over real estate offers good protection against losses. The use of security is described in more detail under "Security".

Exposure at Default (EAD) and conversion factors (CF)

EAD is estimated for all exposures relating to a customer and reflects the total expected exposure to a customer at the time of default, including any drawn part of approved credit commitments, in terms of conversion factors (CF).

CFs are 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, which is why 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 rate applied to calculate RWA.

New LGD and CF models at Nykredit Bank

Nykredit's approval from 2007 to apply the advanced IRB approach does not include Nykredit Bank's commercial exposures, as Nykredit did not have sufficient loss data on commercial customers at the time to be able to develop internal LGD and CF models. Instead, Nykredit was authorised to apply the foundation IRB approach to Nykredit Bank's commercial exposures.

Since then Nykredit has compiled and analysed loss data on Nykredit Bank's commercial customers and in 2013 completed the development of internal LGD and CF models. Nykredit is now ready to start applying the advanced IRB approach to Nykredit Bank's commercial exposures.

The new models are scheduled to be approved by the Danish FSA in 2014 and will be applied by Nykredit after that.

Under the new models, Nykredit's RWA will increase by about DKK 28bn. This capital impact derives from the new requirement that sufficient capital must be provided to cover loans in default and the fact that the Bank's actual LGD levels are higher than the standard value of 45% under the current approach.

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

	Observed CF End-2013	Applied CF End-2013	Observed CF End-2012	Applied CF End-2012
Bank exposures[1]				
Retail exposures	1.04	1.10	1.04	1.11
Of which				
- mortgages over real estate[2]	*1.05*	*1.13*	*1.04*	*1.13*
- revolving exposures, etc	*1.03*	*1.07*	*1.04*	*1.07*
- other retail exposures	*1.04*	*1.06*	*1.03*	*1.06*
Total bank exposures	**1.04**	**1.10**	**1.04**	**1.11**

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

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. Other things being equal, customers with low LTVs have better ratings than customers with high LTVs. Also, LTVs are included in the calculations of customer LGDs.

IRB losses

The IRB 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 losses of DKK 11.3bn are therefore somewhat higher than the Group's current loan impairment provisions of DKK 8.5bn, as the latter reflect the risk of loss in the current economic climate.

IRB losses are based on LGDs calibrated to the period 1991-1993. Therefore, IRB losses will typically be higher than incurred losses both in periods of high business activity and during a mild recession. The calculation includes the expected losses on exposures in default.

Incurred losses remained low in 2013. Total incurred losses amounted to DKK 1,611m in 2013 against DKK 1,291m in 2012.

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 RWA and for many internal business purposes, it is crucial that the models work as intended and provide consistent results.

The Nykredit Realkredit Group
Impairment losses, IRB losses and incurred losses

DKK million	Total impairment provisions 2013[1]	Incurred losses 2013[2]	IRB losses 2014[3]
Mortgage exposures			
Retail exposures	2,209	656	2,246
Of which			
- mortgages over real estate	*2,209*	*656*	*2,246*
- revolving exposures, etc	-		-
- other retail exposures	-		-
Commercial exposures	2,150	339	4,108
Total mortgage exposures	**4,359**	**995**	**6,354**
Bank exposures			
Retail exposures	553	94	547
Of which			
- mortgages over real estate	*239*	*30*	222
- revolving exposures, etc	*50*	*24*	101
- other retail exposures	*264*	*40*	224
Commercial exposures	3,544	522	4,367
Total bank exposures	**4,097**	**616**	**4,914**
Total exposures			
Retail exposures	2,762	750	2,793
Of which			
- mortgages over real estate	*2,448*	*686*	2,468
- revolving exposures, etc	*50*	*24*	101
- other retail exposures	*264*	*40*	224
Commercial exposures	5,694	861	8,475
Total exposures, total	**8,455**	**1,611**	**11,268**

Note: Includes exposures determined subject to both the advanced and the foundation IRB approaches. IRB losses on retail exposures secured by mortgages over real estate have 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 loan impairment provisions and provisions for guarantees.

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

[3] IRB losses are stated at end-2013 and express the model-based expected losses for the coming year. IRB losses have been determined using LGDs for 1991-1993 pursuant to the rules of the Danish Executive Order on Capital Adequacy. One reason is that Nykredit's impairment losses are expected to be lower in 2014 than in 2013.

The models are developed by Risk Management, which is independent of Nykredit's credit approval and operations in general. To ensure a good forecasting ability and consistent estimates, all credit models are validated at the development stage and are subject to regular validation – at least once a year. Model development and model validation are separate functions. A group committee, Parameters and models, approves the results of the validation activities on a current basis, while 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 RWA.
- *Annual analysis of qualitative credit assessments:* As an integral part 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.
- *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 facilities 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. Furthermore, the assessment includes the quality of the security provided.

This loan approval approach is used for retail exposures secured on real estate, 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. The lower the customer rating, the greater the importance of the security to the overall assessment.

Overrides allow case officers to adjust a rating if the customer's current financial position or actual creditworthiness is not considered to be reflected in its financial statements etc.

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 over real estate. Other types of security are guarantees, financial collateral and charges on equipment, machinery, plant, etc.

In the determination of RWA and the required capital base, only the effect of mortgages over real estate, guarantees received and financial collateral is included.

Real estate

Mortgages over real estate reduce the credit risk substantially. The mortgageable value of a property is determined at the time of loan granting and is subsequently monitored on a continuous basis. 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 homeowner's

Validation and control of models

%	Personal customers – Nykredit Realkredit A/S			Commercial customers – the Nykredit Realkredit Group		
	Number of customers	Model expectations of defaults	Actual defaults	Number of customers	Model expectations of defaults	Actual defaults
Ordinary customers (rating categories 6-10)	200,494	660	819	45,155	185	156
Ordinary customers without significant signs of weakness (rating categories 3-5)	32,595	520	596	13,054	210	183
Weak customers with and without OEI (rating categories 0-2)	12,772	1,559	1,269	5,017	788	486
Total	**245,861**	**2,739**	**2,684**	**63,226**	**1,183**	**825**

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 the mortgageable value and risk classification. Such valuations are subject to approval by the valuer in the relevant geographical area and are monitored centrally.

