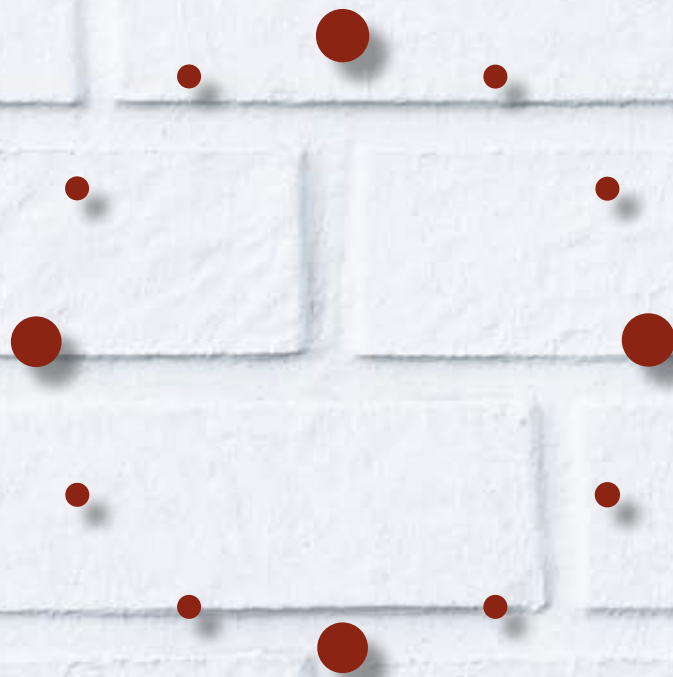


Risk and Capital Management

2010



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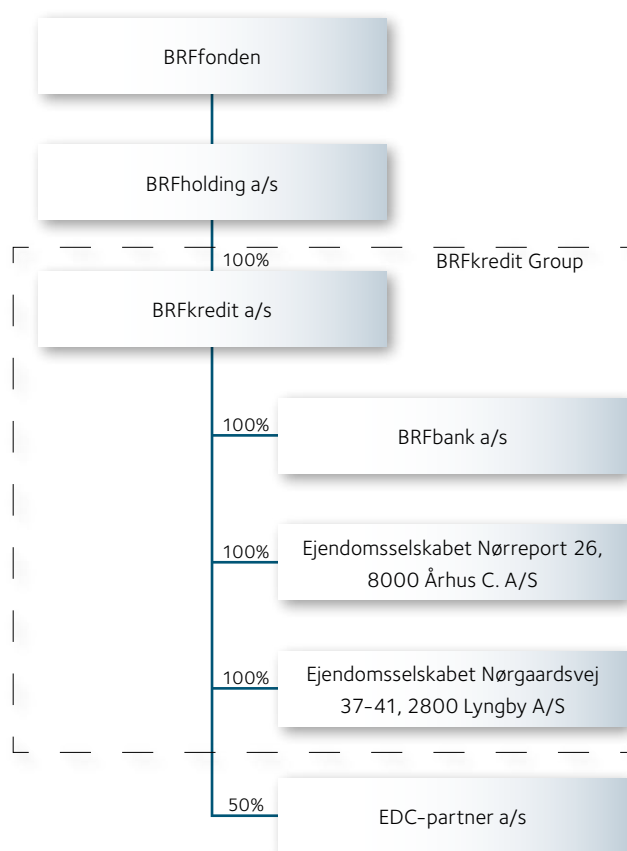
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Group Diagram



The primary activity of the Group is to grant loans against a mortgage on real property; the loans are funded via the matching issuance of bonds with a high degree of investor security. The lending is focused on private owner-occupied homes, private rental housing properties, cooperative housing properties, subsidized housing properties and office and business properties. In compliance

with Danish legislation, a material part of BRFkredit's securities portfolio is placed 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 takes place i.a. through the use of financial instruments and hedging.

The BRFkredit Group comprises the parent company BRFkredit a/s and the wholly owned subsidiaries BRFbank a/s, Ejendomsselskabet Nørreport 26, 8000 Århus C. A/S, and Ejendomsselskabet Nørgaardsvej 37-41, 2800 Lyngby A/S.

In the following, the term 'the Group' shall 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 Board of Directors 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. This is a natural element in the Group's ongoing ambition to develop

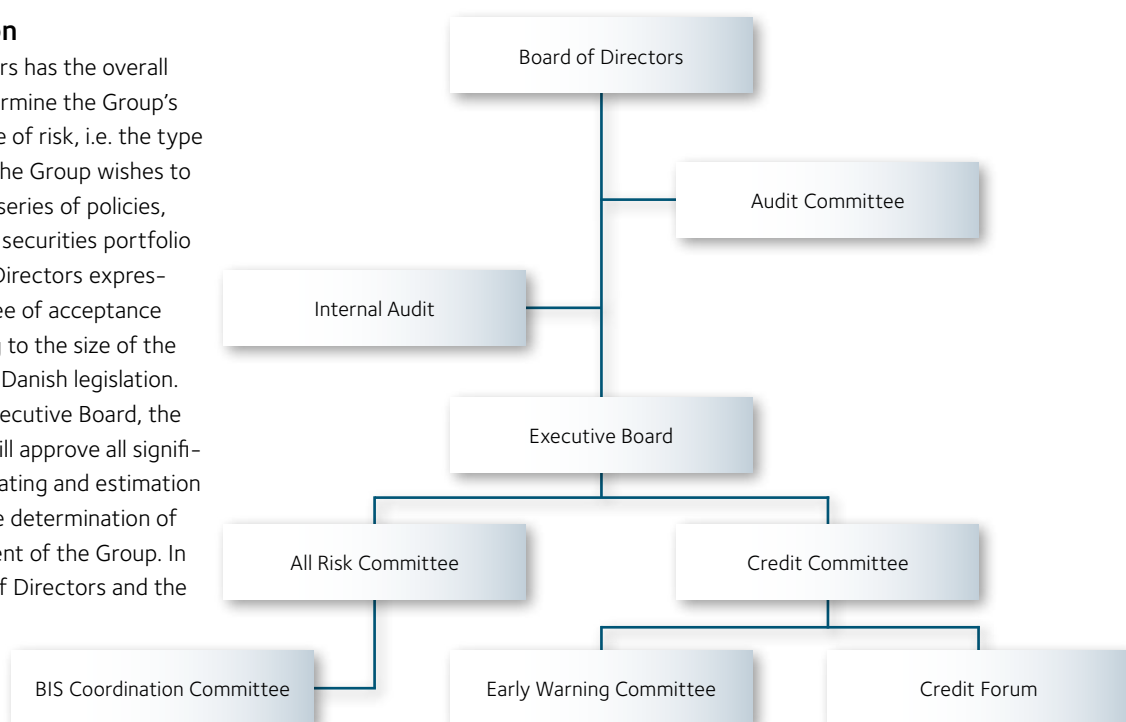
tools and procedures in order to optimize the quantification of the various types of risk that the Group is exposed to, cf. the section on risk exposure.

Risk Organization

The Board of Directors 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 Board of Directors 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 Board of Directors 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 Board of Directors 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. In compliance with Danish legislation, the Board of Directors has appointed an Audit Committee to i.a. monitor that the internal control and risk management systems function effectively.

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 Board of Directors are operationalized and observed. The ongoing monitoring and control of risk in the Group will be handled by committees and sub-committees.



BRFkredit's All Risk Committee has the responsibility 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 Board of Directors. 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.

BRFkredit's Credit Committee serves as a decision-making forum operating within the authority area delegated to the Committee by the Board of Directors. The Credit Committee is led by the Executive

Board and aims to ensure that the credit policies agreed by the Board of Directors 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 Board of Directors of possible amendments to guidelines, policies and instructions to handle credit risk. Commitments recommended for approval by the Board of Directors must be discussed in the Credit Committee first. In addition, the Credit Committee deals with provisions, quality and control reports, valuation models 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.

The Early Warning Committee has the task of monitoring the property market with a view to identifying areas or properties that require particular monitoring.

The Credit Forum is a committee that focuses on credit decisions within the private customer area.

In compliance with Danish legislation, BRFKredit has appointed a risk manager, who is responsible for prudent risk management within the Group, including forming an overview of Group risk and the overall risk situation. The area of responsibility of the risk manager comprises risky corporate activities across risk areas and organizational units as well as risk originating in outsourced functions. The risk manager reports directly to the Executive Board.

Reporting

BRFKredit is constantly 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.

In the credit area, BRFKredit's Board of Directors and Executive Board receive quarterly, comprehensive reports concerning the development in credit risk on the loan portfolio of BRFKredit; in addition the development in the portfolio of foreclosed properties, impairment losses and weak commitments is followed on a monthly basis. The Board of Directors and Executive Board of BRFBank receive corresponding, quarterly reports about the development in credit quality, risk and losses for BRFBank.

In regard to market risk, the Executive Board receives a daily report about compliance with the central risk limits, just as more detailed information is prepared for the Executive Board of BRFKredit on a monthly basis and for BRFKredit's

REPORTS TO BOARD OF DIRECTORS AND EXECUTIVE BOARD OF BRFKREDIT

Report	Boards of directors	Board of Directors	Contents
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.
Foreclosed properties	Quarterly	Monthly	Summary of foreclosed properties.
Write-downs and weak commitments	Monthly (Chairman)	Monthly	Summary of commitments under observation, anticipated write-downs and effect on operations for BRFKredit and BRFBank.
Write-downs and weak commitments	Quarterly	Quarterly	Summary of losses, actual write-downs, foreclosed properties, counterparty risk etc. for BRFKredit.
Commitments granted in BRFBank	Quarterly	Quarterly	Summary of commitments granted in BRFBank.
Liquidity situation for BRFBank	Quarterly	Weekly	Summary of the liquidity development in BRFBank.
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.
Securities portfolio report	Quarterly	Monthly	Summary of return and risk on the securities portfolio and the exploitation of the fixed limits of the securities portfolio policy or legislation
Solvency requirement note	Quarterly	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.
Capital report	Quarterly	Monthly	Description of the capital situation under various scenarios, including the demand for additional capital injection.

