'08

Risk and Capital Management

Supplement to the Annual Report

BRFkredit

Contents

Introduction

In the past year, the housing crisis in the USA spread into a global financial crisis, which has had a strong impact on the financial system. A number of financial institutions have gone bankrupt or have received massive help from governments and central banks, just as national and international acquisitions and mergers have been following in the wake of the financial crisis. Subsequently, financial institutions have been extremely reluctant to lend money to each other, which led to massive problems for those financial institutions that were about to renew their debt-financed capital.

BRFkredit and the Danish mortgage credit system did not face these challenges, since there is a general balance between lending on the one hand and funding on the other. To BRFbank, the liquidity crisis has meant that it was necessary to take the expiry of the guarantee scheme (cf. below) into consideration in connection with liquidity planning. It proved to be difficult to obtain interbank market funding with a maturity beyond the guarantee period, and so it has been necessary to find alternatives to the familiar procedure of procuring long-term liquidity, cf. the section on liquidity risk to BRFbank.

The tight liquidity situation in the financial institutions, including real trimmings of the balance sheets, led to a credit crisis, which has affected some of the corporate customers of the BRFkredit Group; they have to an increasing extent been met with challenges in obtaining operating cash funds and in refinancing loans. A more widespread slow-down in the economy may develop into having a negative impact on the private customers of the BRFkredit Group as well. It can be expected that this may cause the BRFkredit Group to experience larger consequential losses than has been the case during the economic boom of the past many years.

On 10 October 2008, the Danish Parliament (the Folketing) passed an Act on Financial Stability which means that the Danish government will guarantee the claims of unsecured creditors on financial institutions. Like the majority of Danish financial institutions, BRFkredit has applied to be comprised by the guarantee scheme, which will be administered by The Danish Contingency Committee for winding up and transfer of banks and savings banks. The guarantee scheme will expire at the end of September 2010, after which time it will be gradually phased out over a three-year period, and until then BRFbank will be subjected to a number of terms and conditions in terms of its business conduct. These terms and conditions will comprise annual restrictions on the growth in lending, risk-weighted items and large commitments as well as limits to the extent of interest rate risk and share price risk. The Act was amended on 3 February 2009, whereupon an application may be filed for the government guarantee to also comprise BRFkredit's issuance of supplementary collateral (junior covered bonds). At the same time, the Folketing passed an Act of Government Capital Injections in Credit Institutions, which allows credit institutions to apply for a capital injection from the government of Denmark in the form of hybrid core capital.

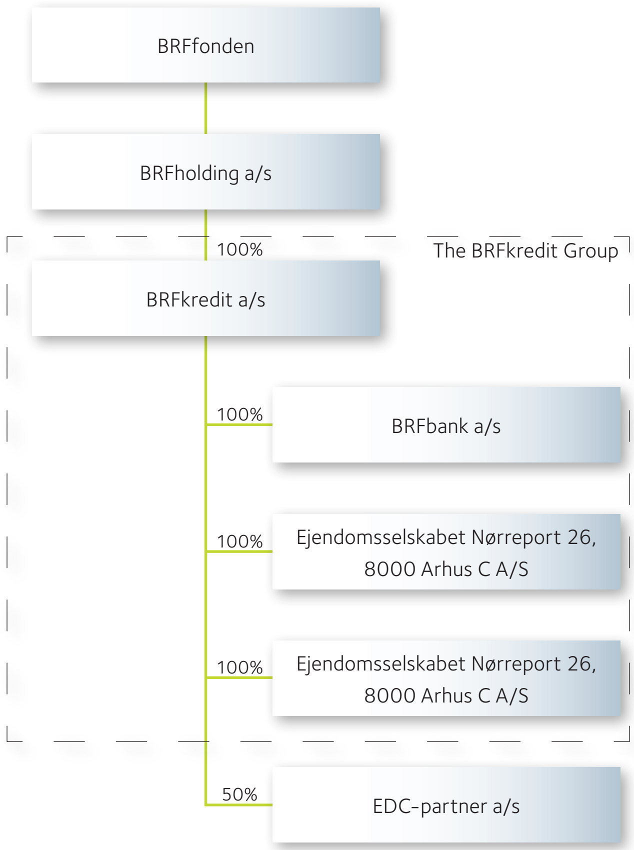
The December 2008 refinancing of ARM loans was anticipated with great interest, since investors' interest is bonds issued by the Danish mortgage credit sector in Q3 and early Q4 in particular was under a negative influence by the financial unrest. The widening of the spread between government bonds and mortgage bonds had thus meant that i.a. Danish pension funds and assurance companies had – for statutory reasons – been forced to or risked being forced to sell out of their mortgage bond portfolios. However, the government aid package to the pensions sector prevented such a sell-out. The interest in mortgage bonds was renewed, and mortgage credit rates soon fell back to a more natural level to the benefit of the customers.

On 2 December 2008, the BRFkredit Group was granted permission by the Danish Financial Supervisory Authority to calculated credit risk on the basis of internally developed models. The BRFkredit Group has been using models to calculate and control risk since the mid-1990s, but also in future such models can be used in the calculation of part of the capital requirement. This means that there will be a clearer connection between the actual risk and the capital burden than was the case under the previous rules. Still, the biggest gain is in the fact that the work involved in developing the models helped strengthen the risk management of the BRFkredit Group just as it helped make the internal credit processes more effective.

Sven A. Blomberg
Chief Executive Officer

Carsten Tirsbæk Madsen
Executive Vice President

Group Diagram



The calculation of the capital requirement for the BRFkredit Group takes place in compliance with the Danish Financial Business Act as well as the Executive Order on Capital Adequacy. The calculation comprises the BRFkredit Group, i.e. the parent company BRFkredit a/s and the wholly-owned subsidiary companies as well as an associated company, which is included in a pro rata consolidation.

The accounting treatment of the BRFkredit Group comprises the parent company BRFkredit a/s and the wholly-owned subsidiary companies. The capital stake in the associated company is included with the pro rata share of the accounting equity value of the company.

Unlike the accounting treatment of the BRFkredit Group, the solvency-related treatment of the BRFkredit Group includes unexploited loan offers, guarantees or the like.

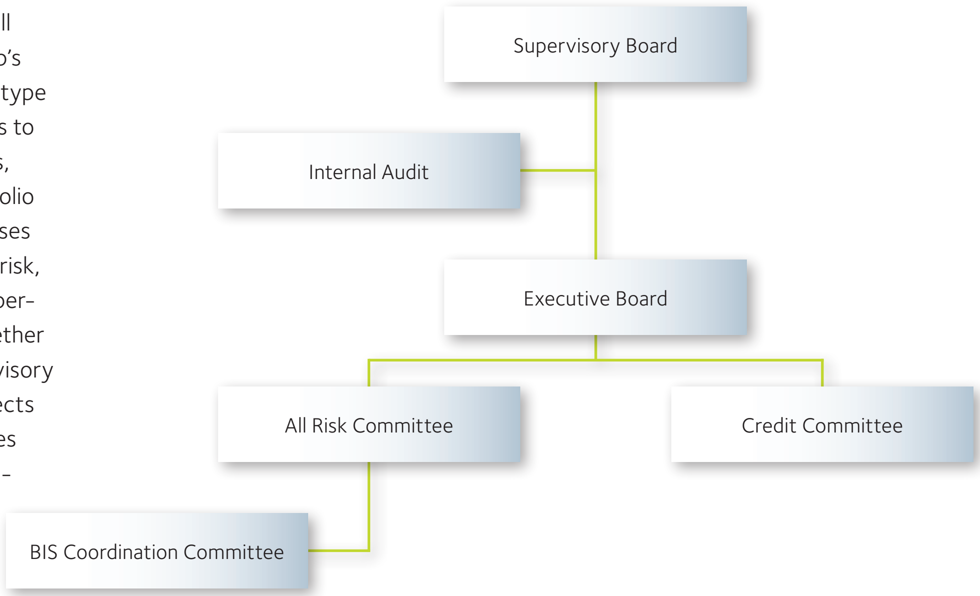
In the following, the term Group will refer to the BRFkredit Group.

Risk Management

Risk management is a central element in the daily operations of the Group just as it plays an active part in ensuring that the Supervisory Board and the Executive Board have the correct basis for their business conduct in the short as well as the long term.

Improvements in Group risk management procedures are made continuously, most recently in the development of credit risk models to calculate credit risk in BRFkredit. This is a natural element in the Group's ongoing ambition to develop tools and procedures in order to optimize the quantification of the various types of risk that the Group is exposed to, cf. the section on risk exposure.

ORGANIZATION OF RISK



The Supervisory Board has the overall responsibility to determine the Group's degree of acceptance of risk, i.e. the type and size of risk that the Group wishes to be exposed to. Via a series of policies, e.g. credit policy and securities portfolio policy, the Supervisory Board expresses the desired degree of acceptance of risk, i.a. by relating to the size of the risk permitted under Danish legislation. Together with the Executive Board, the Supervisory Board will approve all significant aspects of the rating and estimation processes used in the determination of the capital requirement of the Group. In addition, the Supervisory Board and the Executive Board share responsibility in terms of making sure that the Group has an organizational structure that ensures a clear division of responsibility and separation of functions between development units, operating units and control units in the daily monitoring and control of Group risk.

Compliance with the policies has been delegated to the Executive Board, who is responsible for the daily management of the Group. The Executive Board holds the responsibility to ensure that the policies, instructions etc. for the capital and risk management procedures of the Group determined by the Supervisory Board are operationalized and observed. The ongoing monitoring and control of risk in the Group will be handled by committees and sub-committees.