Following the initial valuation, the market value of a property is monitored regularly. Nykredit uses a statistical model for the monitoring of detached and terraced houses, owner-occupied flats and holiday homes. 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 property price committee comprising experienced staff with in-depth knowledge of the housing market and solid valuation skills. 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.

Bank guarantees include guarantees for registration of mortgages free from any adverse endorsements, guarantees for interim loans and loss guarantees.

Guarantees are widely applied in the day-to-day management of Nykredit's credit risk, particularly in customer relationships where a parent company contributes capital to group companies. The determination of RWA and the required capital base includes guarantees whereby limited liability companies, production farming businesses and large privately owned enterprises assume primary liability. Guarantees provided by small privately owned enterprises and private individuals are not included. On inclusion of a guarantee, the customer's rating is replaced by the guarantor's rating if the latter is better.

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 incurred 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 high-rated liquid Danish and foreign bonds, and listed and liquid equities.

Nykredit assigns an internal security value to the different types of financial collateral depending on the risk involved. The lower the market and credit risks, the higher the security value. The internal security values are used for the credit granting process and for internal management purposes.

For the purpose of calculating RWA, Nykredit assigns to the different types of financial collateral a regulatory security value based on the rules of the Danish Executive Order on Capital Adequacy.

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 is based on market standards such as ISDA or GRMA agreements. In addition to a netting agreement, an agreement on financial collateral is typically concluded following an individual assessment. 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 RWA and required capital base.

The Nykredit Realkredit Group
Types of security and credit exposures

2013 DKK million	Real estate[1]	Guarantees received	Financial collateral	Total security value	Total exposure
Retail exposures	710,144	7,979		718,123	761,869
Of which	710,144	7,979		718,123	
- mortgages over real estate					*748,822*
- revolving exposures, etc					*6,241*
- other retail exposures					*6,806*
Commercial exposures	372,531	30,579	73,873	476,982	524,167
Credit institution exposures					51,050
Sovereign exposures					38,918
Equity exposures					3,054
Securitisations					1
Assets with no counterparty					4,535
Total 2013	**1,082,674**	**38,559**	**73,873**	**1,195,105**	**1,383,593**
Total 2012	1,063,805	52,817	49,347	1,165,969	1,364,349

Note: Exposures also include guarantees issued by banks (DKK 8bn), which have been recognised under credit institution exposures, and government guarantees (DKK 30.6bn), which have been recognised under sovereign exposures.
[1] The security value of real estate is measured at nominal value. The part of the exposure for which security has been provided is shown.

MARKET RISK

Nykredit assumes various market risks through 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).

The share of risk-weighted assets (RWA) involving market risk relative to total RWA amounts to 8.3%.

NYKREDIT'S INVESTMENT POLICY

Nykredit's market risk is determined for two purposes:

- Internal management of all positions involving market risk.
- Determination of RWA for market risk, cf "Capital and capital adequacy".

For the internal management, a wide variety of different key figures are applied to determine market risk, including a Value-at-Risk model, and the Board of Directors lays down limits to Nykredit's market risk appetite.

The determination of RWA for market risk takes place in accordance with various statutory methods, including a Value-at-Risk model. However, the model applied here is slightly simplified compared with the model used for the internal management. The model is combined with a number of other methods to determine one aggregate RWA figure. The model has been approved by the Danish FSA for determination of a large part of Nykredit's general market risk.

Nykredit's market risk policy

The Board of Directors has adopted a policy of having an appropriate appetite for market risk in order to prevent losses on market risk exposures that would keep Nykredit from generating a profit in any financial year.

The most risky investments are placed in the Parent Company, while other investments involving market risk lie in the subsidiaries.

The primary investments are in 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.

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 match-funded, cf the description under "Liquidity and funding".

Nykredit's market risk relates mainly to the placing 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 and short positions for the Bank's own account.

Nykredit's guidelines for market risk

Nykredit's Board of Directors lays down market risk limits which are applied in the day-to-day management. 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.

The Group Products Committee coordinates the implementation of new products, thereby ensuring that the risks can be determined and managed correctly.

Compliance with risk limits is monitored daily and independently of the acting entities of the Group. Any breaches are reported to the Group Treasury Committee, the Board of Directors of Nykredit Realkredit or other boards of directors depending on the nature of such non-compliance.

Determination, management and reporting of market risk require a range of different tools in the form of statistical models, key ratios and limits.

The Nykredit Realkredit Group
The Board of Directors' principal market risk limits at group level, end-2013

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 (2,000)m to 4,000m
Foreign exchange	Measured at market value	DKK 3,500m
Spread risk	Loss on yield spread widening of 1 percentage point	DKK 0m to 5,000m
Credit bonds	Measured at book value	DKK (2,000)m to 7,500m
- Up to A1/A+	*Measured at book value*	*DKK (2,000)m to 5,000m*
- Up to –Ba1/BB+ and not rated	*Measured at book value*	*DKK (1,000)m to 2,000m*
Volatility risk	Measured as losses on a general rise in interest rate volatility of 1 percentage point	DKK (100)m to 100m

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.

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

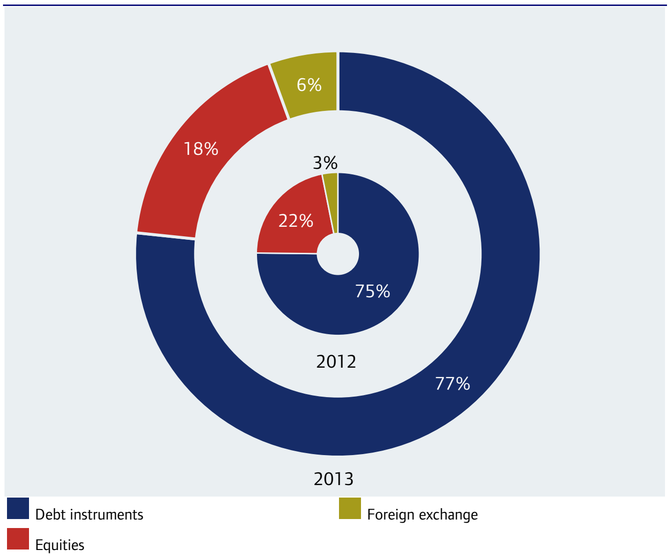
Value-at-Risk (VaR) models are applied to calculate the maximum value decrease of a given portfolio over a given period and at a given probability. VaR models measure the effect and probability of several risks occurring at the same time.