REPORTS TO BOARD OF DIRECTORS AND EXECUTIVE BOARD OF BRFBANK

Report	Boards of directors	Board of Directors	Contents
Credit risk report	Quarterly	Quarterly	Summary of the general risk picture for lending and guarantees, including the development within the various loan products.
Write-downs and weak commitments	Quarterly	Quarterly	Summary of losses, actual write-downs, foreclosed properties, counterparty risk etc. for BRFBank.
Commitments granted in BRFBank	Quarterly	Quarterly	Summary of commitments granted in BRFBank.
Securities portfolio report	Quarterly	Quarterly	Summary of return and risk on the portfolio of interest-bearing instruments and other risk in BRFBank, including the exploitation of lines.
Solvency requirement note	Quarterly	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.
Product profitability	Quarterly	Quarterly	Estimation of earnings potential on existing and future products based on interest level etc.
Controller's report	Quarterly	Quarterly	Quality control of the handling of loan applications as well as a survey of controlling activities handled outside BRFBank.
Liquidity situation for BRFBank	Quarterly	Weekly	Summary of the liquidity development in BRFBank.
Liquidity report	Weekly	Weekly	Continuous control of liquidity risk.

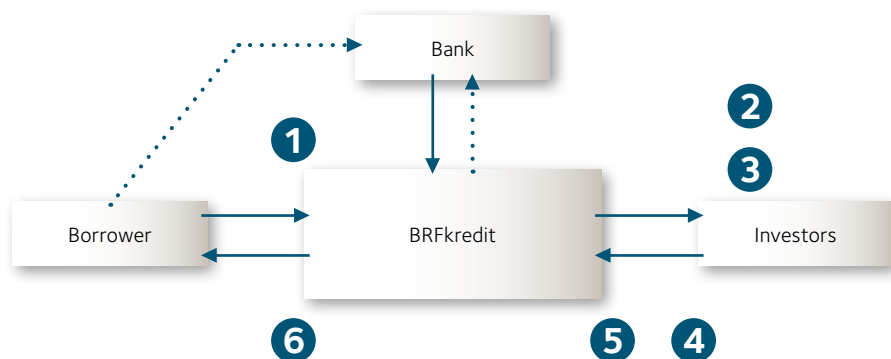
Board of Directors on a quarterly basis. The compliance with limits is monitored independently of the departments that make securities dispositions etc. Any infringements are reported to the Executive Board, just as the Board of Directors is notified about infringements of limits determined by the Board of Directors.

The ongoing monitoring of credit takes place via i.a. a daily overdraft review, monthly action plan meetings concerning weak commitments, ad hoc accounting meetings with major customers as well as the controlling of private individual loans (monthly) and corporate loans (semi-annually).

Risk Exposure

The activities of the Group mean that credit risk by far accounts for the bulk of total risk. Together with operational risk, market risk is the other significant type of risk. Liquidity risk is limited in BRFkredit's mortgage banking activities due to the close connection between lending and funding; yet, there is some refinance risk to issued JCBs and raised senior debt. The four general risk types will be analyzed in the following. The Group is exposed to other types of risk, which are included of the calculation of the required capital base.

BUSINESS MODEL FOR BRFKREDIT



Borrower pays the bank to put up registration guarantee towards BRFkredit and subsequently asks BRFkredit to pay out mortgage credit loan **1**
 BRFkredit issues bonds with payment profiles matching the borrower's loan and sells the bonds in the market to investors **3**
 BRFkredit receives proceeds from the bond sale, **4**
 the mortgage credit loan is registered and the bank guarantee is released **5**
 Proceeds from the bond sale, less costs, are transferred to the borrower's guarantor bank **6**

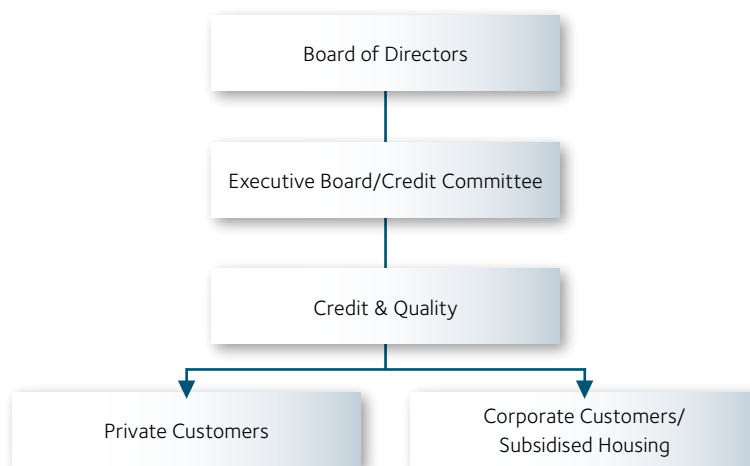
Credit Exposure

The term credit risk means the risk of loss as a result of the failure of a counterparty 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.

Funding Structure

The funding structure in BRFkredit follows the below hierarchy, which indicates clearly for each level the circumstances under which – and within what amounts and segments – the levels in question have funding competence. The two business areas have the funding competence to handle generally accepted loan applications, while large or unusual loan applications must be presented to the Credit Office or the Credit Committee.

LOAN GRANTING STRUCTURE AT BRFKREDIT



The Board of Directors of BRFkredit is responsible for the funding of the most significant loan applications.

The funding of commitments in BRFBank takes place in compliance with the existing funding competences. For private customers, funding is granted

by employees at BRFBank based on an assessment of the customer's will to perform under the agreement made as well as on other individual criteria, whereas the granting of funding to corporate customers is typically handled by the Board of Directors upon a joint recommendation from BRFBank and the BRFKredit Credit Office.

Credit Processes

In connection with the granting of credit, the Group has established a series of credit processes aimed at ensuring that the granting of credit is based on responsible risk-taking in regard to each individual case. Also, the credit processes have been established to make sure that any loss is minimized.

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.

Expert models have also been used in the credit granting process for a number of years to risk classify customers and properties in connection with credit to business properties and subsidized properties. Important parameters of these models are information about financial statements, financial ratios, property information as well as historical behavior (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.

Security

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.

Real Property

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. Provided that the equity on the property is sufficiently high, BRFKredit will usually not suffer a loss. BRFKredit has obtained permission from the Danish FSA to use a statistical model as part in the valuation of properties within the segment owner-occupied homes. Apart from the valuation of the properties when a loan is allocated, BRFKredit closely monitors the value of the mortgaged properties. This is due to the fact that valuations are part of BRFKredit's LGD models and our general risk management, but also for the observance of the statutory demands for continuous monitoring in connection with SDO funded loans.

BRFKredit has established a special monitoring forum – the Early Warning Committee – which consists of experienced staff with a thorough knowledge of the housing market and with excellent valuation competences. This forum monitors market conditions and will point out areas and properties that require separate monitoring, just as they will propose adjustments of the statistical models and policies and initiate the updating of valuations etc.

Guarantees

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. below. 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. Public authority guarantees are guarantees whereby the guarantor assumes primary liability. This means that BRFKredit may enforce the guarantee if a loan falls into arrears. As a main rule, subsidized housing will usually be comprised by a guarantee for that part of the loan which exceeds 60 pc of the value of the property if the loan is funded with covered bonds. The credit risk for this property category is thus further limited. Loans covered by a public authority guarantee account for 13 pc of the portfolio.

In addition, in connection with loan-providing financial institutions' granting of loans, BRFKredit has set up a guarantee concept, which will – typically – cover loss up to 20 pc of the remaining debt. These guarantees thus cover the lowest-ranking and most risky part of the lending. The guarantees will typically run for eight years but may be prolonged. Measured as a share of the total loan portfolio, loans backed by guarantees account for 7 pc of the loan portfolio. Apart from loss guarantees, the financial institutions will offer land registration guarantees, top-up loan guarantees etc.

ISSUED JUNIOR COVERED BONDS IN BRFKREDIT

Issue date	Maturity date	DKKbn
04-07-2008	01-01-2011	1.0
29-03-2010	01-07-2011	1.0
29-06-2009	01-10-2012	1.5
29-03-2010	01-07-2013	1.0
Total		4.5

All in all, just below 21 pc of BRFKredit's portfolio is comprised by a loss guarantee.

Supplementary Security

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, which involves a funding risk for BRFKredit. Furthermore, a continuing unfavourable development in property prices may have the effect that BRFKredit could need to refund already issued supplementary security. For that purpose, BRFKredit has at the end of 2010 issued junior covered bonds (JCBs) at a total of DKK 4.5bn, of which DKK 2bn in 2010, just as BRFKredit has raised senior debt amounting to DKK 7.2bn. This latter debt is guaranteed by the Danish government and falls due by mid-April 2013.

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 JCBs/senior debt. Together with BRFKredit's capital base, the already issued JCBs/senior debt are – all other things being equal – considered sufficient to absorb a fall in prices of another 15 pc on the current level, without requiring additional issues of JCBs/senior debt.

Composition of the Loan Portfolio – BRFKredit

As at 31 December 2010, the loan portfolio of BRFKredit amounted to DKK 209bn where loans to private customers accounted for 47 pc of the portfolio. The remaining part of the loan portfolio is attributable to BRFKredit's focus areas – to subsidised housing properties as well as private rental housing properties and office and business properties. These segments have historically made up the biggest part of BRFKredit's loan portfolio in the commercial area. On the whole, loans to homes (private, subsidised properties, cooperative housing and private rental properties) account for more than 83 pc of the loan portfolio.

BRFKredit almost solely grants loans to homes located in Denmark. 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.

The development in values for private rental properties – and to some extent office and business premises – has in recent years resulted in considerable impairment losses for BRFKredit, just as it has been necessary to foreclose a number of properties upon a forced sale. However, in 2010 BRFKredit succeeded in selling a considerable number of the foreclosed properties, typically at prices above the book value.