The Executive Board has set up the All Risk Committee to monitor and control Group risk and capital requirements on an ongoing basis. Under the auspices of the Executive Board, the All Risk Committee discusses policies, instructions, Group risk and capital requirements prior to these issues being discussed by the Supervisory Board. Furthermore it is the task of the All Risk Committee to approve general principles and processes for the measuring, control and reporting of risk and capital requirements as well as to monitor and control that the rating system functions as intended, including the approval of major changes to the system.

The Executive Board has set up the Credit Committee as a decision-making forum operating within the authority area delegated to the Committee by the Supervisory Board. The Credit Committee is led by the Executive Board and aims to ensure that the credit policies agreed by the Supervisory Board are observed. The Credit Committee will monitor the credit risk incurred by BRFkredit on an ongoing basis, and the Committee will make recommendations to the Executive Board and the Supervisory Board of possible amendments to guidelines, policies and instructions to handle credit risk. Commitments recommended for approval by the Supervisory Board must be discussed in the Credit Committee first. In addition, the Credit Committee deals with impairment losses, quality and control reports, portfolio reports etc.

The BIS Coordination Committee has the task of ensuring the continuous prudent application and coordination of the rating system. The Committee functions as a forum where various aspects of the rating system will be discussed before they may be referred to the All Risk Committee for discussion.

REPORTING

In the past years, BRFkredit has been expanding and improving risk reporting procedures. Risk reporting takes place at regular intervals aimed at ensuring that management, including the Committees, has the required information at hand about the development in risk etc. to assess whether changes are required in terms of acceptance of risk etc.

Reporting to Supervisory Board and All Risk Committee

Report	**Supervisory Board**	**All Risk Committee**	**Contents**
Securities portfolio report	Quarterly	Quarterly [1)]	Summary of return and risk on the securities portfolio and the exploitation of the fixed limits of the securities portfolio policy or legislation
Credit risk report	Quarterly	Quarterly	Summary of quality and risk on loan portfolio, including the development in arrears, write-downs and losses. The report analyses various segments or the loan portfolio, e.g. in regard to property category, LTV and loan type, just as commitments exceeding 10 pc of the capital base are listed.
Solvency requirement report	Annually	Quarterly	Survey of the calculation of the required capital base and the solvency requirement. The report focuses on the demand for capital based on the selected risk profile, including the use of stress tests.
Method document	Annually	Annually	Identification of all risk of importance to the required capital base as well as a description of the methods used to quantify these risks. Also contains an in-depth description of the prerequisites of the chosen stress tests.
Situation report	Annually	Semi-annually	Information about the latest development in the rating system, including validation, its commercial use and significant changes to the credit risk models.

[1)] The securities portfolio report is made to the Executive Board on a monthly basis.

Risk Exposure

The main activity of the Group is to provide lending against mortgages on real property; the lending is funded through the matching issuance of bonds with a high degree of investor security. The lending focus is aimed at segments, which have historically been connected with a relatively low degree of risk, i.e. private owner-occupied homes, private rental housing properties, cooperative rental housing properties, subsidised housing properties as well as office and business properties. Due to statutory requirements, a large proportion of BRFkredit's securities portfolio is invested in particularly secure assets, primarily Danish government and mortgage credit bonds. The securities portfolio is managed actively with a view to obtaining a positive additional return over a fixed benchmark, which is done i.a. by means of financial instruments and hedging.

The activities of the Group mean that credit risk accounts for by far the biggest part of the aggregate risk. Market risk and operational risk are the two other most significant types of risk. Liquidity risk in BRFkredit is limited due to the close connection between lending and funding, which is not the case for BRFbank. The four main types of risk will be analysed in the following. The Group is faced with other types of risk as well, but only to a limited extent, i.e. reputation risk and external risk, which are included in the calculation of the required capital base.

Credit Exposure

The term credit risk means the risk of loss as a result of the failure of a counterpart to honour payment obligations towards the Group. In BRFkredit, credit risk is calculated on the basis of internal models, cf. the section on credit risk models, whereas credit risk in BRFbank is calculated on the basis of the standard method.

CREDIT PROCESSES

In connection with the granting of credit, the Group has a number of guidelines aimed at ensuring that credit is granted on the basis of a sound risk assessment in the individual case. Furthermore the credit processes have generally been prepared with a view to ensuring that loss is minimized and that risk is spread in a proper manner on the commitments of the Group.

The assessment of a credit application from a customer is carried out on the basis of the financial strength of the applicant and the value of the property. The necessity of analyses – and the amount of detail involved – will vary from case to case, depending on the financial situation of the applicant and the characteristics of the property in question. The basic principle is that the higher the potential complexity and risk in the case, the more detailed analyses and investigations are required to ensure a sufficient basis for a decision.

Each year BRFkredit pre-approves a selection of existing private customers, who fulfil a number of credit prerequisites. Within a specified period of time, these customers may take out additional funding without additional assessment of their financial situation, provided that their repayment behaviour in the preceding period has been as agreed and the customer is not registered in the RKI register. This means that a potential subsequent loan application may be handled in a shorter credit granting process, as we take the already existing information about the customer's risk profile into consideration. However, not all customers will be pre-approved; e.g. customers who have been in arrears within the preceding relatively short period and customers with whom BRFkredit has not been doing business for the preceding 12 months will not obtain pre-approval. Furthermore, it is a prerequisite that only customers with a limited risk profile may obtain a pre-allocated loan approval. Credit risk models are used as an important tool in the selection of the creditworthy customers.

Expert models have also been used in the credit granting process for a number of years to classify the risk of customers and properties in connection with credit commercial properties and subsidised housing. Important parameters of these models are information about financial statements, financial ratios, property information as well as historical behaviour (payment history, arrears history, loan history etc.). In connection with the credit granting process, we use i.a. BRFkredit's rating system, and therefore the rating of customers and properties is a significant element in the overall risk assessment of customers and properties.

COMPOSITION OF THE LOAN PORTFOLIO – BRFKREDIT

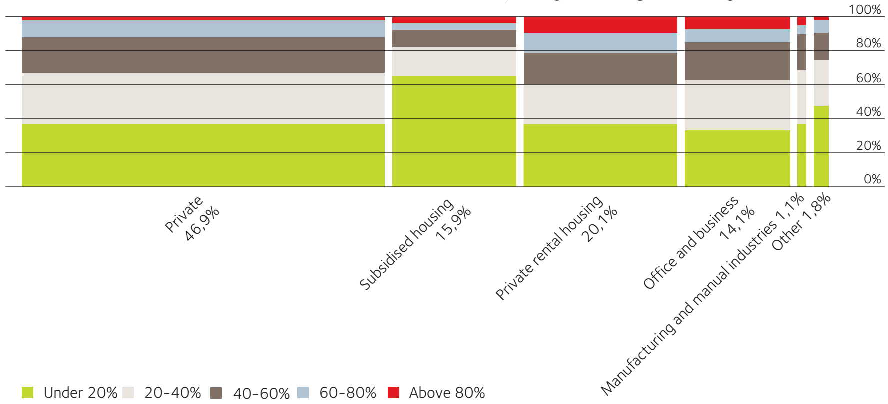
As at 31 December 2008, the loan portfolio of BRFkredit amounted to DKK 212.3bn where loans to private customers accounted for 47 pc of the portfolio. By far the majority of the remaining part of the loan portfolio is attributable to BRFkredit's focus areas: subsidised housing properties, private rental housing properties as well as office and business properties. For a long number of years, these segments have made up the biggest part of BRFkredit's loan portfolio in the commercial area. On the whole, loans to homes (private, subsidised properties and private rental properties) account for 83 pc of the loan portfolio.

The loan portfolio in the commercial area consists of segments that are – from historical experience – connected with a limited credit risk. Lending to subsidised housing projects is for the most part guaranteed to some extent by the Danish

Distribution of Loans Granted by BRFkredit on Property Categories

government or by Danish municipalities. As regards loans to private rental housing properties and to office and business properties, the loan will, apart from the mortgage on the property, typically also be secured through the personal liability of the debtor/guarantor, and in all cases it is possible to obtain assignment of the rent payments of the tenants ('three-legged' security structure). As regards loans to manufacturing and manual industry properties, BRFkredit has an established cooperation with FIH Erhvervsbank where FIH will guarantee for the relevant portfolio. None of the commercial segments accounts for more than 20 pc of the total loan portfolio.

Distribution of Loans in BRFkredit on Property Categories by LTV

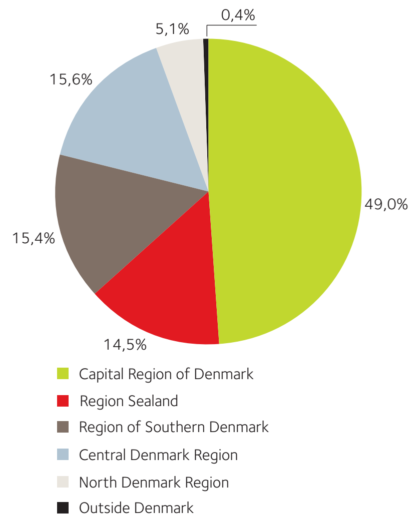


Mortgage credit loan amounts are determined at the time of approval based on the statutory lending limits. Subsequently, changes will occur in the relation between the remaining debt of the borrower calculated at market value and the estimated market value of the property. These changes may stem from regular repayments, changes in interest level (bond prices) or from increasing or decreasing property values. This is called LTV (loan-to-value) and is used i.a. to calculate whether additional security is required for individual loans based on the issuance of covered bonds (SDOs), cf. the section on covered bonds. Generally speaking, LTV may be used to create an estimate of the risk on the entire loan portfolio, since low LTV values indicate that BRFkredit's mortgage on the property is worth more than the loan itself. For private customers, 88 pc of the loan portfolio is secured within 60 pc of the value of the property, and only 2 pc has security beyond 80 pc. For commercial customers, the LTV is dependent on the property category in question, but for commercial customers as a whole it applies that 82 pc of the loan portfolio is secured within 60 pc.