Value-at-Risk

Internal management

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

The Nykredit Realkredit Group
Breakdown of market risk



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

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.

The Group's internal VaR totalled DKK 70m at end-2013 against DKK 78m at end-2012. This means that, according to the internal model, Nykredit would, at a 99% probability, lose a maximum of DKK 70m in one day in consequence of market fluctuations. Compared with 2012, the development in VaR was more stable during 2013 with smaller fluctuations and a lower average value for the year.

Capital adequacy determination

Nykredit has the approval of the Danish FSA to apply VaR in determining RWA for the market risk of Nykredit Realkredit A/S and Nykredit Bank A/S.

The VaR model for determining RWA applies a statutory confidence level of 99% and a time horizon of 10 days. For the purpose of determining RWA, 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 RWA.

Stressed VaR is calculated by means of the model used to calculate RWA. 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.

The Nykredit Realkredit Group
Risk-weighted assets for market risk

2013 DKK million	Specific risk	General risk	Total RWA	Total RWA 2012
Internal models (VaR):				
Value-at-Risk (99%, 10 days)	-	3,967	3,967	4,714
Stressed Value-at-Risk (99%, 10 days)	-	15,505	15,505	14,262
Standardised approach:				
Debt instruments	6,601	1,238	7,839	9,419
Equities	361	212	573	662
Foreign exchange risk	0	0	0	4
Collective investment schemes	688	0	688	546
Total market risk	**7,650**	**20,922**	**28,571**	**29,606**

Nykredit Realkredit A/S and Nykredit Bank A/S both apply periods between September 2008 and September 2009 for calculating stressed VaR. These periods are characterised by very substantial fluctuations in the model parameters and cover the period after the collapse of Lehman Brothers in September 2008.

The Group's total RWA for VaR amounted to DKK 19,472m at end-2013 against DKK 18,976m at end-2012. Of this amount, stressed VaR amounted to DKK 15,505m at end-2013 against DKK 14,262m at end-2012. Also in this case, the decrease in VaR was due to lower volatilities and reduced positions.

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, RWA will be adjusted upwards. VaR back tests for Nykredit Realkredit A/S and Nykredit Bank A/S are shown in the figures.

In the back test of the model for calculation of RWA for VaR used by Nykredit Realkredit A/S there were 2 breaches , while there were no breaches in the corresponding model used by Nykredit Bank A/S. In comparison, both companies had 0 breaches in 2013.

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.

Parameters used to determine Value-at-Risk

Value-at-Risk is a statistical measure of the maximum loss on a portfolio at a given probability within a given time horizon. Risk is determined using a Value-at-Risk model that includes the risk relating to spreads between covered bond yields and swap rates, for selected government and credit bonds, as well as covered bonds in Nykredit Realkredit.

The parameters used in the calculation of Value-at-Risk are:

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 weight. Volatilities and correlations are calculated on the basis of data for the last 250 banking days.
Time horizon:	Value-at-Risk is calculated at a time horizon of one 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:	Value-at-Risk is calculated at the following confidence levels: ▪ RWA for market risk: 99% ▪ Day-to-day business management: 99%

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

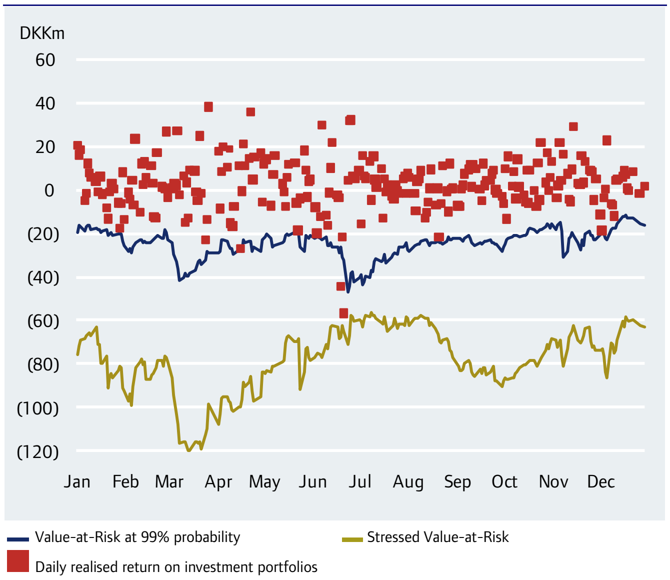
DKK million	Average	Min	Max	Year-end
2013	78	55	122	70
2012	110	66	155	78

The Nykredit Realkredit Group
Value-at-Risk

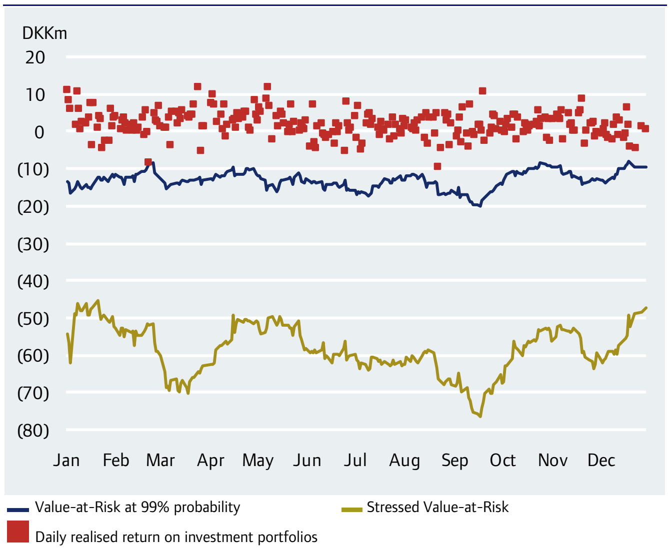
2013 DKK million	1 day	10 days
VaR for capital requirement (99.00%)[1]	26	81
Stressed VaR for capital requirement (99.00%)[2]	102	324

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

Nykredit Realkredit A/S
Back test of VaR (99%, 1 day) 2013



Nykredit Bank A/S
Back test of VaR (99%, 1 day) 2013



The main focus of the daily stress tests is the market risks to which the individual companies are exposed. The scenarios applied in the individual companies are therefore different and reflect their respective risk profiles. The tests are adjusted in line with business developments. In 2013 the stress tests did not give rise to a changed view of the Nykredit Realkredit Group's risk profile.