In connection with loans to private rental homes and to office and business premises, the loans are – in addition to the mortgage on the property – typically also guaranteed by means of the personal liability of debtor/guarantor, and in all cases it will be possible to levy execution on the rent money from the tenants. This security can be enforced immediately, only not in the event of the bankruptcy of the debtor. Loans granted to subsidised homes are partly guaranteed by the Danish government or by Danish local governments. The majority of loans granted to manufacturing and manual industry properties is guaranteed by FIH Erhvervsbank.

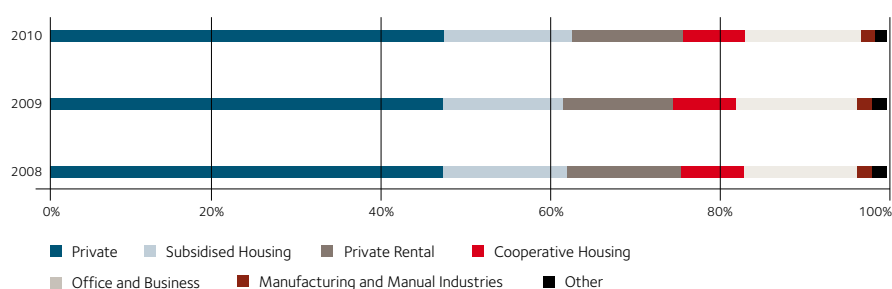
Mortgage credit loan amounts are determined at the time of approval based on the statutory lending limits. Subsequently, changes will occur in the relation between the remaining debt of the borrower calculated at market value and the

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, 81 pc of the loan portfolio is secured within 60 pc of the value of the property. For commercial customers, the LTV is dependent on the property category in question, but for commercial customers as a whole it applies that 77 pc of the loan portfolio is secured within 60 pc.

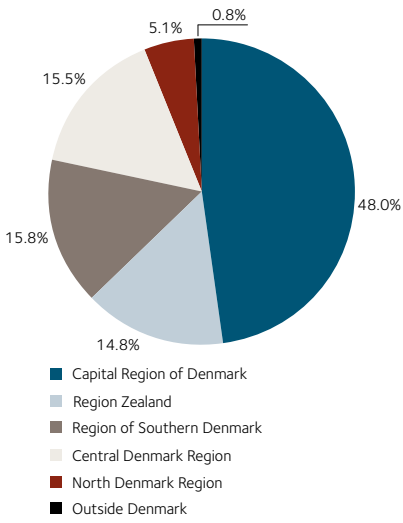
Over the years, the introduction of the interest only loans has gained an increasing influence on the composition of the loan portfolio. The share of loans that offer the possibility of an interest-only period has been decreasing, and at the end of 2010, loans with interest-only periods make up just below 51 pc of the loan portfolio, which is at the same level as in 2009. The possibility of interest-only periods is more widespread for ARM loans and guarantee loans than for 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 15

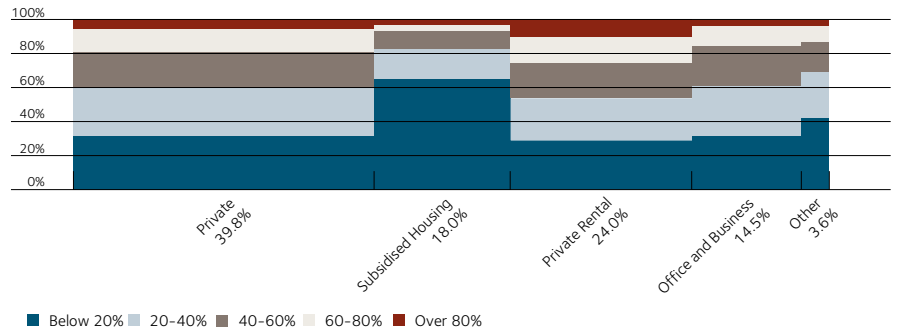
DISTRIBUTION OF LOANS GRANTED BY BRFKREDIT ON PROPERTY CATEGORIES



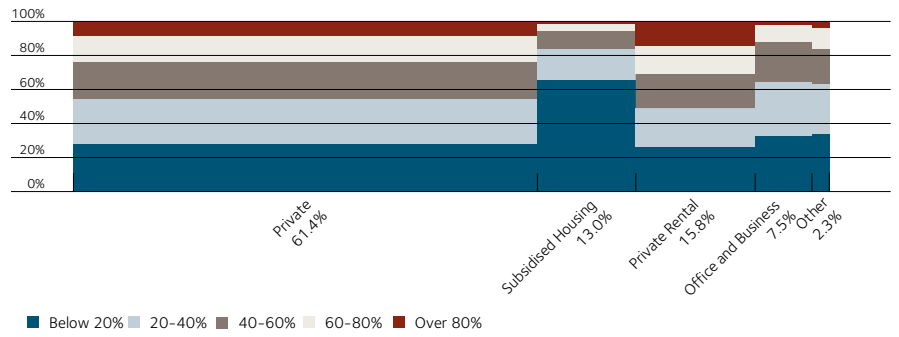
DISTRIBUTION OF LOANS IN BRFKREDIT BY GEOGRAPHICAL REGION



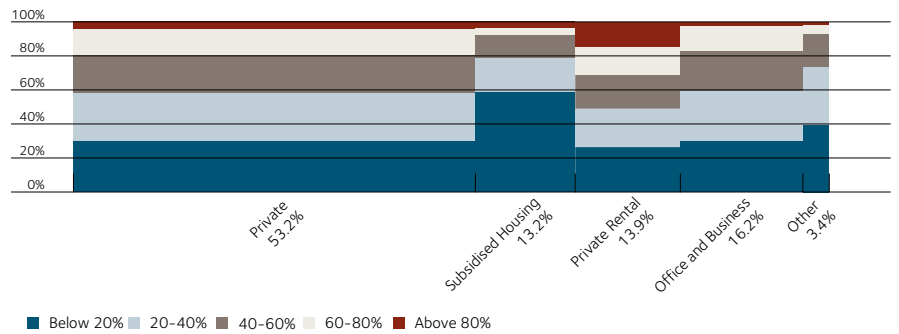
DISTRIBUTION OF LOANS IN BRFKREDIT ON PROPERTY CATEGORIES BY LTV Capital Region of Denmark



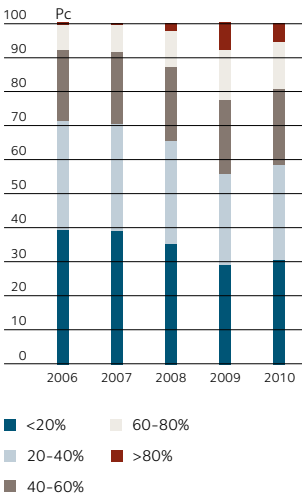
DISTRIBUTION OF LOANS IN BRFKREDIT ON PROPERTY CATEGORIES BY LTV Region Zealand



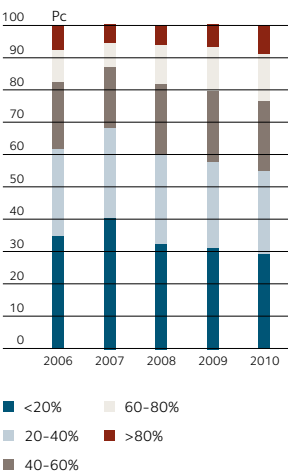
DISTRIBUTION OF LOANS IN BRFKREDIT ON PROPERTY CATEGORIES BY LTV North Denmark Region



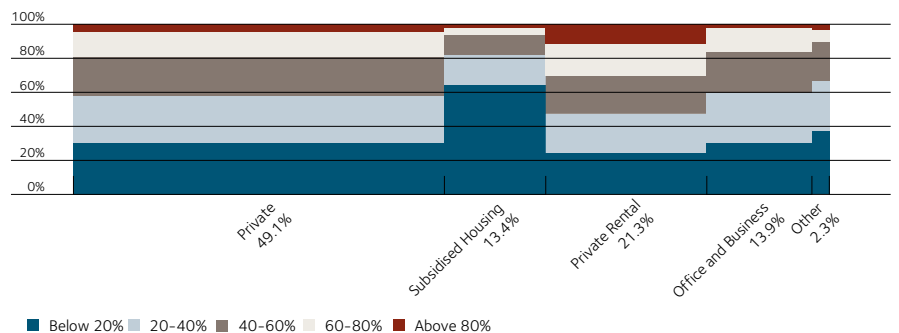
LTV BAND, PRIVATE

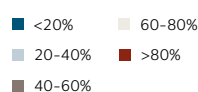
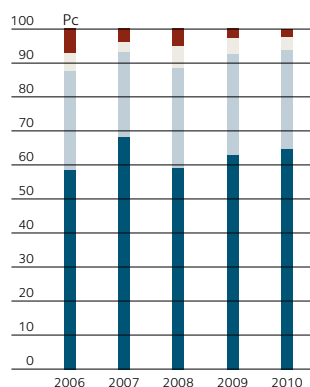
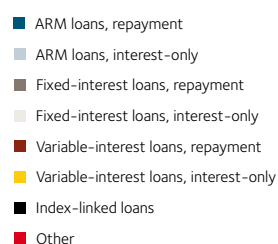
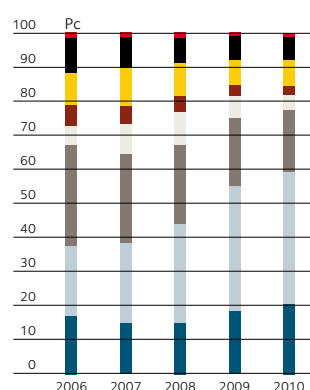