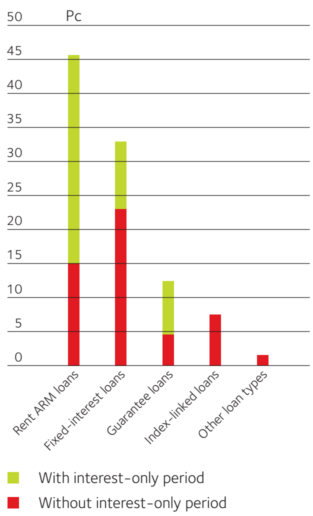
BRFkredit almost solely grants loans to homes located in Denmark. However, a very limited part of the loan portfolio concerns private properties in the Faeroe Isles, and they are all comprised by a guarantee by Eik Bank. Within Denmark, about half of the loan portfolio covers homes in the metropolitan Copenhagen area. The remaining part of the loan portfolio is spread over the rest of the country, but is concentrated around the biggest cities outside Copenhagen.

Over the years, the introduction of the interest-only loans has gained an increasing influence on the composition of the loan portfolio. The share of loans that offer the possibility of an interest-only period has been strongly increasing, but in the past years is has been stabilizing and now

Distribution of Loans in BRFkredit by Geographical Region



Distribution of Loans in BRFkredit by Loan Type and Use of Interest-Only Periods



accounts for just below half the portfolio. The interest-only periods are used in a larger share of ARM loans and guarantee loans than in fixed-interest loans.

BRFkredit's loan portfolio is diversified in terms of business sectors, geography and the number of customers. BRFkredit has a limited number of commitments that may be characterized as large, i.e. that account for more than 10 pc of the capital base. None of these commitments exceeds 20 pc of the capital base and is therefore nowhere near the statutory limit of 25 pc. The sum of BRFkredit's biggest commitments amounts to 129 pc of the capital base where the statutory limit is 800 pc.

CREDIT-REDUCING MEASURES

The foundation of any credit granted by BRFkredit is the customer's ability to repay the loan. The customer's financial situation will be reviewed before a loan application is approved and a loan is granted. Apart from its insight into the financial situation of the customers, BRFkredit as a mortgage credit institution holds a mortgage on the real property of the customer, and the correct valuation of the property is a significant factor to safeguard BRFkredit from future loss. For the individual property, the value is determined on the basis of location, marketability, condition and a number of other, property-specific factors.

Apart from the mortgage itself, a number of properties are given additional security in the form of a guarantee from public authorities or financial institutions, just as BRFkredit has the possibility of being granted access to the rent money paid by the tenants, cf. above. The public authority guarantees are made in connection with the payment of loans granted under the Danish Act on Subsidised Housing and Subsidised, Private Housing Societies etc. or the Danish Act on Urban Development. As regards subsidised housing, there will usually be a guarantee for that part of the loan which exceeds 60 pc of the value of the property. Thus the credit risk involved in this property category is further limited.

In addition, BRFkredit's loan providing financial institutions guarantee for the 20 pc of the loan in connection with their arrangement of loans. These guarantees expire after eight years. Measured as a share of the total loan portfolio, loans backed by guarantees account for around 9 pc of the loan portfolio.

COMPOSITION OF THE LOAN PORTFOLIO – BRFBANK

The purpose of the establishment of BRFbank was for the Group to be able to arrange mortgage credit loans without drawing on external banks as guarantors for the payment of the loan to the borrower, etc. Thus BRFbank in its first years primarily offered products that would supplement the mortgage credit loans in connection with new building projects, property trades and the remortgaging of existing loans. However, in recent years the product portfolio of the Bank has gradually expanded so that the private customer segment is now being offered standard banking products such as internet banking, Visa/Dankort debit cards and Housing Credit Accounts. Also the products aimed at the corporate segment has been strengthened so that the corporate customers are now being offered tailored solutions in the form of flexible bank products to supplement the mortgage credit products.

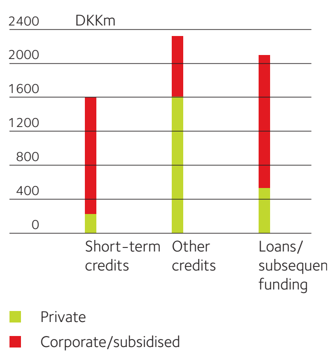
The lending activities of BRFbank fall into three main areas. The first area – short-term funding in connection with property trades and building activities – comprises the provision of short-term conveyance guarantees, credits and short-term loans to meet the customer's liquidity needs. The second area – funding of new building projects etc. – consists of the establishment of building credits and interim loan guarantees, and the third area – long-term housing finance of homes and commercial properties – consists of loans against mortgages on private homes and long-term loans with a mortgage on a commercial property. As at 31 December 2008, the loan portfolio in BRFbank amounted to DKK 6.0bn, and guarantees totalling DKK 3.6bn had been issued.

Lending in BRFbank primarily takes place as a supplement to the lending made by BRFkredit. The high concentration of loans linked to the property market – and hence the lack of diversification – means that in times of pressure on the property market, the risk incurred by BRFbank will increase. Due to its size, BRFbank has a number of large commitments, but none of these accounts for more than 20 pc of the capital base. The sum of BRFbank's largest commitments is 101 pc of the capital base compared to the statutory limit of 800 pc.

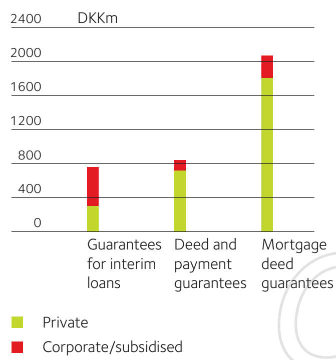
CREDIT RISK MODELS

Since 1 January 2008, the Danish legislation permits the use of statistical models in the calculation of the capital requirement for credit risk. In December 2008, the Group obtained permission from the Danish Financial Supervisory Authority to use the IRB method to calculate the capital requirement for credit risk. This permission comprises the bulk of the loans granted by the Group (approx. 95

Distribution
of Loans in BRFbank
on Loan Purpose



Distribution
of Guarantees
Made by BRFbank
on Loan Purpose



pc), with the exception of government exposure, credit institution exposure and BRFbank exposure. The portfolios of the latter two are still calculated by means of the standard method. The permission to use the IRB method means that BRFkredit calculates credit risk for each individual customer based on internally developed credit models. These models estimate the customer's propensity to payment default (PD), the anticipated loss rate given payment default (LGD), as well as the anticipated exposure of the customer in the event of default (EAD). The product of the risk parameters PD, LGD and EAD express the expected loss on a given customer.

perts confirm the LGD of our corporate customers based on the purpose of the property and its location. These LGD estimates are used in the loan granting process, the monitoring of risk etc. Still, in the calculation of the capital requirement, the LGD must describe the situation in the recession period in the early 1990s, cf. the section on capital structure.

The customers are ranked according to their estimated PD in a rating class defined on fixed intervals. BRFkredit operates with eight rating classes, where rating class 1 contains the most creditworthy customers and rating class 7 contains the least creditworthy customers. Rating class 8 contains all customers with a history of default, i.e. commitments where it is either considered unlikely that the customer will fully meet all debt obligations or where the customer has been in arrears with a significant amount for a period exceeding 90 days. Correspondingly, properties are divided into 10 different rating classes based on their estimated LGD. Properties with the lowest loss rates are placed in rating class 1, whereas rating class 10 contains the properties with the highest loss rates.

The distribution of BRFkredit's loan portfolio on rating classes shows that over 75 pc of the private customers are found in the two best rating classes. There is a tendency towards a deterioration in customer quality in 2008 compared to 2007, but the number of customers in rating classes 6-8 is still limited. Of the corporate customers, more than 75 pc can be found in the four best rating classes, but there seems to be a shift towards

Use of the IRB method in the BRFkredit Group

Exposure category	BRFkredit	BRFbank
Government exposure	Standard method	Standard method
BRF exposure	Standard method	Standard method
Corporate exposure	IRB method	Standard method
Retail exposure	IRB method	Standard method
Share exposure	Standard method	n/a
Securitization exposure	n/a	n/a
Assets without counterpart	Standard method	Standard method

The estimation of the risk parameters is made for both private and corporate customers. For private customers, the statistically calculated PD is used, but for corporate customers the business situation, e.g. financial ratios, management and line of business will also be taken into consideration. The PD estimates calculated are used for business dispositions (loan granting process etc.). It is a condition for the calculation of the capital requirement that the PD estimates reflect a full business cycle, and so the statistically calculated PD estimates are adjusted with a supplement, cf. the section on capital structure.