In calculating 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 450m at end-2013.

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.

The Nykredit Realkredit Group
Market risk

2013 DKK million	Interest rate exposure (100bp change)	Spread risk (100bp change)	Interest rate volatility exposure (Vega)	Equity price exposure (10% change)	Equity volatility exposure (Vega)
Money market instruments	(114)	-	-	-	-
Government bonds	(59)	(85)	-	-	-
Danish covered bonds	1,618	2,485	9	-	-
Swedish covered bonds	214	212	-	-	-
Other covered bonds	343	376	-	-	-
Junior covered bonds	(640)	(884)	-	-	-
Bank issues	(251)	(417)	-	-	-
Other bonds, loans and advances	82	137	-	-	-
Equities	-	-	-	287	-
Derivative financial instruments	(743)	(5)	3	-	1
Securitisations	-	-	-	-	-
Total	**450**	**1,819**	**11**	**287**	**1**

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

The Nykredit Realkredit Group
Market Risk

DKK million	2013				2012			
	Average	Min	Max	Year-end	Average	Min	Max	Year-end
Interest rate exposure (1 pp change)	375	106	549	450	202	(83)	579	193
– of which outside trading book	*55*	*(59)*	*139*	*121*	*59*	*(27)*	*155*	*86*
– of which from mortgage activities	*53*	*(51)*	*185*	*65*	*53*	*(31)*	*131*	*69*
Spread risk (OAS)	2,388	2,093	2,751	2,320	2,315	1,823	2,854	2,578
Equity price exposure (10% chang	294	222	383	287	378	318	437	345
Foreign exchange exposure:								
– Foreign exchange positions, EUR	*244*	*27*	*651*	*651*	*218*	*8*	*768*	*294*
– Foreign exchange positions, other currencies	*102*	*(26)*	*335*	*335*	*(2)*	*(264)*	*120*	*9*
Interest rate volatility risk (Vega)	9	2	19	11	15	3	35	7

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 A/S and Nykredit Realkredit A/S
Losses in stress tests

2013 DKK million	Min	Max	Average	Year-end
Nykredit Bank				
Shock to short-term interest rates (scenario 1)	388	677	526	460
20bp rise in DKK rates and 5% devaluation (scenario 2)	18	73	46	38
20bp spread widening between govt and swap (scenario 3)	(16)	55	24	24
Credit crunch similar to Lehman collapse (scenario 4)	323	502	414	349
Nykredit Realkredit and Totalkredit[1]				
Interest rate rise of 65bp	8	312	160	236
Spread widening as during sovereign debt crisis	65	339	182	96
Equity, credit and volatility crisis similar to Lehman collapse	1,743	5,029	3,012	2,174

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

In order to reduce the refinancing risk, Nykredit spread its refinancing activity over four auctions in 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 means of new bond issues. Following refinancing, borrowers' loan rate mirrors the yield-to-maturity of the bonds sold.

Spread risk
Spread risk is the risk of spread widening between covered bond yields and swap rates. The spread risk of the Group's portfolio of covered bonds amounted to DKK 2.3bn at end-2013. This means that the Group would lose DKK 2.3bn 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 Group's equity price exposure amounted to DKK 287m at end-2013.

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 Group hedges its foreign exchange risk 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 2013.

Volatility risk
Volatility is a measure of the 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 for all financial instruments with embedded options and is managed by means of limits.

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.
- Subordinated capital hedged with interest rate swaps.

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 has business relationships, equities in certain property companies and equities in VP Securities. They are classified as available for sale in accordance with IAS 39 and are therefore value-adjusted directly against equity.

Strategic equity exposures ranged between DKK 0.7bn and DKK 1.8bn in 2013, while private equity exposures ranged between DKK 0.4bn and DKK 0.6bn. The relatively large fluctuation in the exposure to strategic equities was due to Nykredit's sale of parts of its portfolio at the beginning of the year.

At end-2013, the portfolio of strategic equities stood at DKK 1.5bn, of which DKK 1.3bn in Danish financial institutions and DKK 0.2bn in the property sector.

Bonds in the trading book
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-2013, Nykredit had a net short government bond position of DKK 0.4bn. Nykredit had no exposures to Southern European capital markets.

Of the Nykredit Realkredit Group's total portfolio of ROs, SDOs, other covered bonds and credit bonds of an aggregate DKK 96.1bn, the exposure to securities rated Aa3/AA- or higher amounted to DKK 91.1bn.

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

Market value DKK million	2013	2012
Listed equities	641	1,516
Unlisted equities	1,802	1,308
Total	**2,443**	**2,824**

The Nykredit Realkredit Group
Bond portfolio by type and country

2013 DKK billion	Government bonds	Covered bonds	Junior covered bonds	Credit bonds[1] (excl subordinated capital)	Subordinated capital	Total
Denmark	2,409	71,619	892	195	1,139	76,255
Sweden	(1,760)	9,103	-	121	56	7,520
Norway	-	2,159	-	11	-	2,170
Finland	(75)	4,030	-	-	0	3,955
Germany	(955)	-	-	-	224	(732)
Netherlands	-	883	-	-	174	1,057
France	-	4,059	-	77	139	4,275
Belgium	-	-	-	-	-	-
UK	-	365	-	-	210	575
Switzerland	-	641	-	-	99	740
USA	-	-	-	271	-	271
Other	-	-	-	1	-	1
Total	**(382)**	**92,860**	**892**	**677**	**2,040**	**96,086**

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.
[1] In addition, Nykredit has hedged exposures through credit derivatives of a net amount of DKK 74m.

The Nykredit Realkredit Group
Bond portfolio by type and external rating category

2013 DKK billion	Government bonds	Covered bonds	Junior covered bonds	Credit bonds[1] (excl subordinated capital)	Subordinated capital	Total
Aaa/AAA	(382)	90,566	-	11	-	90,195
Aa1/AA+ - Aa3/AA-	-	789	-	121	-	911
A1/A+ - Baa3/BBB-	-	1,497	818	535	1,008	3,858
Ba1/BB+ or below	-	-	-	2	444	446
Not rated	-	8	74	7	588	677
Total	**(382)**	**92,860**	**892**	**677**	**2,040**	**96,086**

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.
[1] In addition, Nykredit has hedged exposures through credit derivatives of a net amount of DKK 74m.