LTV BAND, CORPORATE INCL. PRIVATE RENTAL HOUSING AND COOPERATIVE HOUSING



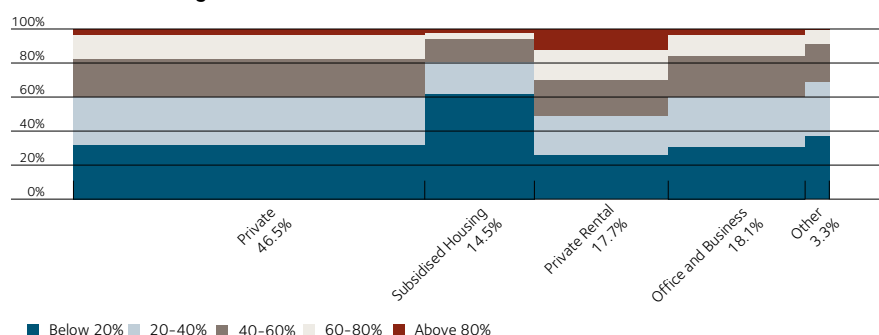
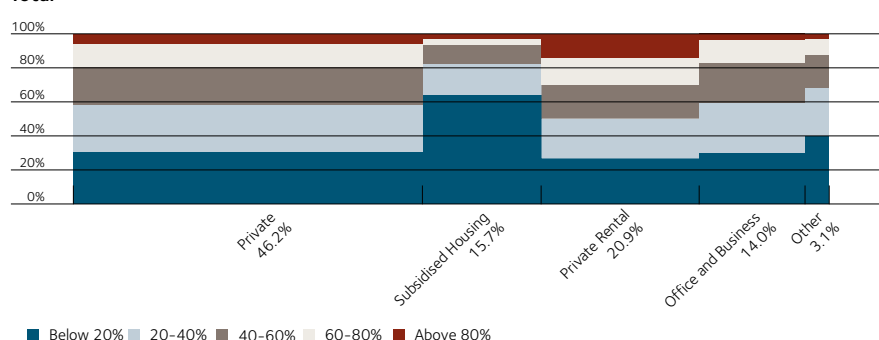
DISTRIBUTION OF LOANS IN BRFKREDIT ON PROPERTY CATEGORIES BY LTV Region of Southern Denmark



LTV BAND,
SUBSIDISED HOUSINGDISTRIBUTION OF LOANS IN
BRFKREDIT BY LOAN TYPE
AND USE OF INTEREST-ONLY
PERIODS

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 just below 35 pc of the capital base where the statutory limit is 800 pc.

The below table illustrates the concentration of large-scale commitments.

DISTRIBUTION OF LOANS IN BRFKREDIT ON PROPERTY CATEGORIES BY LTV
Central Denmark RegionDISTRIBUTION OF LOANS IN BRFKREDIT ON PROPERTY CATEGORIES BY LTV
Total

DISTRIBUTION OF LOANS IN BRFKREDIT BY LOAN TYPE AND PROPERTY CATEGORY

Property category	ARM loans in pc		Fixed-interest loans in pc		Short-rate loans ¹⁾ in pc		Other loan types ²⁾
	Repayment	Interest-only	Repayment	Interest-only	Repayment	Interest-only	
Private	18.2	37.1	22.7	7.4	5.1	9.4	0.0
Subsidised housing	41.4	0.1	20.4	0.2	0.1	0.0	37.7
Homes ³⁾	7.9	58.5	13.1	7.2	0.4	9.1	3.7
Office and business	20.7	60.8	7.5	2.1	0.4	8.3	0.3
Other	29.9	30.3	28.3	0.3	0.7	7.0	3.4
Total	20.6	38.6	18.4	5.2	2.6	7.6	7.0

¹⁾ Short-rate loans comprise CIBOR-based loans with and without interest ceiling

²⁾ Comprise other loan types, e.g. index-linked loans etc.

³⁾ Private rental and cooperative housing

CONCENTRATION OF LARGE EXPOSURES IN BRFKREDIT

	Loans ¹⁾		In pc of total portfolio		In pc of portfolio, accumulated	
	DKKbn	Accumulated	Pc	Pc	Pc	Pc
10	13.6	13.6	6.5	6.5		6.5
20	7.4	21.0	3.5	10.1		10.1
30	5.1	26.1	2.4	12.5		12.5
40	3.8	29.9	1.8	14.3		14.3
50	3.0	32.9	1.4	15.7		15.7

¹⁾ In the calculation of loans, deductions have not been made in compliance with the executive order on large exposures

The table shows that between them the 50 largest commitments in BRFkredit account for just below 16 pc of the aggregate lending. The table also shows that the size of commitments falls rapidly so that there is a very large size difference between the ten largest commitments, the next ten commitments etc. The 50 largest commitments are attributable to

different segments in the property sector, e.g. investment companies, real estate administration and property rental. The concentration for the 10 largest commitments has fallen from 6.7 pc of the total portfolio at the end of 2009 to 6.5 pc at the end of 2010, corresponding to a fall of DKK 1.0bn in volume for the 10 largest commitments.

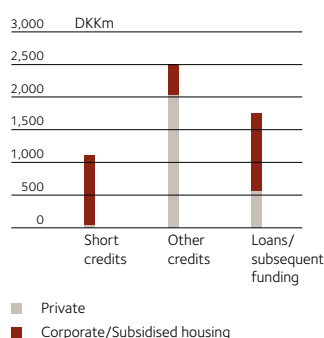
Composition of the Loan Portfolio – BRFBank

The loan portfolio of BRFBank falls into three main segments. The first segment – 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 segment – funding of new building projects etc. – consists of the establishment of building credits and interim loan guarantees, and the third segment – 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 2010, the loan portfolio in BRFBank amounted to DKK 4.6bn, and guarantees totalling DKK 1.5bn had been issued. Thus, the balance sheet of the Bank accounts for less than 5 pc of the balance sheet of BRFBank.

Lending in BRFBank primarily takes place as a supplement to the lending made by BRFBank. The high concentration of loans linked to the property market means that in times of pressure on the property market, the risk incurred by BRFBank will increase. This is the main reason why in 2009 as well as in 2010 BRFBank had to make large provisions seen in relation to the size of the bank. At the end of 2010, BRFBank had no commitments that exceeded 10 pc of the capital base.

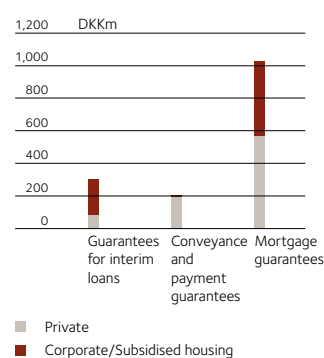
With the purpose of being able to describe the quality of its loan portfolio, BRFBank uses a risk classification system, which divides all customers with the Bank into six categories. The placing of a customer in a category happens on the basis of an estimation of information obtained when the customer relationship was established and registered experience of the customer's behaviour. The undoubtedly solid customers are placed in category 1, whereas acceptable, yet vulnerable customers are placed in category 4. Customers on whom BRFBank has made provisions due to the risk of loss on the customer fall into category 5, and

DISTRIBUTION OF LOANS IN BRFBANK BY PURPOSE ¹⁾



¹⁾ Loans prior to provisions

DISTRIBUTION OF GUARANTEES IN BRFBANK BY PURPOSE ¹⁾



¹⁾ Guarantees prior to provisions

CLASSIFICATION OF LOANS IN BRFBANK

Risk code	Number	Loans ¹⁾ (DKKm)
0	550	325
1	91	9
2	6,153	2,389
3	2,470	754
4	1,214	553
5	917	1,342
Total	11,395	5,372

¹⁾ Loans prior to provisions

category 6 contains customers without a rating. The risk classification system will undergo continuing development, and it is expected that category 6 will be considerably reduced. Category 4 customers are included in the calculation of the solvency requirement for BRFBank, cf. the section about the calculation of an adequate capital base for BRFBank. Compared to the situation at the end of 2009, there has been a reduction in the number of customers that pose a risk of loss (risk code 5), which means that the number of customers in categories 2-4 has increased correspondingly.

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. Since December 2008, BRFBank has used the Internal Rating Based (IRB) method to calculate the capital requirement for credit risk, except for government bond exposure, institute exposure and exposure in BRFBank. The portfolios of the latter two are still calculated by means of the standard method. Exposure comprised by the IRB method accounts for approx. 94 pc of the total loan portfolio of the Group.

The use of the IRB method means that BRFBank calculates credit risk for each individual customer based on internally developed credit models. These models estimate the customer's probability of 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 anticipated loss on a given customer. 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 experts confirm the LGD of our corporate

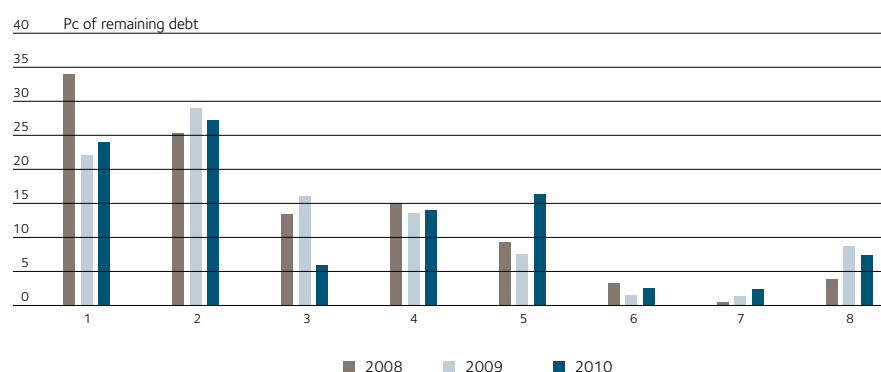
USE OF THE IRB METHOD IN THE BRFKREDIT GROUP

Exposure category	BRFKredit	BRFbank
Government exposure	Standard method	Standard method
Institute exposure	Standard method	Standard method
Corporate exposure	IRB method	Standard method
Retail exposure	IRB method	Standard method
Equity exposure	Standard method	n/a
Securitisation positions	n/a	n/a
Assets without counterparties	Standard method	Standard method

RATING CLASSES AND INTERVAL VALUES OF PD AND LGD

Rating class	PD (pc)		LGD (pc)	
	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)



MIGRATION BETWEEN RATING CLASSES (PD) END 2009 TO END 2010

From rating class	To rating class								Departed customers
	1	2	3	4	5	6	7	8	
1	77.9	13.2	0.8	0.3	0.4	0.5	0.3	0.6	6.1
2	14.3	71.9	2.4	0.9	4.2	0.6	0.8	0.5	4.5
3	5.3	6.6	23.3	20.2	38.1	0.8	0.7	1.4	3.6
4	3.0	5.0	3.5	53.0	19.5	4.0	4.9	1.5	5.5
5	3.6	4.3	2.9	20.7	43.5	6.6	4.9	5.9	7.5
6	2.4	6.0	3.3	6.2	25.9	18.2	13.0	19.7	5.4
7	0.4	2.8	5.9	9.7	19.1	3.6	19.9	20.5	18.2
8	-	0.9	0.3	0.7	6.0	5.0	3.0	65.9	18.2

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, and so the statistically calculated LGD estimates are adjusted with an addition.