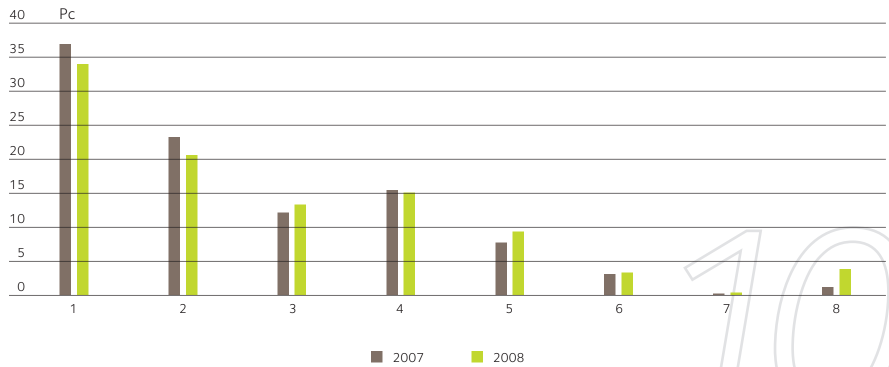
For both private and corporate customers, the calculation of the LGD takes place via an estimate of the likelihood of realization and the loss rate in the event of realization. The product of these two estimates expresses the anticipated loss rate in the event of customer default. For private customers, the statistically calculated LGD is used, while our ex-

Rating Classes with Respective Interval Values of PD and LGD

	PD (in pc)		LGD (in pc)	
Rating class	Lower limit	Upper limit	Lower limit	Upper limit
1	0.00	0.15	0.00	0.20
2	0.15	0.60	0.20	0.32
3	0.60	1.15	0.32	0.80
4	1.15	2.00	0.80	1.20
5	2.00	5.00	1.20	1.70
6	5.00	12.00	1.70	3.00
7	12.00	99.99	3.00	5.00
8		100.00	5.00	10.00
9			10.00	15.00
10			15.00	100.00

Distribution of Loans in BRFkredit on Rating Classes (PD)

Pc of remaining debt at the end-year 2007 and 2008



an increasing number of customers in the mediocre rating classes, just as the lowest-rated customers show a tendency to be moved to rating class 8, i.e. that they are in default of the obligations.

Each rating class is defined as an interval, and so the shifts between rating classes express whether the trend in the loan portfolio is moving towards increasing or decreasing risk. When the business cycle picks up again, the trend will be that an increasing number of customers will be moving towards the best rating classes, and vice versa. The shift in BRFkredit's loan portfolio from end-2007 to end-2008 is attributable to the general economic development. However, a large number of customers will remain in the same rating class (the diagonal in the table), which is particularly true for the rating classes containing the best customers. As regards the customers that have been moved to a poorer rating class since end-2007, the reasons are primarily to be found in a deterioration of these customers' financial situation, which has i.a. led to an increase in arrears. Furthermore, a re-estimation of two part models in the private customer segment in 2008 had the effect that a small segment of customers has had a higher PD calculation (i.e. an increased likelihood of arrears).

Shift between Rating Classes (PD) end-2007 to end-2008

Pc of remaining debt end-2007

		To rating class								Departed
		1	2	3	4	5	6	7	8	customers
From rating class	1	**78.9**	13.3	0.8	1.0	0.5	2.0	0.1	0.4	3.1
	2	24.6	**57.2**	6.7	2.8	1.9	0.7	0.2	0.7	5.3
	3	6.8	11.2	**57.2**	10.9	5.4	3.1	0.4	1.1	3.9
	4	4.3	4.8	11.7	**50.0**	14.3	2.4	0.5	5.6	6.6
	5	0.6	1.9	6.3	15.7	**44.6**	4.2	1.1	17.7	7.9
	6	10.2	0.8	15.9	3.9	19.4	**27.1**	1.3	18.1	3.3
	7	2.0	1.5	4.2	7.3	13.2	13.5	**12.3**	26.1	19.9
	8	5.6	2.3	3.8	3.1	16.1	4.1	4.4	**34.3**	26.1

Exposure in BRFkredit Comprised by the IRB Method

Exposure-weighted average	**LGD** [1]	**Risk weight**
	Pc	Pc
PD rating class		
1	7.9	15.1
2	10.1	22.8
3	9.2	29.1
4	10.6	38.6
5	11.9	49.8
6	10.6	53.4
7	10.7	67.1
8	10.7	125.2
Average	9.5	31.2

[1] *The table shows solvency-related LGD values, i.e. LGD in an economic recession scenario.*

Distribution of Loans in BRFkredit on Rating Classes (PD and LGD)

Pc of remaining debt end-2008

		LGD											
		1	2	3	4	5	6	7	8	9	10	No rating	Sum
PD	1	8.2	11.5	6.3	0.8	0.7	2.3	1.6	2.3	0.2	0.0		33.9
	2	1.7	3.8	5.4	1.1	0.5	2.3	1.7	3.0	0.7	0.3		20.5
	3	2.2	2.3	4.5	1.0	0.7	1.0	0.7	0.7	0.2	0.1		13.3
	4	1.7	4.1	4.7	2.0	0.6	0.9	0.5	0.4	0.1	0.0		15.1
	5	0.7	1.8	3.1	0.7	0.9	0.9	0.4	0.5	0.2	0.1		9.4
	6	0.3	1.2	0.7	0.4	0.2	0.2	0.1	0.1	0.1	0.0		3.3
	7	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.4
	8	0.9	0.7	1.5	0.2	0.1	0.1	0.1	0.1	0.0	0.0		3.8
No rating												0.2	
Sum		15.7	25.6	26.4	6.3	3.6	7.7	5.2	7.2	1.5	0.6		100.0

Despite the negative development in the quality of the loan portfolio, the risk of loss is still considered limited. If we compare the customers' PD with the LGD of the properties, we find that more than 60 pc of the loan portfolio can be considered high-quality customers with a mortgage on good properties, i.e. with both PD and LGD in the categories 1-4.

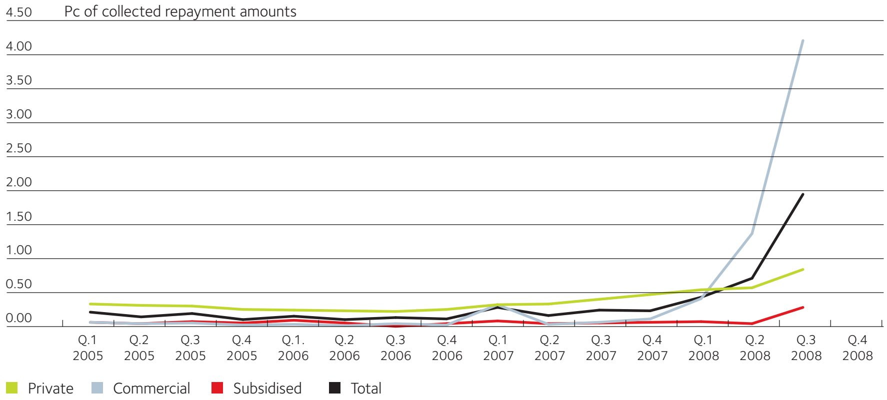
COMMITMENTS IN DEFAULT

In 2008, BRFkredit had an increasing number of customers who experienced problems in keeping their obligations towards BRFkredit. This is expressed in the fact that an increasing number of customers apply for a respite on payments, are in arrears or are in other ways unable to keep their obligations towards BRFkredit. These signs are primarily seen in the private and corporate customer segments, whereas the subsidised building segment does not show these tendencies. The increase in the arrears rate for corporate customers is mainly due to a number of large commitments where the liquidity of the debtors has become limited due to the financial crisis. However, it applies to all three business areas that the increase in the number of respites and arrears springs from a historically low level.

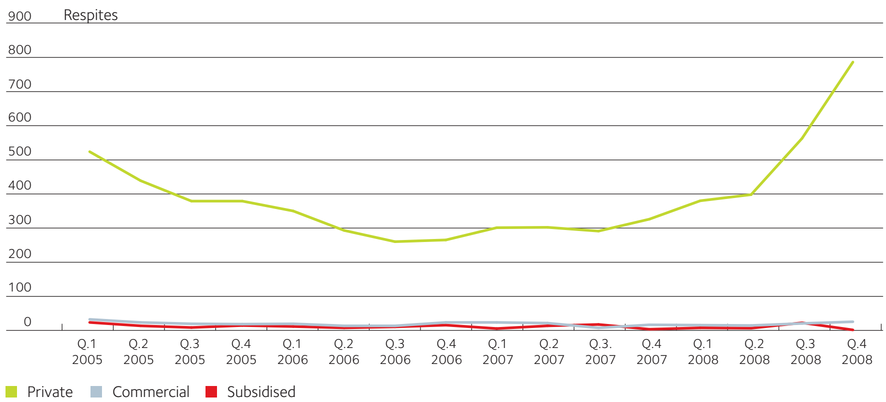
BRFkredit is constantly evaluating the quality of the customers with a view to identifying commitments that show objective signs of a deterioration in value. If the financial situation of the customer is believed to be of significance to future payments on the loan, BRFkredit calculates the indication of impairment. The calculation is based on the loss that BRFkredit could suffer if the property were to be taken over at a forced sale and subsequently resold. As a supplement to the individual impairment calculations, BRFkredit carries out a group-wise evaluation of all loans without individual impairment. The group-wise impairment calculations are based on the development in uniform risk for the individual groups.