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 (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.

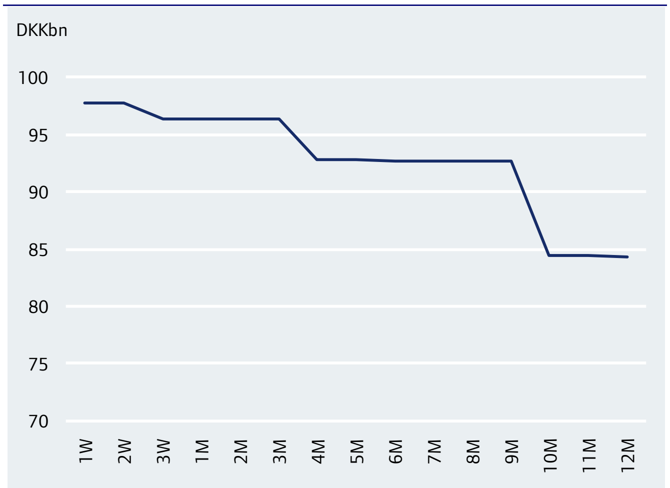
Nykredit's equity and capital market funding, excluding self-issued covered bonds, are placed in liquid Danish and European government and covered bonds. These securities are eligible as collateral with the Danish or other European central banks and thus directly applicable for raising liquidity. To this should be added a small portfolio of money market deposits, equities, credit bonds and similar assets.

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

Of the total stock of liquid assets of Nykredit's mortgage lenders, available unencumbered assets amounted to DKK 98bn at end-2013 against DKK 92bn at end-2012.

In accordance with the Danish Executive Order on Management and Control of Banks etc., the Group's total liquidity risk is overseen and assessed by the Group Asset/Liability Committee. The Group Asset/Liability Committee monitors the liquidity of group companies on an ongoing basis. The individual companies manage the day-to-day liquidity risk.

Mortgage lending
Liquidity stress testing (internal methods)



Note: Liquidity raised by issuing junior covered bonds is included up to their maturity.

LIQUIDITY AND FUNDING REQUIREMENTS

Given a strong focus on ensuring that credit institutions have adequate capital and liquid assets to fulfil the claims of their creditors, the following regulatory requirements as well as requirements from credit rating agencies must be met.

- Minimum statutory requirements (s 153 of the Danish Financial Business Act)
- Supplementary collateral requirements (SDOs) in connection with falling property prices
- Overcollateralisation requirements from credit rating agencies.

In addition to the requirements already in force, Nykredit will be subject to the following future requirements:

- Liquidity Coverage Ratio (LCR)
- Net Stable Funding Ratio (NSFR)
- Broad liquid assets to short-term wholesale funding (BLAST)
- Net Stable Funding.

The LCR and NSFR were introduced as part of the CRR framework, while Standard & Poor's has introduced BLAST and Net Stable Funding. The new ratios from S&P largely match the requirements laid down in the CRR.

The aim of the new measures is to ensure the resilience of credit institutions to liquidity risks in the short and long term. Credit institutions' activities are therefore regulated in respect of:

- the stock of liquid assets to cover short-term net cash outflows
- the maturity of the funding.

The LCR is expected to enter into force in January 2015 for Danish SIFIs. The LCR denotes the amount of high quality liquid assets (HQLA) to be held by a credit institution to be able to cover net cash outflows over a short-term stress period.

Under both the LCR and other future requirements, self-issued bonds are no longer classed as HQLA. Nykredit has had a substantial portfolio of self-issued bonds as they have facilitated efficient and inexpensive prepayment of mortgage loans by borrowers while underpinning market liquidity. As a result of the new requirements, a proportion of Nykredit's portfolio of self-issued bonds was replaced with bonds by other issuers already in late 2013. Subsequently, the current stock of liquid assets is sufficient to fulfil the expected LCR requirement.

The purpose of the other future requirements is to regulate the duration of the funding and encourage credit institutions to apply more medium- and long-term funding. The NSFR has not been finally adopted, however. At present, it is a reporting requirement, which is expected to be introduced as a hard requirement in 2018.

The Nykredit Realkredit Group
Liquidity Coverage Ratio (LCR)

%	2013
The Nykredit Realkredit Group	199
Nykredit Realkredit A/S	242
Totalkredit A/S	396
Nykredit Bank A/S	128

As Danish issuers fund large portfolios of mortgage loans with funding with times-to-maturity below 1 year (ARMs with 1-year funding and other loans subject to refinancing within 12 months), it will be difficult for the sector to fulfil the new requirements. However, Nykredit has already launched the following initiatives to meet the requirements:

- Deconcentrating refinancing auctions
- Cita loans
- Two-tier mortgaging
- Realkredit Classic.

Deconcentrating refinancing auctions

Nykredit now holds four annual refinancing auctions instead of one large auction a year. That way, auction volumes are deconcentrated and the refinancing risk is reduced. At the latest auction in 2013, auction volumes totalled DKK 92bn. Compared with the corresponding auction in 2012, this was a decline of 25%.

So far, the July auctions have exclusively been used for the refinancing of Cibor loans, but from 2014 adjustable-rate mortgage (ARM) loans will also be refinanced in July, like at the other auctions.

Demand for Nykredit's bonds was generally high at the latest auction, especially for 1-year bonds. This resulted in a record low cash loan rate on loans funded with 1-year DKK bonds. In addition to the auctions, bonds are issued on a daily basis, and the AAA rating assigned by S&P supports a thriving wholesale market. Also in this market, there is a quite keen interest in Nykredit's bonds.