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 76 pc of the private customers are found in the two best rating classes, which was also the case at the end of 2009. In 2010 there was a tendency that the share of customers in rating classes 6–8 was slightly decreasing. Of the corporate customers, more than 54 pc can be found in the four best rating classes; howe-

DISTRIBUTION OF LOANS IN BRFKREDIT ON RATING CLASSES (PD AND LGD)

Pc of remaining debt end 2010		LGD										Total	
		1	2	3	4	5	6	7	8	9	10		No rating
PD	1	15.3	1.2	2.7	1.4	0.9	1.3	0.7	0.2	0.0	0.0		23.8
	2	8.2	7.3	4.9	1.3	0.9	1.5	1.4	1.1	0.2	0.1		26.9
	3	2.0	0.7	1.6	0.4	0.6	0.3	0.2	0.2	0.0	0.0		5.9
	4	2.3	3.0	4.1	1.2	0.9	1.4	0.9	0.1	0.0	0.0		13.9
	5	3.0	3.3	6.1	1.7	0.7	0.9	0.3	0.1	0.0	0.0		16.3
	6	0.5	0.1	0.7	0.3	0.2	0.3	0.2	0.1	0.0	0.0		2.6
	7	0.7	0.9	0.4	0.1	0.1	0.1	0.1	0.1	0.0	0.0		2.4
	8	1.3	1.5	3.0	0.8	0.2	0.2	0.1	0.1	0.0	0.0		7.3
No rating												0.9	
Total		33.2	18.1	23.4	7.3	4.6	6.0	3.9	2.0	0.4	0.2		100.0

ver, additions based on the continuous validation are currently having the effect that there are no longer any corporate customers left in rating class 1 and that there has been a shift from rating class 3 to rating class 5. The share of corporate customers in default (rating class 8) has been decreasing throughout 2010.

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 improves, 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-2009 to end-2010 is considerable and shows a higher degree of migration to higher rating classes than to lower rating classes. Still, 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.

If we compare the customers' PD with the LGD of the properties, we find that more than 57 pc of the loan portfolio may be considered good customers with mortgages on good properties, i.e. with both PD and LGD in the rating classes 1-4.

Commitments in Default

In 2010, BRFKredit had a decreasing number of customers who experienced problems in keeping their obligations toward BRFKredit. This is expressed in the fact that fewer 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 has not been showing any significant tendencies during the financial crisis. In order to help these customers in the best possible way, BRFKredit has set up a task force, who will enter into a dialogue with customers with payment problems as early as possible.

BRFKredit is constantly evaluating the quality of the customers with a view to identifying commitments that show

EXPOSURE IN BRFKREDIT COMPRISED BY THE IRB METHOD

Exposure-weighted average	Exposure	LGD ¹⁾	Risk weight
	DKKm	Pc	Pc
PD rating class			
1	49,668	7.8	12.6
2	56,301	6.4	13.8
3	12,396	7.4	21.2
4	29,067	10.4	37.6
5	33,955	9.8	40.4
6	5,357	13.3	67.0
7	4,966	7.6	49.7
8	15,262	10.8	84.2
Average		8.4	29.1

¹⁾ The table comprises LGD solvency values

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 provisions. 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. Thus the calculation of the provision amount includes auction costs, costs resulting from an 18-month selling period as well as costs relating to the sale of the property. As a supplement to the individual provisions calculations, BRFKredit carries out a group-wise evaluation of all loans without individual provisions. The group-wise provisions calculations are based on the development in uniform risk for the individual groups.

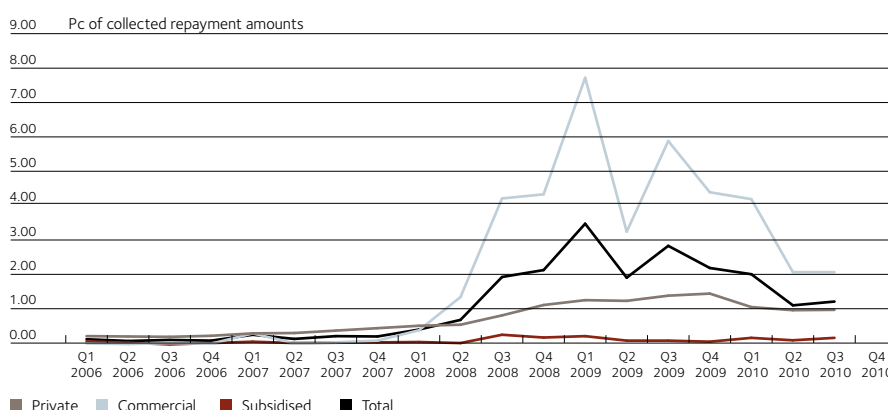
For 2010, the Group has ascertained a strong fall in the demand for provisions compared to the year before. The overall effect on operations is an expense of DKK 471m, and so this item has been reduced to merely one fourth of the corresponding item for 2009. At the end of 2010, provisions total DKK 2,128m – a drop of DKK 205m – of which provisions on commitments in BRFBank accounts for

DKK 867m. The overall provisions of the Group account for 1.0 pc of the total loan portfolio of the Group.

In addition to monitoring commitments with an indication of provisions, BRFKredit also closely monitors commitments with increased risk, i.e. commitments that are not at present meeting the conditions for provisions. So-called 'weak' customers are included in the calculation of BRFKredit's required capital base.

The number of scheduled forced sales of properties with BRFKredit loans rose in 2010 to a total of 1,159 against 959 in 2009. The number of properties on which BRFKredit suffered a loss rose in 2010 to 691 against 618 in 2009. At the end of 2010, BRFKredit had a portfolio of properties taken over at forced sales of 260, which is a slight increase from 217 in 2009. At the end of 2010, commercial properties taken over at forced sales amounted to approx. one third of the property portfolio. The book value of the portfolio of properties taken over is DKK 852m.

DEVELOPMENT IN 90-DAY ARREARS RATES FOR BRFKREDIT



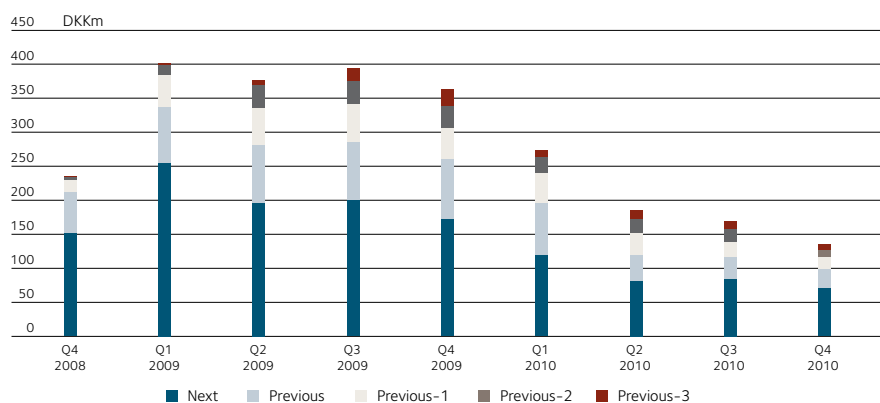
ARREARS RATES IN BRFKREDIT

Segment	Period	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Private	½ Mth	3.41	3.38	2.81	2.60	2.84	2.70
	3 Mths	1.41	1.45	1.09	0.99	1.00	
	3½ Mth	1.20	1.21	0.88	0.81	0.82	
	6½ Mth	0.65	0.61	0.46	0.37		
Private rental	12½ Mth	0.16	0.10				
	½ Mth	29.23	13.45	8.49	6.66	9.20	4.49
	3 Mths	12.21	9.38	9.09	3.11	3.82	
	3½ Mth	11.78	8.32	4.07	2.79	3.00	
Subsidised	6½ Mth	6.08	2.65	2.44	1.49		
	12½ Mth	1.65	0.99				
	½ Mth	0.22	0.12	0.30	0.12	0.27	0.12
	3 Mths	0.11	0.07	0.19	0.11	0.19	
Cooperative	3½ Mth	0.09	0.07	0.19	0.11	0.19	
	6½ Mth	0.04	0.02	0.16	0.09		
	12½ Mth	0.04	0.02				
	½ Mth	2.01	0.90	0.98	0.69	0.72	0.56
Office and business	3 Mths	0.37	0.37	0.62	0.42	0.11	
	3½ Mth	0.37	0.37	0.62	0.42	0.00	
	6½ Mth	0.33	0.25	0.45	0.00		
	12½ Mth	0.00	0.00				
Other loans	½ Mth	6.21	7.28	4.06	5.10	4.35	3.08
	3 Mths	4.19	3.77	3.13	3.06	2.22	
	3½ Mth	3.67	3.05	2.74	2.12	2.08	
	6½ Mth	1.61	1.85	1.55	1.44		
All	12½ Mth	0.57	0.65				
	½ Mth	1.15	0.78	0.66	0.79	1.08	0.95
	3 Mths	0.37	0.50	0.52	0.43	0.25	
	3½ Mth	0.37	0.49	0.51	0.43	0.21	
All	6½ Mth	0.33	0.46	0.40	0.18		
	12½ Mth	0.31	0.12				
	½ Mth	6.34	3.93	3.00	2.40	3.09	1.94
	3 Mths	2.85	2.21	2.03	1.13	1.24	
All	3½ Mth	2.62	1.91	1.34	0.91	1.04	
	6½ Mth	1.33	0.82	0.77	0.49		
	12½ Mth	0.00	0.25				