For 2008, the Group has ascertained an increase in the demand for impairment. The overall effect on operations is an expense of DKK 647m. At the end of 2008,

Development in 90-day Arrears Rates for BRFkredit



Development in the Number of Respites Granted by BRFkredit

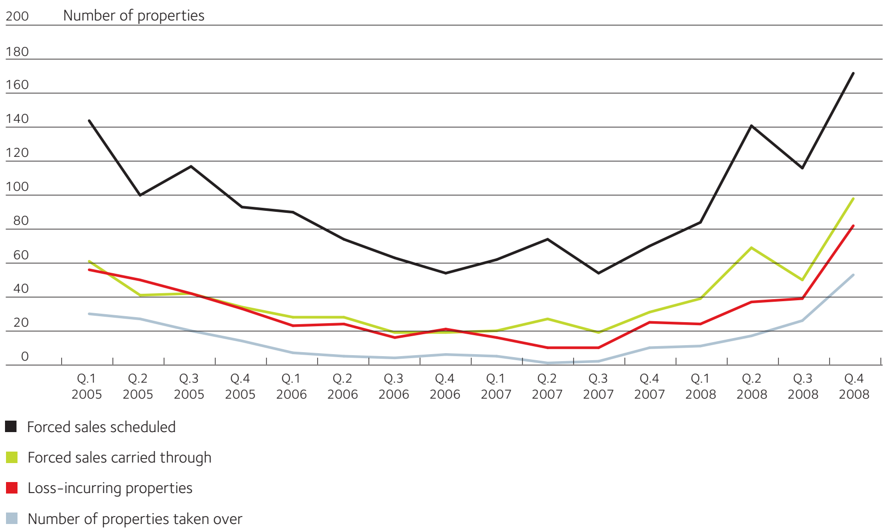


Historical Development in the 105-Days' Arrears Rate (Private) for the Danish Mortgage Bank Sector as a Whole

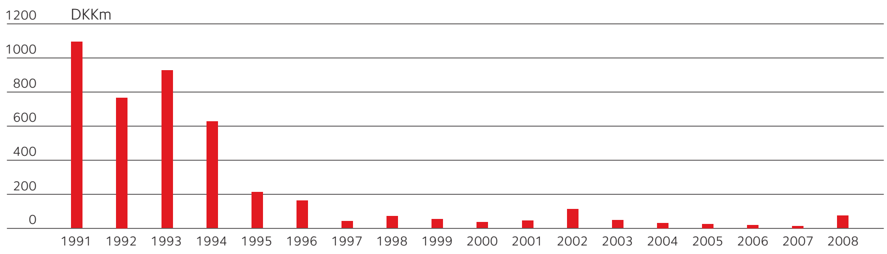
Impairments on Loans and Amounts Due for the BRFkredit Group

DKKm	2008	2007
Individual impairment calculations		
Opening balance	139	57
Impairment loss over the period	509	118
Reversal of previous impairment	-57	-35
Other movements	-2	-1
End year	590	139
Group-wise impairment		
Opening balance	15	11
Impairment loss over the period	189	15
Reversal of previous impairment	-15	-11
End year	189	15
Effect on operations		
Net movements over period, individual impairment	451	82
Net movements over period, group-wise impairment	174	4
Final loss, not previously impaired	65	25
Received on previously written-off claims	-47	-57
Value adjustment, properties taken over at forced sales	2	0
Other movements	2	1
Total impairment loss on loans and amounts due to BRFkredit	647	56

Development in the Number of Taken-Over and Loss-Incurring Properties as well as Forced Sales, BRFkredit



Actual Losses for BRFkredit



impairment losses total DKK 779m of which impairment on commitments in BRFbank accounts for DKK 242m. Despite the increase in the overall impairment of the Group, they account for a mere 0.4 pc of the total loan portfolio of the Group.

Apart from monitoring commitments with an indication of impairment, BRFkredit also closely monitors commitments with increased risk, i.e. commitments that are not at present meeting the conditions for impairment.

The number of scheduled forced sales of properties with BRFkredit loans rose in 2008 to a total of 513 against 260 in 2007. The number of properties on which BRFkredit suffered a loss rose in 2008 to 182 against 61 in 2007. At the end of 2008, BRFkredit had a portfolio of properties taken over at forced sales of 53, which is an increase from 10 in 2007. All properties except for one were privately owned properties.

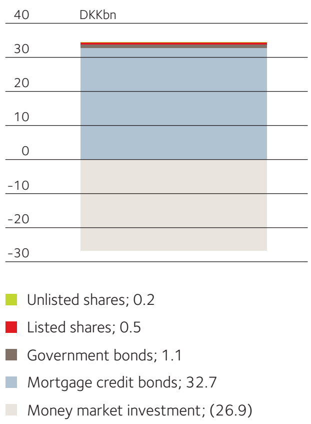
LOSS HISTORY

Over the past 10 years, BRFkredit has experienced only very limited losses. The economic boom of the past years and the subsequently increasing property prices meant that those customers who experienced payment trouble were able to obtain sales prices for their houses that would to a significant extent cover the claims from their creditors – including BRFkredit. Now the decreasing house prices in combination with the consequences of the financial crisis are resulting in a minor increase in losses ascertained for BRFkredit. In connection with the general economic slow-down, it can be expected that the period ahead will show yet another increase in the number of loss-incurring loans.

Market Risk

Market risk is the risk of loss caused by fluctuations in the financial markets (interest rate, share price and currency risk). The most significant market risk is attached to BRFkredit's securities portfolio where interest rate and share price risk is the most predominant. BRFkredit is virtually unexposed to currency risk. Market risk incurred by the other elements on the balance sheet is limited due to the close match between lending and funding, cf. the unique match funding structure of Danish mortgage credit.

Distribution of Assets in BRFkredit's Securities Portfolio



The Danish Financial Business Act and the Executive Order on bond issuance, balance principle and risk management determines the general framework for the interest rate, volatility and currency risk of BRFkredit's securities portfolio. To further elaborate on the statutory framework, BRFkredit's Supervisory Board has also determined a securities policy with a number of frameworks and limitations, which are typically stricter than the statutory framework. The purpose of the BRFkredit framework is to limit absolute risk and to ensure a sufficient degree of diversification on asset types and counterparts.

The Executive Board receives a daily update on the observance of the most significant risk frames, just as a more detailed report is prepared for the Executive Board each month and for the Supervisory Board each quarter. The observance of the framework is monitored independently of the divisions that carry out securities investments etc. Any overstepping of the limits is reported to the Executive Board, and for overstepping of the framework laid down by the Supervisory Board, a report is sent to the Supervisory Board.

It is estimated that the Danish legislative framework and securities policies ensures that market risk in BRFkredit is at a relatively moderate level and that the continuous close monitoring of risk in combination with the short decision-making processes in BRFkredit means that a reduction of market risk can be quickly implemented, if this is deemed necessary with regard to BRFkredit's general risk profile and capital requirement.

So far, BRFkredit has chosen to use the standard method for calculation of the risk-weighted items in its calculation of market risk in relation to solvency requirements. This means that for reporting purposes, BRFkredit uses the risk ratios defined by the Danish Financial Supervisory Authority in its calculation of interest rate risk.

BRFkredit holds a large bond portfolio, which is i.a. due to the fact that Danish legislation requires mortgage credit institutions to hold not less than 60 pc of the capital base requirement in highly secure instruments, e.g. government bonds or mortgage credit bonds, corresponding to at least DKK 4.8bn. However, BRFkredit has far more invested in secure instruments than required by law, since BRFkredit wishes to have the highest possible degree of security behind the issued bonds to the benefit of the bond investors. Apart from holding a considerable bond portfolio, BRFkredit has also decided to invest part of its excess capital adequacy in shares. The composition of the share portfolio changes to a very limited extent.

Of BRFkredit's aggregate risk, expressed in its risk-weighted items, market risk items at the end of 2008 totalled DKK 8.7bn corresponding to 10.5 pc of BRFkredit's weighted assets etc.

INTEREST RATE RISK

Interest rate risk is an expression of the risk of loss incurred by changes in interest rates corresponding to a parallel shift in the interest rate structure by 1 pc point, calculated on a daily basis. Under Danish legislation, an interest rate risk of 8 pc is permitted, where up to half of the interest rate risk in EUR may be offset in interest rate risk in DKK. BRFkredit's Supervisory Board has decided to limit the statutory framework for interest rate risk to a maximum of 5 pc of the capital base; however, the interest rate risk in EUR may be offset against the interest rate risk in DKK with almost 100 pc as long as the volatility between DKK and EUR interest rates is limited. In the event of higher volatility, the offset possibility will be reduced.

The framework set out by the Supervisory Board for the Executive Board has been delegated to the securities area with additional limitations, just as supplementary, detailed risk measures and risk frameworks have been formulated.

In the risk management process, daily updated risk ratios are used to calculate interest rate risk on BRFkredit's mortgage bond portfolio. Limits have been set to the fluctuations acceptable for the aggregate interest rate risk as well as for interest rate risk at four different maturity points. In addition, a supplementary framework for other types of risk linked to interest-bearing investments has been created.

At the end of 2008, BRFkredit's interest rate risk was calculated according to the standard method at DKK 238m, which is significantly lower than the limit determined by the Supervisory Board and the statutory limit.

BRFkredit's interest rate risk basically stems from BRFkredit's bond portfolio, which primarily consists of Danish government bonds and mortgage credit bonds as well as financial instruments, which are to an increasing extent being used to control the aggregate interest rate risk. By far the biggest part of BRFkredit's portfolio of Danish mortgage credit bonds is invested in the most liquid bonds – including a large number of one-year ARM bonds. This securities policy enables BRFkredit to be exposed in e.g. corporate bonds to a relatively limited extent, but at the end of 2008, BRFkredit had no such exposure.

To control interest rate risk, BRFkredit is to an increasing extent using financial instruments in the form of futures, options on futures, caps and swaps. The underlying assets in BRFkredit's futures and options are German government bonds with various maturities, which are comprised by daily margin settlement. Caps and swaps have been set up with a few large Danish and international financial institutions with a high rating and with netting agreements to limit counterpart risk. In the first part of 2008, the interest rate risk hedging primarily consisted of futures on government rates, whereas it mainly took place in swap rates in the last part of 2008. The change in policy in 2008 was i.a. due to the strongly changing spreads between government and credit rates, which reduced the effectiveness of futures for hedging purposes. Also the pressure on the DKK and the widening spreads between Danish and European rates meant that the hedging of interest rate risk on Danish mortgage credit bonds via European swap rates was periodically less effective than anticipated.