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

DKK billion	2013
Present requirement for supplementary collateral	44.3
Total requirement for supplementary collateral on additional 5% housing price decline	58.3
Assets provided as supplementary collateral	70.1
- of which funded by junior covered bonds[1]	37.9

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

The Nykredit Realkredit Group
Issued junior covered bonds

DKK million	Maturity date	Nominal outstanding amount
JCB 14 January (DKK)	15.01.2014	1,670
JCB 14 April (EUR)	01.04.2014	2,984
JCB 14 October (DKK)	01.10.2014	4,220
JCB 15 January (DKK)	01.01.2015	2,325
JCB 15 April (DKK)	01.04.2015	2,800
JCB 15 October (DKK)	01.10.2015	3,500
JCB 16 January (DKK)	01.01.2016	2,000
JCB 16 April (DKK)	01.04.2016	7,000
JCB 16 October (DKK)	01.10.2016	2,000
JCB 17 April (DKK)	01.04.2017	1,000
JCB 17 June (EUR)	01.06.2017	5,595
JCB 18 May (EUR)	02.05.2018	3,730
JCB 19 January (EUR)	28.01.2019	3,730
Private placements > 5 years		1,082
Total		**43,636**

Note: Pursuant to the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, junior covered bonds may be applied to fund overcollateralisation in capital centres.

Cita loans

A new competitive Cita loan was introduced in November 2013. The loan is non-callable and based on 6M money market rates (Cita).

Nykredit expects that part of the ARMs with 1-3-year funding will be converted to Cita loans, whereby issuance of floating-rate bonds with maturities over 1 year will increase. The funding of the loans is more flexible than for ARMs with 1-year funding, for instance, as the mortgage banks have more latitude in determining the maturity of the underlying bonds.

Two-tier mortgaging

Two-tier mortgaging for commercial and personal customers was introduced in 2009 and 2012, respectively. Two-tier mortgaging is used where the total loan amount exceeds 45% of the property value for commercial property and 60% of the property value for private residential property. Mortgaging of up to 45% for commercial and 60% for personal customers (base loan) is funded by SDOs, while mortgaging in the range 45-60% for commercial and 60-80% for personal customers (top loan) is funded by ROs.

By lowering the loan-to-value (LTV) limit for loans funded by SDOs, the average LTV in the SDO capital centres will decrease over time. This will result in a reduction of the supplementary collateral which Nykredit must provide in case of declining property prices to comply with the Danish SDO legislation.

For top loans, minimum refinancing intervals also apply. For commercial customers, the minimum refinancing interval is 3 years, and for personal customers the minimum refinancing interval is 5 years. These restrictions will serve to reduce annual refinancing volumes over time.

Realkredit Classic

Due to growing demand for fixed-rate loans with repayments, Nykredit Realkredit and Totalkredit will reintroduce a fixed-rate 30-year repayment mortgage loan up to an LTV of 80% in the SDO capital centre. The repayments will reduce Nykredit's need to post supplementary collateral over time. Also, the use of 30-year bonds will serve to reduce the annual refinancing volumes.

NEW ACT CONCERNING REFINANCING RISK

Mortgage banks' adaptation to future regulatory requirements is expected to be facilitated by a new bill. The background for the bill is the regular refinancing in the form of auctions of new bonds, which involve the risk that a sufficient amount of new bonds cannot be sold, or that bond yields increase excessively.

The new act will introduce rules for the issuance of bonds to refinance mortgage loans where the term of the loan is longer than the maturity of the underlying bonds. Expectations are that mandatory maturity extension will be introduced with the following triggers:

- Interest rate trigger: The interest rate rises by more than 5 percentage points at an auction
- Auction trigger: An auction or a similar sale fails.

The act is expected to enter into force gradually, see the table below. Short-term bonds used for refinancing of ARMs with 1-year funding will be subject to the act from 1 April 2014, while bonds used for refinancing of ARMs with 3-5-year funding will be subject to the act as of 1 January 2015. Existing bond issues will not be affected.

The detailed rules await the reading of the bill in the Danish Parliament.

BANKING

Nykredit Bank monitors its balance sheet and liquidity position on a daily basis as part of its liquidity risk management. The Bank's liquidity risk management is based on external requirements both statutory and from rating agencies as well as on internal factors such as the run-off profile and concentration risk of its assets and liabilities.

New liquidity rules and rating requirements require the Bank to hold a large liquidity buffer. Unencumbered securities in the trading book constitute a short-term liquidity buffer that may be applied in the case of unforeseen drains on the Bank's liquidity. 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 Management and Control of Banks etc.

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 coverage of at least 50% relative to the statutory requirement.

At 31 December 2013, the excess coverage was 276% against 183% at end-2012, corresponding to a liquidity reserve of DKK 62.6bn compared with DKK 44.8bn at end-2012. In 2013 the liquidity reserve averaged DKK 44.4bn compared with DKK 36.6bn for 2012.

The aggregate amount issued under the ECP (Euro Commercial Paper) and EMTN (Euro Medium-Term Note) programmes was DKK 29.3bn at end-2013 against DKK 29.7bn at end-2012.

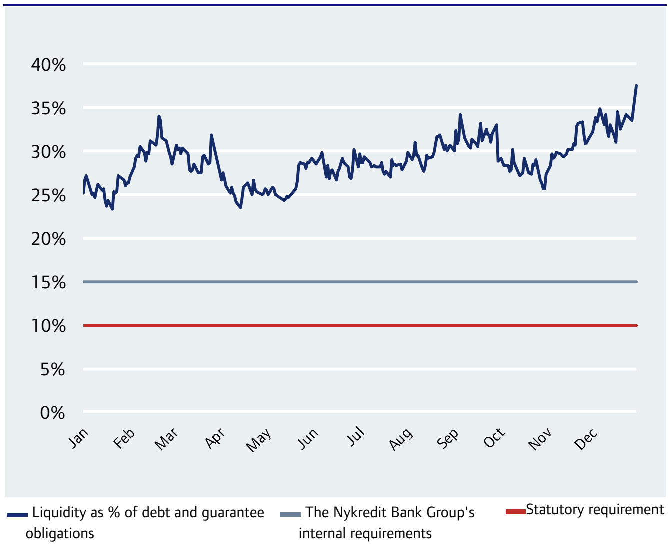
Total run-off under Nykredit Bank's EMTN programme in 2014 will be DKK 6.4bn. The refinancing thereof commenced in autumn 2013 with a benchmark issue of EUR 500m.

The total EMTN and ECP issuance requirement depends on the development in the Bank's deposits and lending and its other business activities.