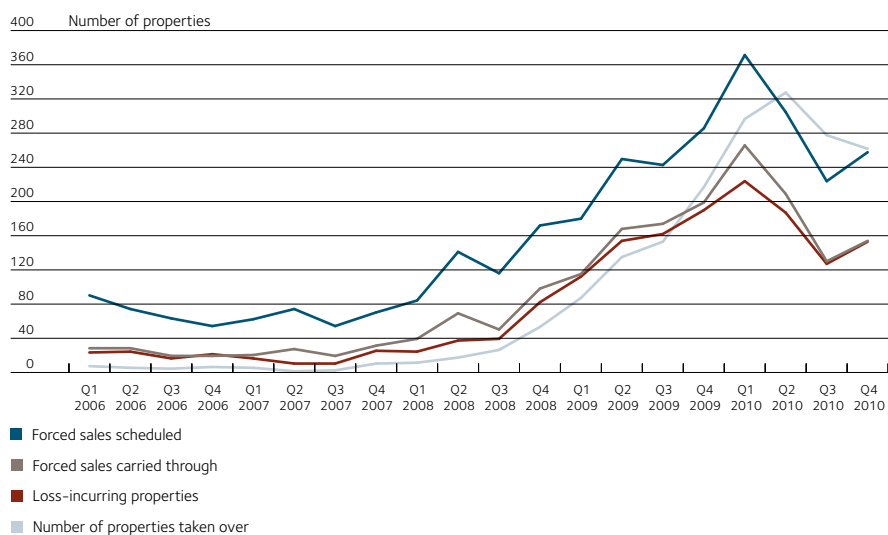
ARREARS IN BRFKREDIT, DKKM

Segment	Period	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010
Private	½ Mth	55.7	53.0	40.2	36.3	39.7	36.9
	3 Mths	23.1	22.7	15.6	13.8	13.9	
	3½ Mth	19.7	19.0	12.6	11.3	11.4	
	6½ Mth	10.6	9.5	6.6	5.2		
	12½ Mth	2.6	1.6				
Private rental	½ Mth	117.9	66.2	26.0	22.3	26.7	15.3
	3 Mths	49.6	46.2	27.8	10.4	11.0	
	3½ Mth	47.9	41.0	12.5	9.3	8.7	
	6½ Mth	24.7	13.0	7.5	4.9		
	12½ Mth	6.7	4.9				
Subsidised	½ Mth	1.1	1.3	1.3	1.3	1.2	1.1
	3 Mths	0.5	0.8	0.9	1.1	0.9	
	3½ Mth	0.4	0.8	0.9	1.1	0.9	
	6½ Mth	0.2	0.3	0.7	0.8		
	12½ Mth	0.2	0.2				
Cooperative	½ Mth	3.8	2.7	1.7	1.4	1.3	2.6
	3 Mths	0.7	1.1	1.1	0.9	0.2	
	3½ Mth	0.7	1.1	1.1	0.9	0.0	
	6½ Mth	0.6	0.8	0.8	0.0		
	12½ Mth	0.0	0.0				
Office and business	½ Mth	29.7	35.9	16.1	21.1	16.7	13.2
	3 Mths	19.9	18.6	12.4	12.7	8.5	
	3½ Mth	17.4	15.1	10.8	8.8	8.0	
	6½ Mth	7.6	9.1	6.1	6.0		
	12½ Mth	2.7	3.2				
Other loans	½ Mth	1.4	1.0	0.7	0.9	1.1	1.1
	3 Mths	0.5	0.7	0.6	0.5	0.3	
	3½ Mth	0.5	0.7	0.6	0.5	0.2	
	6½ Mth	0.4	0.6	0.5	0.2		
	12½ Mth	0.4	0.2				
All	½ Mth	209.6	160.1	86.1	83.3	86.7	70.2
	3 Mths	94.3	90.0	58.3	39.3	34.8	
	3½ Mth	86.5	77.6	38.4	31.8	29.1	
	6½ Mth	44.2	33.3	22.2	17.2		
	12½ Mth	0.0	10.1				

LIQUIDITY DRAWINGS DUE TO AMOUNTS IN ARREARS



DEVELOPMENT IN THE NUMBER OF TAKEN-OVER AND LOSS-INCURRING PROPERTIES AS WELL AS FORCED SALES, BRFKREDIT



PROPERTIES TAKEN OVER, BRFKREDIT

	End Q3		Intake	Sold off	End Q4	
	Number	DKKm ²⁾			Number	DKKm ²⁾
Private	180	200	45	57	168	203
Subsidised housing	1	5	0	0	0	0
Homes ¹⁾	95	1,004	9	14	77	411
Office and business	0	0	3	2	15	358
Other	0	0	0	0	0	0
Total	276	1,209	57	73	260	971

¹⁾ Private rental and cooperative housing

²⁾ Debt in properties taken over

Loss History

In the past years, BRFKredit has experienced an increase in actual losses due to the fact that the provisions made are to an increasing extent turned into actual losses. The same trend applies to BRFBank, which had actual losses of DKK246m at the end of 2010. In addition, a considerable share of the loan portfolio entails risk that requires provisions of just below DKK 900m. At the end of 2010, individual provisions totalled DKK 761m, distributed with DKK 122m on private customers, DKK 587m on corporate customers and DKK 52m for the "Financial Preparedness". In addition, group-wise provisions have been made at DKK 106m. At the end of 2010, BRFBank had taken over 7 properties.

PROVISIONS ON LOANS AND AMOUNTS DUE FOR THE BRFKREDIT GROUP

DKKm	2010	2009
<i>Individual provision calculations</i>		
Opening balance	1,775	590
Provisions over the period	650	1,525
Reversal of previous provisions	-535	-240
Final loss, previous provisions	-342	-99
Other movements	0	0
End year	1,547	1,775
<i>Group-wise provisions</i>		
Opening balance	558	189
Provisions over the period	581	558
Reversal of previous provisions	-558	-189
End year	581	558
<i>Effect on operations</i>		
Net movements over period, individual provisions	-228	1,185
Net movements over period, group-wise provisions	23	369
Final loss, no previous provisions	739	578
Value adjustment, properties taken over at forced sales	-63	-6
Other movements	0	0
Total provisions on loans and amounts due to BRFKredit	471	2,125

PROVISIONS IN BRFKREDIT

Property category	Loans		Continuing provisions Q4 2010		Accumulated provisions end Q4 2010	
	DKKm		DKKm	Pc	DKKm	Pc
Private	98,152		-12	0.0	437	0.4
Subsidised housing	34,359		2	0.0	5	0.0
Homes ¹⁾	41,356		-140	-0.3	645	1.6
Office and business	29,333		-7	0.0	176	0.6
Other	5,554		-7	-0.1	0	0.0
Total	208,754		-164	-0.1	1,262	0.6

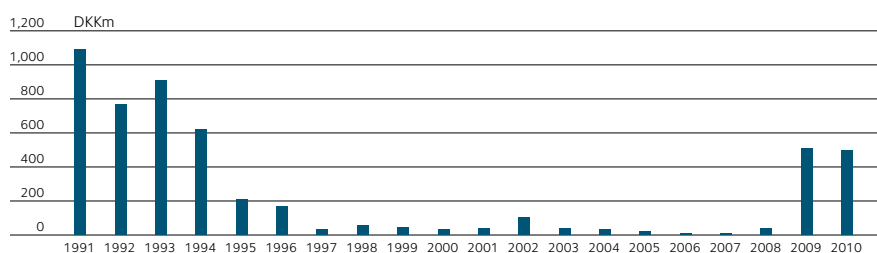
¹⁾ Private rental and cooperative housing

ACTUAL LOSSES FOR BRFKREDIT

Property category	Loans	Actual losses, Q4	
	DKKm	DKKm	Pc
Private	98,152	306	0.3%
Subsidised housing	34,359	0	0.0%
Homes ¹⁾	41,356	153	0.4%
Office and business	29,333	54	0.2%
Other	5,554	0	0.0%
Total	208,754	513	0.2%

¹⁾ Private rental and cooperative housing

DEVELOPMENT IN ACTUAL LOSSES FOR BRFKREDIT



Market Risk

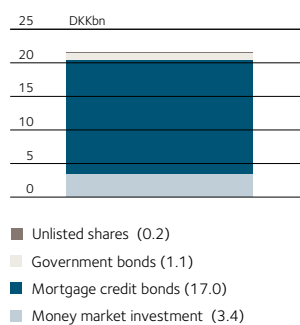
Market risk is the risk of loss of market value caused by fluctuations in the financial markets (interest rate, share price and currency risk). The most significant market risk is attached to BRFkredit's securities portfolio where interest rate and share price risk is the most predominant. BRFkredit 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 due to the unique match funding structure of Danish mortgage credit.

The Danish Financial Business Act and the Executive Order on bond issuance, balance principle and risk management determine 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 Board of Directors 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 counterparties.

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 Board of Directors 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 Board of Directors, a report is sent to the Board of Directors.

It is estimated that the Danish legislative framework on mortgage credit and securities policies ensures that market risk in BRFkredit is at a relatively moderate level and that the continuous close monito-

DISTRIBUTION OF ASSETS IN BRFKREDIT'S SECURITIES PORTFOLIO



ring 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 4.3bn. 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 hold infrastructure shares at an amount corresponding to approx. 2 pc of the capital base.

Of BRFkredit's aggregate risk, expressed in its risk-weighted items, market

risk items at the end of 2010 totalled DKK 11.3bn corresponding to 14.5 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 as loss in the event of a general change in interest rates. Under Danish legislation, an interest rate risk of 8 pc of the capital base is permitted, where up to half of the interest rate risk in EUR may be offset in interest rate risk in DKK. BRFkredit's Board of Directors 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 fully offset against the interest rate risk in DKK.