SHARE PRICE RISK

Share price risk is an expression of the risk of loss caused by changes in share prices. BRFkredit's Supervisory Board has laid down a framework that allows for a maximum exposure in shares corresponding to 20 pc of BRFkredit's capital base. In addition the aggregate risk exposure in consolidated enterprises cannot exceed 3 pc of the capital base of BRFkredit. Furthermore there are limitations in regard to exposure in subordinated debt and unlisted companies.

At the end of 2008, BRFkredit held shares worth a total of DKK 756m, corresponding to 7.5 pc of the capital base. Two thirds was invested in listed, Danish shares, primarily shares belonging to the C20 Index, while one third was invested in unlisted shares, including infrastructure shares such as shares in VP Securities Services.

CURRENCY RISK

Under the Executive Order on bond issuance, balance principle and risk management a Danish mortgage credit institution cannot incur currency risk exceeding 10 pc of the capital base. For countries in the EU, the EEA and Switzerland the currency risk is calculated as a 10 pc deviation in the currency price. For other currencies, currency risk is calculated as a 50 pc deviation in currency prices.

The framework set out by the Supervisory Board for the Executive Board has been significantly reduced compared to the statutory framework, in that currency risk cannot exceed a maximum of 2 pc of BRFkredit's capital base for EUR and 0.2 pc of BRFkredit's capital base for other, permitted currencies.

BRFkredit's currency risk on its securities portfolio is highly limited, since virtually all investments are in Danish securities. Due to trades in futures and options for risk management purposes and to the current margin deposit and interest swaps in EUR, BRFkredit carries a small exposure in EUR. For other currencies, the risk is limited. The currency exposure on other items that are not included in the securities portfolio is also highly limited, since mortgage credit loans granted in EUR are funded in EUR-denominated bonds.

On the whole, BRFkredit's currency risk at the end of 2008 was calculated at 0.2 pc of the capital base.

COUNTERPART RISK

With a view to controlling and limiting the credit risk that arises from the investment of BRFkredit's securities portfolio and from daily operations, credit lines are fixed for counterparts with whom BRFkredit has invested funds or from whom claims have been bought. By means of financial instruments for which settlement does not take place via a clearing central, netting agreements are made to protect BRFkredit in the event of counterpart default. In BRFkredit, counterpart risk primarily exists on credit institutions.

MARKET RISK IN BRFBANK

The Bank's exposure in terms of market risk is limited, as it is primarily BRFkredit that takes and controls the Group's aggregate interest rate, share price and option risk. BRFbank's total interest risk at the end of 2008 was DKK 23m and stems from a portfolio of mortgage issued in connection with loan commitments. Part of the interest rate risk on mortgages is hedged via swaps.

Operational Risk

Operational risk is the risk of loss caused by inappropriate or defective internal procedures, human or system error as well as external events, including legal risk. Loss incurred as a consequence of operational risk is thus due to non-financial events.

As a natural part of its business procedures, BRFkredit has focus on identifying and controlling operational risk. There is thus a great deal of attention focused on minimizing the risk of loss due to system failure, a break-down in IT systems, procedural error, fraud, wrong advice etc. BRFkredit is , constantly updating its business and work processes, just as emergency plans and safety procedures have been established to ensure rapid resumption of operations in the event of failure, break-down in IT systems or the like.

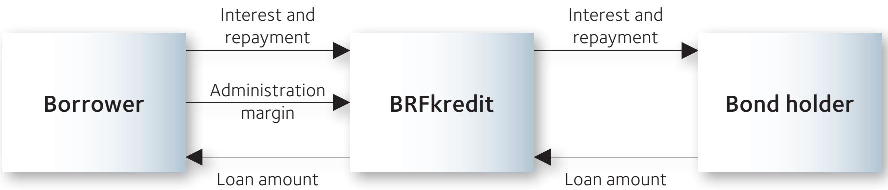
The calculation of operational risk is done by means of the basis indicator method, i.e. as 15 pc of a three-year average of the sum of net interest income and non-interest-related net income. For 2008, the capital requirement for operational risk has been calculated at just below DKK 262m.

BRFkredit's primary activity is mortgage credit lending, which is to a large extent subject to statutory regulation. In addition, the granting of mortgage loans is to a large extent automatic, and so the amount of operational risk in this connection is limited. This is further underlined by the fact that the actual total loss in 2008 on events of an operational nature does not exceed the amount reserved in relation to the capital requirement of just below DKK 262m.

Liquidity Risk and Balance Principle

Liquidity risk is the risk of loss that may arise if, at a given point in time, the amount of cash and cash equivalents is not sufficient to meet payment obligations.

In principle, liquidity risk in BRFkredit will be very much limited, since the Group's primary lending activities – mortgage credit lending – is match funded. Match funding means that the characteristics of the lending provided is matched by the characteristics of the underlying bonds, and this principle as a main rule has the following characteristic features:



- Interest on the loan is matched exactly by the interest on the underlying bonds;
- The bonds that fund the lending are issued on a daily basis, which eliminates liquidity risk in connection with lending activities;
- Fixed-interest bonds have fixed funding throughout the maturity of the loan, i.e. a 30-year loan is funded by means of a 30-year bond;
- ARM loans without fixed funding are funded by means of bonds with lifetimes of 1-10 years. The interest payable by the customer will change upon remortgaging, corresponding to the cash loan rate on the bonds sold in connection with the remortgaging. Thus interest rate risk for the issuer (BRFkredit) is eliminated;
- Repayment of loans takes place through a reduction in the outstanding funding that matches the loan. Non-callable ARM loans are repaid through purchases of the bonds in the market. Fixed-interest bonds as well as a few CIBOR-based loans are repayable at a maximum price, e.g. 100 or 105. Alternatively, these loans may be (p)repaid through purchases of the underlying bonds in the market. Thus the prepayment risk is eliminated;
- Payment dates for interest and repayment amounts of the borrower are fixed so that upon timely payment, BRFkredit receives the funds at the same time as or prior to the time when he matching payments to the bond holders fall due. That way in principle there will be no liquidity risk in connection with the ongoing servicing of the bond holders.

In practice, the above characteristic features mean that BRFkredit carries neither interest rate risk, liquidity risk nor refinancing risk in connection with its mortgage lending activities and the funding thereof.

Lending by the BRFkredit Group

DKKbn	Lending	Share in pc
BRFkredit	212.3	97.2
BRFbank	6.0	2.8
Total	218.3	100.0

As a result of the match funding principle, liquidity risk will by and large be attached to BRFbank; at the end of the year BRFbank had lending totalling DKK 6.0bn. Compared to the aggregate lending of the Group, the lending provided by the Bank accounts for a modest share of just below 3 pc.

COVERED BOND (SDOs)

In BRFkredit, the issuance of covered bonds (SDOs) to fund lending takes place via capital centre E. In contrast to lending funded through the issuance of mortgage credit bonds, loans based on SDOs must be constantly monitored to make sure that the LTV is observed for each individual property. If the LTV is exceeded, e.g. due to a decrease in the value of the property, BRFkredit is required to offer additional collateral. For that purpose, BRFkredit has so far been issuing junior covered bonds (JDOs) at a total of DKK 1bn. The amendment to the Danish Financial Stability Act allows BRFkredit to apply for a government guarantee for the issuance of JDOs with a maturity of up to three years, provided the issue takes place before 31 December 2010.

The requirement of constant monitoring of the mortgageable value and the accompanying obligation to offer additional collateral towards the bond holders means that BRFkredit is faced with liquidity/funding risk. A significant decrease in property prices in general could lead to a demand for the issuance of JDOs to meet the demand for additional collateral. Furthermore, a continuing, unfavourable development in property prices could have the effect that BRFkredit will have to refinance already issued JDOs. On the whole, the demand for additional collateral incurs a risk that it could become increasingly difficult and expensive to provide the required capital.

BRFkredit is closely monitoring property prices, both in general terms and in relation to the mortgageable values of the individual properties. The demand for additional collateral is estimated on a current basis, including the demand for additional issues of JDOs. Together with BRFkredit's capital base, the already issued JDOs are considered sufficient to absorb a fall in prices of another 15 pc on the current level (including the refinancing in December 2008), without requiring additional issues of JDOs.

LIQUIDITY RISK – BRFBANK

BRFbank's funding sources are deposits, capital deposits from BRFkredit and loans and committed lines in financial institutions. The control of liquidity risk in BRFbank is carried out in compliance with the statutory requirements that specify demands of the required liquidity reserves of the Bank. In addition to the statutory requirements, there are the in-house liquidity control procedures of the Group, where the future demand for liquidity is estimated under unfavourable market conditions.

BRFbank calculates liquidity based on known future payments to and from BRFbank. The calculation is made in due consideration of irrevocable credit commitments, so that the ongoing liquidity control takes the risk of potential drawings on these commitments into consideration. Apart from the ongoing monitoring of liquidity, BRFbank also carries out stress tests to assess the liquidity level in more stressful scenarios. This enables BRFbank to react in time to changing circumstances that could render the provision of liquidity necessary. These stress analyses presuppose that BRFbank cannot obtain capital to the same extent as in a normal scenario.

Correspondingly, BRFbank carries out an ongoing control of the funding of the Bank to avoid inappropriate refinancing times. This means that the funded liquidity falls due at different times in order to avoid having to fund all loan capital at the same time, which would incur unfortunate implications on the pricing.

It is the aim of BRFbank to have a positive liquidity – not just as 12 months' sight, but also on a 24-month basis. The development in liquidity is monitored and reported to the Group Supervisory Board on a continuous basis. In order to meet the liquidity aim, it is possible to transfer additional funds to BRFbank from BRFkredit, if the liquidity outlook at 24 months' sight is not showing a positive liquidity situation in all periods.