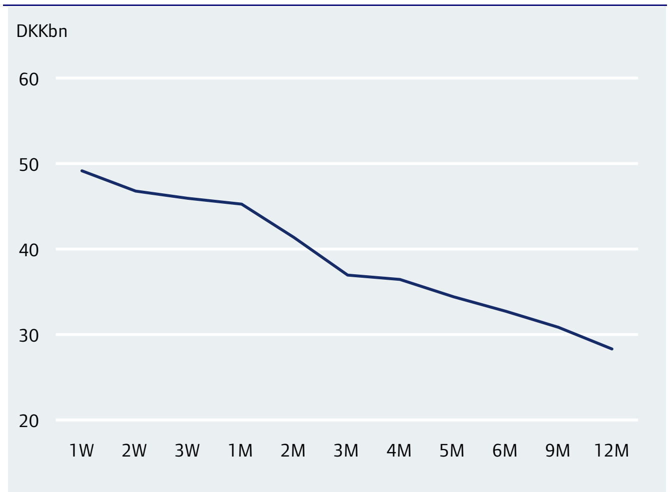
The Nykredit Realkredit Group
Implementation of new legislation

	Interest rate trigger	Auction trigger
1 April 2014	1-3-year bonds	1-year bonds
1 January 2015	1-3-year bonds 1-3-year floating-rate	All bonds refinancing loans (typically 1-10-year)

The Nykredit Bank Group
Liquidity relative to statutory requirements 2013



Banking
Liquidity stress testing (internal methods)



CREDIT 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 the credit rating of the companies and their funding.

The bonds issued by Nykredit Realkredit A/S are primarily mortgage covered bonds (SDOs and ROs). In addition, bonds have been issued for the funding of supplementary collateral (junior covered bonds), AT1 capital and OC requirements from rating agencies.

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

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

Standard & Poor's

Nykredit's SDOs and ROs issued through rated capital centres are all rated AAA by Standard & Poor's, which is the highest possible rating, and have a stable rating outlook.

All issued junior covered bonds are rated A+ by Standard & Poor's.

Nykredit Realkredit A/S and Nykredit Bank A/S both have a long-term unsecured rating of A+ and a short-term unsecured rating of A-1.

The outlooks for the unsecured ratings of Nykredit Realkredit A/S and Nykredit Bank A/S were revised from stable to negative on 19 July 2013. Similarly, the outlook for the rating of Nykredit's junior covered bonds was revised from stable to negative on 23 July 2013.

The negative outlooks are a consequence of Standard & Poor's changed view of the refinancing risk relating to ARMs with short-term funding for the sector in general.

Fitch Ratings

Nykredit Realkredit A/S and Nykredit Bank A/S both have a long-term unsecured rating of A and a short-term unsecured rating of F1 with stable outlooks.

Moody's Investors Service

Nykredit terminated its rating relationship with Moody's Investors Service in April 2012.

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

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

The Nykredit Realkredit Group
Ratings

	Nominal DKKbn[1]	S&P	Fitch
SDOs, ROs and junior covered bonds			
Nykredit Realkredit A/S			
- Capital Centre C (covered bonds (ROs))	3	AAA	
- Capital Centre D (covered bonds (ROs))	206	AAA	
- Capital Centre D (junior covered bonds)	6	A+[2]	
- Capital Centre E (junior covered bonds)	309	AAA	
- Capital Centre E (junior covered bonds)	19	A+[2]	
- Capital Centre G (covered bonds, ROs)	38	AAA	
- Capital Centre H (covered bonds, SDOs)	606	AAA	
- Capital Centre H (junior covered bonds)	16	A+[2]	
- Capital Centre I (covered bonds, ROs)	11	AAA	
- Nykredit Realkredit In General (covered bonds, ROs)	2	AAA	
Totalkredit A/S			
- Capital Centre C (covered bonds, ROs)	47	AAA	
Other ratings			
Nykredit Realkredit A/S			
- Short-term unsecured rating		A-1	F1
- Long-term unsecured rating		A+[2]	A
- Hybrid capital (Tier 1)		BBB	
Nykredit Bank A/S			
- Short-term deposit rating		A-1	F1
- Long-term deposit rating		A+[2]	A
Euro MTN Program			
- Short-term senior debt		A-1	F1
- Long-term senior debt		A+[2]	A
Euro Commercial Paper Program and Certificate of Deposit Program			
- Short-term senior debt		A-1	F1

[1] Issued bonds at nominal value at 31 December 2013
[2] Negative outlook

OPERATIONAL RISK

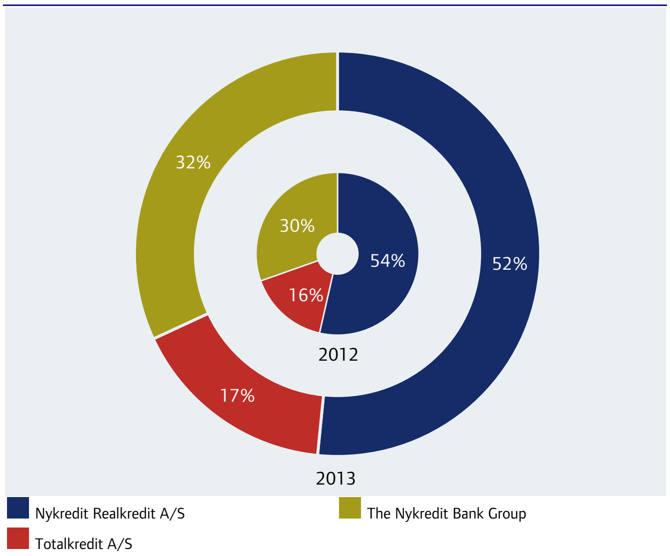
Operational risk reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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.

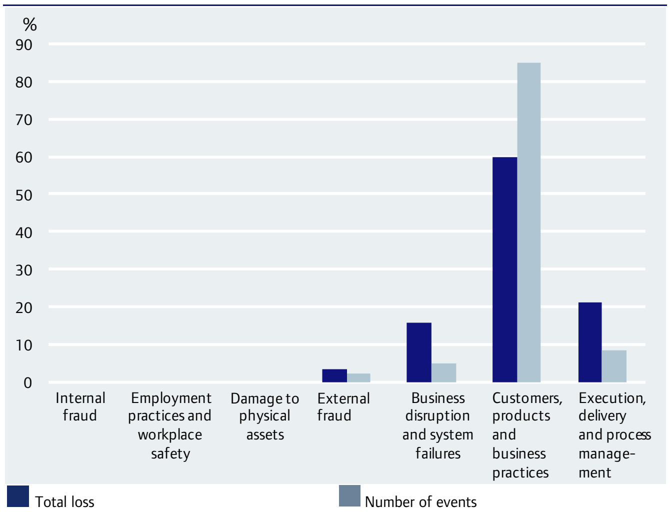
The operational risk relating to the Group's primary activities is inherently limited as mortgage lending activities are highly standardised.