The framework set out by the Board of Directors 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 2010, BRFkredit's interest rate risk was calculated according to the standard method at DKK 333m, which is significantly lower than the limit determined by the Board of Directors and the statutory limit. On full offsetting between DKK and EUR, the interest rate risk amounts to DKK 177m.



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.

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 counterparty risk.

Share Price Risk

Share price risk is an expression of the risk of loss caused by changes in share prices. BRFkredit's Board of Directors 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 2010, BRFkredit held shares worth a total of DKK 233m, corresponding to 2 pc of the capital base.

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 Board of Directors 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.

BRFkredit's government guaranteed loan raised in USD is fully hedged and thus incurs no currency risk.

On the whole, BRFkredit's currency risk at the end of 2010 was calculated at less than 0.5 pc of the capital base.

Counterparty 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 counterparties with whom BRFkredit has invested funds or from whom claims have been bought. In regard to financial instruments for which settlement does not take place via a clearing central, netting agreements are made to protect BRFkredit in the event of counterparty default. In BRFkredit, counterparty 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 2010 was DKK 35m and stems from a portfolio of fixed-interest mortgages issued in connection with loan commitments as well as a small bond portfolio. Part of the interest rate risk on mortgages and the bond portfolio 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 busi-

ness 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.

In order to counter operational risk, BRFkredit's Executive Board has approved

guidelines for the drawing-up of process descriptions. The purpose of the process descriptions is to make sure that the Group will at all times have written work instructions for all significant procedures, just as the process descriptions must at all times indicate the allocation of responsibility in the work assignments in regard

to departments, department heads and employees. The responsibility for the preparation and professional content of the individual process descriptions lies with the persons responsible for the individual areas, who will give a semi-annual status report to the central control unit.

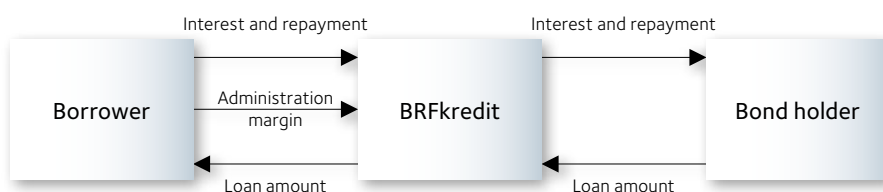
The calculation of operational risk is done by means of the basis indicator method, i.e. as 15 pc of a three-year average of the sum of net interest income and noninterest-related net income. For 2010, the capital requirement for operational risk has been calculated at just below DKK 242m.

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 highly limited, since the Group's primary lending activities – mortgage

- ARM loans without fixed funding are funded by means of bonds with maturities up to 10 years. The repayment terms of the customer will change upon remortgaging, corresponding to the price of the bonds sold in connection with the remortgaging. Thus the interest rate risk for the issuer (BRFkredit) is eliminated;



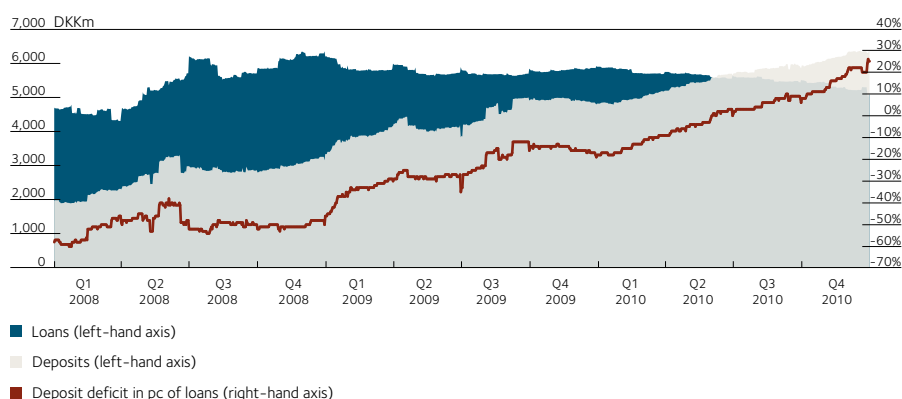
- through purchases of the bonds in the market or by the borrower giving notice of prepayment at a remortgaging date. Callable loans as well as a few CIBOR-based loans are repayable at a maximum price, e.g. 100 or 105. Alternatively, these loans may be (p) repaid through purchases of the underlying bonds in the market. Thus the prepayment risk is also eliminated;
- Payment dates for interest and repayment amounts by 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.

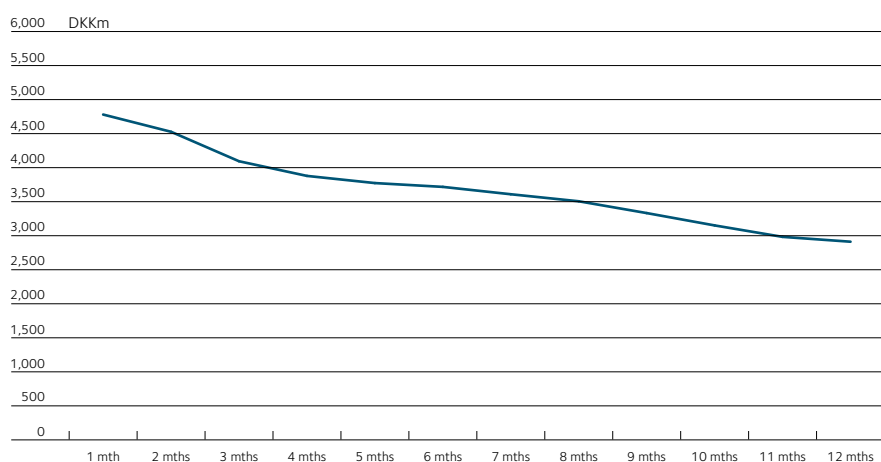
credit lending – is match funded. Match funding means that the characteristics of the lending provided is matched by the characteristics of the underlying bonds, and this principle as a main rule has the following characteristics:

- Repayment of loans takes place through repurchases or drawing by lot of bonds matching the loan. Non-callable ARM loans are repaid

- Interest on the loans 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;

DEVELOPMENT IN DEPOSITS AND LOANS FOR BRFBANK (DAILY CALCULATION)



12 MONTHS' ANTICIPATED LIQUIDITY FOR BRFBANK, END 2010

In addition, BRFKredit may give notice of changes in a fee payable by the customers according to BRFKredit's general terms of business as well as in the terms and conditions that apply to the individual loans.

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, nor is there any liquidity risk attached to outstanding loan offers.

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 4.6bn. Compared to the aggregate lending of the Group, lending provided by the Bank accounts for a modest share of well over 2 pc.

Liquidity Risk – BRFBank

BRFBank's funding sources are deposits, capital deposits from BRFKredit and loans and committed lines in financial institutions. In 2010, the Bank focused on procuring liquidity via attractive deposit products, which had – in combination with a general slow-down in lending caused by the economy – the effect that BRFBank has a deposit surplus of just below DKK 900m after provisions on loans. The net deposit surplus for 2010 improved by well over DKK 1.7bn. Liquidity risk management in BRFBank is carried out in compliance with the statutory provisions that specify demands in regard to the required liquidity reserves of the Bank. The liquidity demand in the Supervisory Diamond – not less than 50 pc liquidity excess cover – is clearly met by BRFBank. 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 unfavorable 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. In addition to 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.

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 at 12 months' sight; however, liquidity must amount to not less than DKK 500m in the first three months. The development in liquidity is monitored and reported to the Group Board of Directors and Executive 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 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

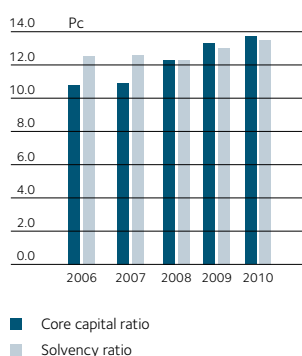
be taken into consideration. There must be sufficient capital to cover demands at both the present and the anticipated future level of activity, both in terms of

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), an adequate capital base (Pillar II) and the information obligations (Pillar III). The capital

DEVELOPMENT IN SOLVENCY AND CORE CAPITAL RATIOS, THE BRFKREDIT GROUP



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 adequate capital base must include all other types of risk and i.a. include 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 Board of Directors 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, BRFKredit 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; however, there must at all times be

a minimum capital base corresponding to the solvency need with an addition of one percentage point. In addition, the Group puts in a determined effort to be able to repay the government hybrid capital raised by BRFKredit in November 2009, which requires a core capital ratio for BRFKredit of at least 12 pc without inclusion of the hybrid core capital.

At the end of 2010, the Group solvency ratio was calculated at 13.5 against 13.0 at the end of 2009. The core capital ratio was 13.7 at the end of 2010 and 13.3 at the end of 2009. The calculation of the solvency and core capital ratios at the end of 2008, 2009 and 2010 differs from the calculations of previous years in that the risk-weighted credit risk items are calculated on the basis of the IRB method. The increase in both core capital ratio and solvency ratio is primarily due to the fact that in 2010 BRFKredit was focused on consolidation, and so the risk-weighted items were reduced.

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.

As was the case for other credit institutions, BRFKredit's issuer rating was downgraded in the autumn of 2009. To BRFKredit the consequence was that the issuer rating was downgraded from A2 to Baa1 ("outlook negative"). This rating has not been changed subsequently.

Immediately after the downgrading of BRFKredit's issuer rating, Moody's Investor Service announced that the rating of BRFKredit's covered bonds and mortgage credit bonds would be put on review for a possible downgrade due to the lower issuer rating. The review process ended in March 2010 with the consequence that the rating of BRFKredit's capital centre E is maintained, whereas the ratings of capital centre B and the institution as a whole were reduced. In principle, all new loans are granted from capital centre E, i.e. with the rating Aa1, whereas loans in capital centre B and the institution as a whole are reduced due to amortisation or remortgatings.