Capital Structure

In the controlling of the Group's capital, a number of requirements in regard to the size of the capital and expectations of future growth in lending etc. must be taken into consideration. There must be sufficient capital to cover demands at both the present and the anticipated future level of activity, both in terms of statutory requirements and in terms of the in-house Group requirements. Also the focus on capital management is aimed at ensuring that BRFkredit will continue to obtain attractive external ratings, which means that funding costs – and hence indirectly costs vis-à-vis the customers – may be achieved at a reasonable level.

The basis for capital management is the statutory requirements in regard to the size of the capital as determined in the Financial Business Act and the Capital Adequacy Executive Order. The requirements consist of three elements: The capital requirement (Pillar I), a sufficient capital base (Pillar II) and the information obligations (Pillar III). The capital requirement is a technical calculation of the demand for capital based on the current level of activity calculated as credit risk, market risk and operational risk.

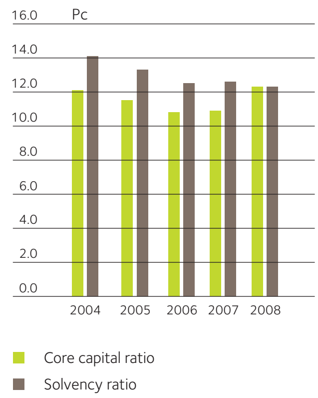
The calculation of the sufficient capital base is an internal calculation of the demand for capital, which involves all other types of risk and i.a. includes expectations of the future level of activity. The information obligations mean that not less than once a year the Group shall publish information about capital structure, risk profile etc.

CAPITAL GOALS

The Supervisory Board and the Executive Board carry the overall responsibility for ensuring that the capital structure is suitable in relation to the risk profile of the Group. The solvency ratio must at all times meet the statutory demand of 8 pc, just as the core capital ratio must be at least 4 pc. In order to ensure sufficient financial stability and room for development, the Group has the declared goal of having a solvency ratio of not less than 9 pc and a core capital ratio not lower than 6 pc.

At the end of 2008, the Group solvency ratio was calculated at 12.3 against 12.6 at the end of 2007. The core capital ratio was 12.3 at the end of 2008 and 10.9 at the end of 2007. The calculation of the solvency and core capital ratios at the end of 2008 differs from the calculations of previous years in that the risk-weighted credit risk items are calculated on the basis of the IRB method.

Development in Solvency and Core Capital Ratios, the BRFkredit Group



RATING

The external rating of BRFkredit's bond issues is carried out by Moody's Investor Service. The rating of the bond issuance is carried out on the basis of a specific method that includes the financial strength of the issuer as well as the security behind each individual bond issue. The former covers factors such as BRFkredit's capital structure, earning capacity, risk profile and risk management, just as legislation and market are of importance; the assessment of the latter is based on i.a. the type of properties and their respective LTVs.

Towards BRFkredit, Moody's Investor Service has specified a demand for the size of the excess cover for each capital centre. The demand on the capital in the capital centres is aimed to ensure that the bond holders are offered collateral for their investment in BRFkredit bonds.

BRFkredit has obtained an Aa1 rating for both the SDOs issued from capital centre E and for the mortgage credit bonds issued from capital centre B.

Other bonds issued by BRFkredit have been given the rating Aa2. BRFkredit's ratings were not changed in 2008, and the most recent report from Moody's Investor Service indicates BRFkredit's ratings as stable.

The issuance of SDOs from capital centre E began in 2008. More than 60 pc of BRFkredit's bond issuance is still linked

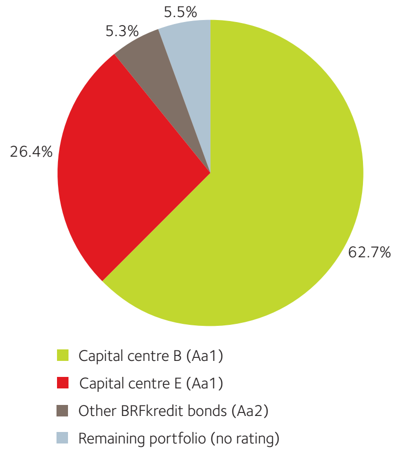
Ratings of BRFkredit from Moody's Investor Service

	2004	2005	2006	2007	2008
SDOs, capital centre E				Aa1	Aa1
Mortgage credit bonds, capital centre B	Aa1	Aa1	Aa1	Aa1	Aa1
Other BRFkredit bonds	Aa2	Aa2	Aa2	Aa2	Aa2
Issuer rating	A2	A2	A2	A2	A2
Subordinated debt	A3	A3	A3	A3	A3[1]

[1] *Subordinated debt was repaid in full in October 2008.*

to capital centre B, but due to new loans, refunding, remortgagings etc., there will in time be a migration towards capital centre E.

Issuing in BRFkredit Distributed by Capital Centre



CAPITAL REQUIREMENT

Danish legislation requires credit institutions to have a capital base that at least totals the sum of the capital requirement for credit risk, market risk and operational risk. After the implementation of the CRD Directive in Danish legislation, the capital requirement for credit risk can be calculated either on the basis of the standard method or the Internal Rating-Based method (the IRB method). The methods are basically alike in the sense that all exposures are to be divided into different categories. But the difference between the models lies in the determination of the risk weight on the basis of which the capital requirement for each individual exposure is to be calculated. When the standard method is used, the risk weights are statutory, but when the IRB method is used, the risk weights are determined on the basis of internally calculated parameter values.

So far, the Group has been using the standard method, but the Danish Financial Supervisory Authority has now permitted the use of the IRB method as from the calculation of the capital requirement at the end of 2008. The full effect of the transition to the IRB method shows a reduction in the capital requirement for credit risk of well over 31 pc. The relaxation of the capital requirement means that the Group will have a higher excess cover. Still, for both 2008 and 2009 transitory rules have been laid down, which stipulate minimum requirements in the size of the capital base, cf. the section on the calculation of the capital requirement for credit risk.

For the biggest part of the portfolio, credit risk in BRFkredit is calculated by means of the IRB method, where BRFkredit's own internal parameter estimates are used in the calculation of the capital requirement. The standard method is used for the remaining part of the portfolio in BRFkredit as well as for the entire portfolio in BRFbank. For the Group as a whole, the capital requirement for market risk is calculated on the basis of the standard method, and the basis indicator method is used in the calculation of the capital requirement to cover operational risk.

CALCULATION OF CAPITAL REQUIREMENT FOR CREDIT RISK

In the calculation of the capital requirement for credit risk, the estimation for PD is made on the basis of a long-term average of one-year default frequencies, whereas the LGD estimation requires a reflection of an economic downturn. The basis for these estimations is the financial crisis in the early 1990s when BRFkredit – and the rest of the financial sector – experienced a high number of loans in default and relatively large losses.

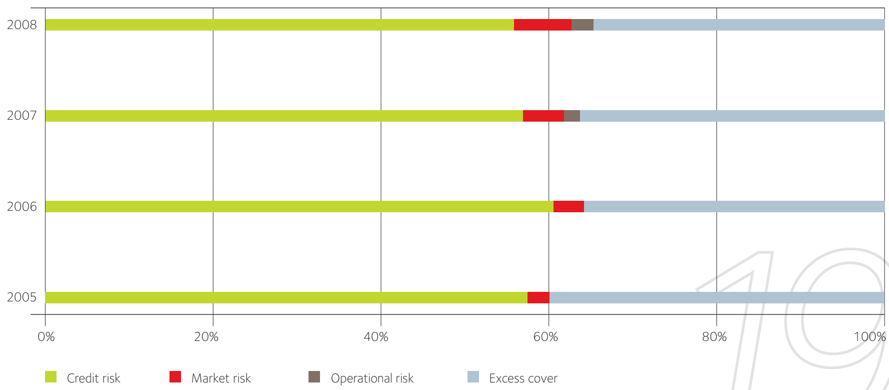
Estimates for PD and LGD used in the calculation of the capital requirement for credit risk are based on the business-related estimates for PD and LGD, i.e. estimates that reflect the current business cycle situation. To this is added a supplement so that the resulting parameter estimates reflect the economic reality in the early 1990s. For both PD and LGD, supplements are estimated for six different property categories.

For BRFkredit, the economic downturn period is determined as the years 1991-1994. After the estimation of the supplements to PD and LGD, LGD may be used immediately in the calculation of the capital requirement for credit risk. To make sure that PD meets the demand for a long-term average, the business-related PDs and the PDs for the economic downturn are weighted 70/30. That way a long-term average is calculated for the PD covering an entire business cycle.

It is worth noting that the calculation of capital requirement for credit risk according to this method means that the size of the capital requirement is fairly stable towards changes in economic trends. Updates of the business-related PD and LGD values as well as the relevant supplements are made at least once each quarter.