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.

The Nykredit Realkredit Group
Breakdown of operational risk



The Nykredit Realkredit Group
Operational loss events in 2013



Note: Operational loss events have been categorised according to the classification set out in the Danish Executive Order on Capital Adequacy.

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 2013 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, Nykredit 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 Nykredit's centralised operational risk function. Operational risk mapping provides a valuable overview of particularly risky processes and systems and therefore constitutes an excellent management tool.

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. At end-2013 the Audit Board requested impact assessments of the following black swans: A very steep interest rate rise, collapse of a regional housing market segment and an impact assessment of significant regulatory measures in relation to mortgage lending. The impact assessments are scheduled to be presented to the Risk Board at its meeting in May 2014.

Besides the more general approach to identifying operational risks, specific risk management procedures are applied 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.

Nykredit determines RWA for operational risk using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings of the past three years. To compute RWA, the number is divided by 8%. RWA for operational risk amounted to DKK 18.8bn throughout 2013. In the internal capital adequacy assessment process (ICAAP), the capital requirement is determined using the standardised approach. In 2013 the Group's required capital base included DKK 18.3bn to cover operational risk. In addition, a small amount was reserved to cover reputation and model risks.

Appendix: comparative tables

The Nykredit Realkredit Group
Credit exposures and risk-weighted assets

2012 DKK million	Mortgage lending	Bank lending	Guarantees issued	Other	Total exposures	Of which un-drawn commit-ments	Exposure-weighted average risk weight, %	RWA for credit risk
Retail exposures	718,139	25,855	5,867	-	749,861	*8,429*	13.8	103,489
Of which								
- mortgages on real property	*718,139*	*17,222*	*733*[2]	-	*736,094*	*5,348*	*13.4*	*98,984*
- revolving exposures, etc	-	*6,067*	*0*	-	*6,067*	*2,700*	*14.8*	*899*
- other retail exposures	-	*2,565*	*5,134*[3]	-	*7,700*	*381*	*46.8*	*3,607*
Commercial exposures	378,004	50,694	5,943	67,766	502,408	18,398	31.7	159,277
Credit institution exposures	22,077	-	593	36,297	58,967	*283*	19.8	11,664
Sovereign exposures	30,740	-	-	13,146	43,886	*23*	-	-
Equity exposures	-	-	-	3,696	3,696	-	320.4	11,842
Securitisations	-	-	-	110	110	-	1,250.0	1,380
Assets with no counterparty	-	-	-	5,421	5,421	-	100.0	5,421
Total 2012	**1,148,960**	**76,549**	**12,404**	**126,436**	**1,364,349**	*27,132*	**21.5**	**293,073**
Total 2011	1,100,611	81,021	10,285	140,821	1,332,738	*25,435*	23.6	306,453

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 exposures
Retail exposures	420	6,484	742,957	749,861
Of which				
- mortgages on real property	*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

The Nykredit Realkredit Group
Credit exposures by counterparty

2012 DKK million	Personal	Non-profit housing	Private resi-dential rental	Office and retail	Agriculture	Industry and trades	Other	Total exposures
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

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 %	RWA for credit risk DKKm
10	59,922	3,366	2,7	1,8	1,082
9	85,908	1,048	8,1	3,4	2,882
8	178,715	895	9,7	5,9	10,590
7	152,099	703	12,3	10,0	15,178
6	117,227	602	13,7	14,6	17,139
5	50,978	587	14,2	19,4	9,909
4	40,635	552	15,3	26,7	10,837
3	17,234	211	15,4	33,6	5,791
2	19,417	321	13,5	41,6	8,081
1	15,617	52	12,8	65,0	10,146
0	4,633	10	14,7	80,8	3,745
Exposures in default[2]	6,245	46	17,5	122,4	7,641
Total	**748,629**	**8,429**	**11,1**	**13,8**	**103,022**

[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 RWA. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the 10% requirement.
[2] The determination of RWA 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 [1] %	Exposure-weighted average risk weight %	RWA for credit risk DKKm
10	34,353	2,993	12,7	11,3	3,882
9	49,557	2,351	16,9	22,1	10,976
8	112,395	4,059	17,6	27,7	31,179
7	101,522	2,794	17,7	32,2	32,707
6	80,147	2,556	13,1	26,6	21,347
5	29,944	658	18,3	39,7	11,887
4	29,970	325	15,4	41,2	12,351
3	17,205	1,310	20,8	57,6	9,903
2	11,630	854	19,4	61,0	7,089
1	2,576	45	22,6	97,5	2,510
0	6,843	47	18,6	73,5	5,027
Exposures in default[1]	21,602	405	27,4	26,6	5,754
Total	**497,745**	**18,398**	**17,2**	**31,1**	**154,613**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
[1] The determination of RWA 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 foundation IRB approach under which the risk weight is nil.

The Nykredit Realkredit Group
Types of security and credit exposures

2012 DKK million	Real estate[1]	Guarantees received	Financial collateral	Total collateral value	Total exposures
Retail exposures	700,971	22,077	-	723,048	749,861
Of which					
- mortgages on real property	*700,971*	*22,077*		*723,048*	*736,094*
- revolving exposures, etc	-	-	-	-	*6,067*
- other retail exposures	-	-	-	-	*7,700*
Commercial exposures	362,834	30,740	49,347	442,921	502,408
Credit institution exposures	-	-	-	-	58,967
Sovereign exposures	-	-	-	-	43,886
Equity exposures	-	-	-	-	3,696
Securitisations	-	-	-	-	110
Assets with no counterparty	-	-	-	-	5,421
Total 2012	**1,063,805**	**52,817**	**49,347**	**1,165,969**	**1,364,349**
Total 2011	1,080,778	44,676	39,748	1,165,202	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 estate has been measured at nominal value. The part for which security has been provided is shown for.