The transition from the standard method to the IRB-method in the calculation of credit risk means that the Group experiences an easing of 26 pc in the capital requirement due to the reduction in the

Share of the Capital Base of Risk-Weighted Items for the BRFkredit Group



Riskweighted Items and Capital Requirement for the BRFkredit Group

	Standard Method		IRB-Method	
DKKm	Risk-Weighted Items	Capital Requirement	Risk-Weighted Items	Capital Requirement
Use of Standard Method			6,613	
- exposure towards central governments or central banks			0	
- exposure towards financial institutions			3	
- exposure towards commercial undertakings			4,815	
- exposure towards retail customers			1,785	
- exposure in other items			10	
Use of Standard Method under IRB-Method			0	
- government exposure			0	
- financial institution exposure			0	
IRB-Method			63,756	
- government exposure			-	
- financial institution exposure			-	
- commercial undertaking exposure			43,146	
- retail exposure with mortgage on real property			19,594	
- qualified revolving retail exposure			0	
- other retail exposure			0	
- share exposure			0	
- assets without counterparts			1,017	
- adelivery risk			0	
Securitization Positions – Standard Method			0	
Securitization Positions – IRB-Method			0	
Credit Risk etc.	102,048	8,164	70,369	5,630
Items with position risk, instruments of debt			7,154	
Items with position risk, shares etc.			1,123	
Items with position risk, raw materials			0	
Items with counterpart risk			0	
Items with delivery risk etc.			0	
Items with option adjustment			0	
Currency position, total			386	
Market Risk	8,822	706	8,663	693
Operational Risk	0	0	3,269	262
Group-wise impairment under the standard method			0	
Risk-Weighted Items, Total	110,869	8,870	82,301	6,584

risk-weighted items. However, the Group does not benefit fully from the easing all at once, since Danish legislation stipulates a two-year transition period for the easing of the size in capital requirement. For 2008, the capital base must account for not less than 90 pc of the capital requirement as calculated under the standard method before the implementation of the CRD Directive into Danish legislation. The transitional rule will be eased further in 2009 when the rate is reduced to 80 pc before it lapses entirely at the end of 2009.

CAPITAL BASE

The capital base is the Group's capital foundation for meeting the capital requirement. Elements in the capital base are core capital (tier 1) and supplementary capital (tier 2), where the latter – as opposed to the core capital – consists of debt-financed loan capital, i.e. capital which must be repaid within a limited number of years. Both the core capital and the capital base are adjusted by means of a number of deductions.

At the end of 2008, the capital base of the Group totalled DKK 10.1bn against DKK 12.5bn at the end of 2007. The reduction in the capital base is primarily due to the fact that in October 2008, BRFkredit repaid subordinate loan capital of EUR 200m corresponding to just below DKK 1.5bn; thus the capital base now solely consists of core capital. It is the opinion of the Group that the capital base is sufficient to continue operations due to the quality of the loan portfolio and the reduced capital requirement in connection with the transition to the IRB-method.

Capital Base for the BRFkredit Group

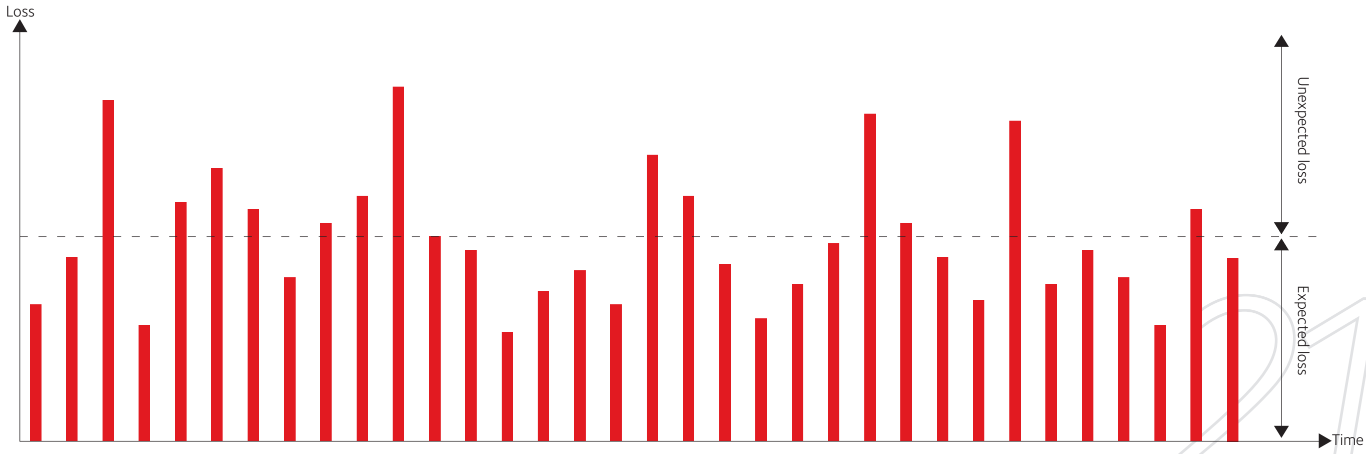
DKKm	Standard Method	IRB-Method
Share capital	306	306
Share premium	102	102
Reserves	2,344	2,344
Profit or deficit carried forward	-500	-500
Reserves in series without repayment obligation	8,091	8,091
Core Capital before Deductions	**10,344**	**10,344**
Immaterial assets	-6	-6
Deferred capitalized tax assets	-69	-69
Core Capital after Primary Deductions	**10,269**	**10,269**
Hybrid core capita	0	0
Core capital incl. hybrid core capital after primary deductions	10,269	10.269
Half of the difference between expected losses and accounting value adjustments and provisions	0	-117
Core Capital incl. Hybrid Core Capital after Deductions	**10,269**	**10,151**
Subordinate loan capital	4	4
Revaluation reserves	46	46
Supplementary Capital	**50**	**50**
Capital Base before Deductions	**10,319**	**10,201**
Half of the difference between expected losses and accounting value adjustments and provisions	0	-117
Capital Base after Deductions	**10,319**	**10,085**

The calculation of the capital base under the IRB-method is by and large identical to the calculation under the standard method. The only consequence of the transition to the IRB-method is that one addition deduction must be made in both the core capital and the capital base. This deduction is calculated as the difference between expected losses and the accounting value adjustments and provisions on the exposures comprised by the IRB-method. The background for the deduction is that the IRB-method implicitly operates with an expected loss for the included part of the portfolio. This could be seen as an indirect cost on the loan portfolio, and so it is taken into account by deducting the expected loss in the capital base. Inversely, loans already subjected to impairment should not be 'punished' twice, and so any already implemented impairment is to be offset.

The estimated loss is calculated as the product of the estimates for PD, LGD and the size of the commitment (EAD), where PD is calculated over an entire business cycle and LGD on the basis of an economic downturn.

At the end of December 2008, the expected loss amounted to a total of DKK 735m (DKK 258m on the private customer base, and DKK 477m on the corpo-

Illustration of Expected and Unexpected Loss



rate customer base). From this figure, the accounting value adjustments should be deducted (provisions) and provisions on exposures comprised by the IRB-method, which totals DKK 501m. The total deduction in the calculation of the capital base thus amounted to DKK 234m at the end of 2008.

ADEQUATE CAPITAL BASE

It is the responsibility of the Supervisory Board and the Executive Board to make sure that the Group has a sufficiently large capital base and has internal procedures for the measuring and management of risk. The calculation of the adequate capital base (Pillar II) must include not only current risk, but also future risk, including the possibility of provision of funding. The basis for the assessment of the adequate capital base is the risk profile of the Group and the economic conditions that are believed to have an influence on the Group's situation. Danish legislation mentions 17 concrete points that must be put to use in the assessment of the adequate capital base, cf the Capital Adequacy Executive Order.

The calculation of the adequate capital base must consider all significant types of risk, which is not already covered by the capital requirement. In addition, the adequate capital base must ensure that the capital requirement of the Group in a mild recession scenario can be fulfilled. A number of different stress tests will be used to determine the additional capital base required due to deteriorating economic trends, cf. the section on stress tests.

The majority of the significant risk of the Group is covered by the capital requirement to credit risk, market risk and operational risk. Since the calculation of the capital requirement takes place on the basis of a long-term average of PD and estimates of LGD, which describe a period of economic downturn, the capital requirement will be relatively stable and less sensitive towards fluctuations in the business cycle. Hence the additional capital requirement will be modest, as a mild recession scenario will to a large extent already be covered by the capital requirement.

The Group's adequate capital base is calculated as the sum of the capital requirement and the additional capital intended to cover the increased risk in a mild recession scenario.

STRESS TESTS

BRFkredit uses a number of different stress tests in the calculation of the adequate capital and in our constant risk management and capital planning. The purpose of the stress tests is to provide management with a long-term image of the Group's capital buffer in different economic scenarios. That way the necessary precautions may be taken to ensure a suitable margin to the statutory requirements and to ensure that the bonds will continue to have the highest possible rating. Management evaluates on a constant basis whether the selected risk factors are representative of the general economic situation, and whether the level of the stress tests carried out is suitable.

In BRFkredit, we have chosen two scenarios: a mild stress test scenario for the determination of the adequate capital and a worst-case scenario with strong shock effects to both credit and market risk.

In order to describe a mild recession scenario, the Group takes its starting point in macro-economic data describing a period characterized by economic recession and falling house prices. The consequences of the mild recession scenario are calculated with a three-year time frame for relevant part elements of the profit and loss account of the Group, e.g. losses on loans and return on the securities portfolio.
For each individual year, the result of the Group is calculated, and a negative profit is subsequently used in the calculation of the adequate capital base. The adequate capital base also includes a capital amount corresponding to the anticipated amount of funds tied-up by the budgeted lending activities for the year ahead. In addition, there is also an amount set aside for commitments where it is estimated that there is an increased risk but where no impairment has been made yet, as there is no objective indication of a decrease in value.

The worst-case scenario shows the development in BRFkredit's capital over a five-year period and takes its starting point in the loss history that BRFkredit has from the period 1990-1994, which was a period of considerable losses. As regards market risk, the worst-case scenario is based on the worst imaginable one-year period in the 10-year interest and in the C20 index within the past 15 years. In order the further intensify the scenario, credit and market loss have been added together, i.e. any diversification effects between the different risk classes is not taken into consideration. This scenario shows that BRFkredit has a buffer capital, which is almost able to absorb the described scenario by means of BRFkredit's core capital alone.

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