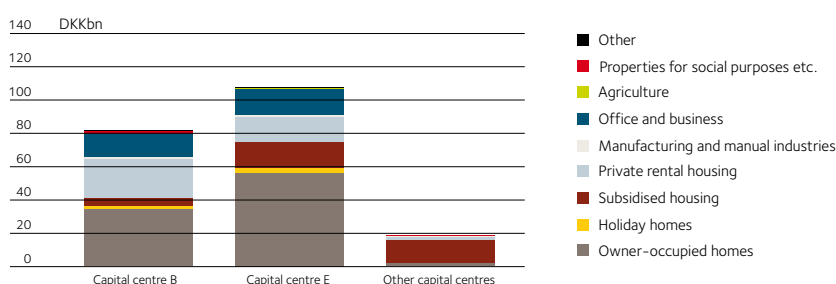
BRFKREDIT'S RATINGS BY MOODY'S INVESTOR SERVICE

	2006	2007	2008	2009	2010
SDOs, capital centre E		Aa1	Aa1	Aa1	Aa1
Mortgage credit bonds, capital centre B	Aa1	Aa1	Aa1	Aa1	Aa3
Other BRFKredit bonds	Aa2	Aa2	Aa2	Aa2	Aa3
Issuer rating *	A2	A2	A2	Baa1	Baa1
Subordinated debt **	A3	A3	A3	-	-

* Since the autumn of 2009, BRFKredit's issuer rating has had a negative outlook

** At the end of 2010, BRFKredit had no subordinated loans comprised by rating

ISSUES IN BRFKREDIT DISTRIBUTED BY CAPITAL CENTRE



In December 2010, Moody's Investor Service reduced its demand for overcapitalisation of BRFKredit's capital centre E from 13.5 pc to 9.5 pc due to the improvement of the credit quality in capital centre E.

BRFKREDIT'S MORTGAGE LENDING

	Capital Centre B (ROs)	Capital Centre E (SDOs)	BRFKredit total *
Remaining debt, DKKbn	87	103	209
Pc of remaining debt	41	49	100
Number of loans	54,923	57,111	130,022

DISTRIBUTION OF LOANS BY PROPERTY CATEGORY, END YEAR

Pc of remaining debt	Capital Centre B (ROs)	Capital Centre E (SDOs)	BRFKredit total *
Private (owner-occupied and holiday homes)	44	56	47
Subsided housing (rental)	8	13	16
Private rental housing	28	14	20
Office and business premises	16	15	14
Other (agriculture, manuf. and manual industries)	4	2	3
Sum	100	100	100

DISTRIBUTION OF LOANS BY GEOGRAPHY (PROPERTY ADDRESS), END YEAR

Pc of remaining debt	Capital Centre B (ROs)	Capital Centre E (SDOs)	BRFKredit total *
Capital region of Denmark	50	45	48
Region Zealand	15	15	15
North Denmark Region	5	5	5
Central Denmark Region	15	17	16
Region of Southern Denmark	15	17	16
Outside Denmark	0	1	1
Sum	100	100	100

DISTRIBUTION OF LOANS BY SIZE INTERVALS, END YEAR

Pc of remaining debt	Capital Centre B (ROs)	Capital Centre E (SDOs)	BRFKredit total *
Remaining debt intervals			
DKK 0-2m	41	41	40
DKK 2-5m	12	19	15
DKK 5-20m	19	14	18
DKK 20-50m	15	12	14
DKK 50-100m	7	7	7
Over DKK 100m	6	7	6
Sum	100	100	100

DISTRIBUTION OF LOANS BY VINTAGE, END YEAR

Pc of remaining debt	Capital Centre B (ROs)	Capital Centre E (SDOs)	BRFKredit total *
Until 1 year	2	20	11
Between 1 and 2 years	1	37	19
Between 2 and 5 years	58	28	38
Between 5 and 10 years	40	15	24
Over 10 years	0	1	8
Sum	100	100	100

Note: Vintage is defined as the difference between the pay-out and the calculation dates of the loan

DISTRIBUTION OF LOANS BY LOAN TYPE, END YEAR

Pc of remaining debt	Capital Centre B (ROs)	Capital Centre E (SDOs)	BRFKredit total *
ARM loans	36	87	59
Without interest-only periods	8	34	20
With interest-only periods	28	53	39
Fixed-interest loans	40	10	23
Without interest-only periods	32	7	18
With interest-only periods	8	2	4
Guarantee loans, maximum interest rate loans and variable-interest loans without cap	22	3	10
Without interest-only periods	6	1	3
With interest-only periods	16	2	8
Other loan types, incl. bullet loans	2	1	8
Sum	100	100	100

* In the column – apart from capital centres E and B – BRFKredit's other, old capital centres are also included as well as the institution as a whole

DISTRIBUTION OF REMAINING DEBT BY LTV PER PROPERTY CATEGORY**BRFkredit capital centre B (ROs)**

Pc	LTV						Average LTV
	0% to 20%	20% to 40%	40% to 60%	60% to 80%	80% to 100%	Over 100%	
	- Share of remaining debt -						
Private (owner-occupied and holiday homes)	3	14	27	30	18	8	64
Rental housing	9	15	16	17	20	22	71
Office and business premises	4	16	24	37	15	4	61
Mortgage lending, total	6	15	23	27	18	12	66

BRFkredits kapitalcenter E (SDO)

Pc	LTV						Average LTV
	0% to 20%	20% to 40%	40% to 60%	60% to 80%	80% to 100%	Over 100%	
	- Share of remaining debt -						
Private (owner-occupied and holiday homes)	1	6	16	36	32	9	75
Rental housing	6	14	22	30	15	13	69
Office and business premises	3	8	22	43	19	6	67
Mortgage lending, total	3	9	18	36	25	9	72

BRFkredit total *

Pc	LTV						Average LTV
	0% to 20%	20% to 40%	40% to 60%	60% to 80%	80% to 100%	Over 100%	
	- Share of remaining debt -						
Private (owner-occupied and holiday homes)	3	10	20	33	26	8	70
Rental housing	11	16	19	22	16	16	66
Office and business premises	4	12	23	40	17	5	64
Mortgage lending, total	6	13	20	30	21	10	67

Note: * Apart from capital centres E and B – BRFkredit's other, old capital centres are also included as well as the institution as a whole

DISTRIBUTION OF REMAINING DEBT BY LTV BAND**BRFkredit capital centre B (ROs)**

Pc	Security behind debt (share of property value)	Distribution of remaining debt by LTV band						Average LTV
		0% to 20%	20% to 40%	40% to 60%	60% to 80%	80% to 100%	Over 100%	
		- Share of remaining debt -						
Private (owner-occupied and holiday homes)		35	30	20	11	4	1	64
Rental housing		34	24	18	13	8	4	71
Office and business premises		33	30	23	11	3	1	61
Mortgage lending, total		34	27	20	12	5	2	66

BRFkredit capital centre E (SDO)

Pc	Security behind debt (share of property value)	Distribution of remaining debt by LTV band						Average LTV
		0% to 20%	20% to 40%	40% to 60%	60% to 80%	80% to 100%	Over 100%	
		- Share of remaining debt -						
Private (owner-occupied and holiday homes)		27	27	24	17	5	1	75
Rental housing		44	21	18	10	4	2	69
Office and business premises		28	28	25	15	3	1	67
Mortgage lending, total		32	26	22	14	4	1	72

BRFkredit total *

Pc	Security behind debt (share of property value)	Distribution of remaining debt by LTV band						Average LTV
		0% to 20%	20% to 40%	40% to 60%	60% to 80%	80% to 100%	Over 100%	
		- Share of remaining debt -						
Private (owner-occupied and holiday homes)		31	28	22	14	4	1	70
Rental housing		43	21	16	11	6	3	66
Office and business premises		31	29	24	13	3	1	64
Mortgage lending, total		35	25	20	13	5	2	67

Note: * Apart from capital centres E and B – BRFkredit's other, old capital centres are also included as well as the institution as a whole

Capital Allocation

BRFkredit's mortgage bonds are issued in 10 different capital centres (series or groups of series with series reserve funds) as well as in the institution as a whole. In 2010, new loans – and hence new issues of mortgage bonds – were only bade from capital centre E (covered bonds – SDOs) and capital centre B.

The general principle for the capitalization of the 10 capital centres is that they are capitalized up until the point at which they comply with the statutory requirement of 8 pc of the risk-weighted assets. However, capital centre E is capitalized in such a way that the solvency ratio is 9 pc, since the lending activities (risk-weighted assets) in this capital centre are expected to increase in 2011. Any remaining capital base funds are then invested in the institution as a whole.

An annual re-distribution of capital between the individual series reserve funds is made in connection with the preparation of the annual financial statements, at which time financial statements are made for the series. In this connection, excess capital in the individual series reserve funds is transferred to the institution as a whole. In the event that a series reserve fund requires an influx of capital to comply with the solvency requirement, such an influx is made into the series reserve fund, provided that it does not mean that the solvency ratio for the institution as a whole falls below 8 pc. The series financial statements, and hence the re-distribution of capital, will be approved by the Board of Directors.

The assets in the individual series reserve funds primarily consist of mortgages etc. as well as investment securities. The investment securities are mortgage bonds and interest receivable on these bonds as well as amounts receivable from credit institutions. BRFkredit's total assets of DKK 323.2bn can be roughly grouped into mortgage lending etc. (DKK 208.0bn), investment securities (DKK 111.4bn) and other assets (DKK 3.8bn).

SERIES ACCOUNTS

DKKbn	CapE	CapB	Series with joint and several liability	HKK	Institution as a whole	Total
Mortgage lending etc.	102.4	85.6	10.9	0.1	9.0	208.0
Investment securities	80.8	22.6	1.5	0.0	6.4	111.4
Other assets	1.9	1.6	0.2	0.0	0.2	3.8
Assets, total	185.0	109.8	12.6	0.2	15.6	323.2
Issued mortgage bonds	164.3	104.1	12.2	0.2	9.7	290.4
JCB	4.5	0.0	0.0	0.0	0.0	4.5
Senior debt ¹⁾	7.4	0.0	0.0	0.0	0.0	7.4
Other liabilities	5.1	3.0	0.4	0.0	0.4	9.0
Subordinated debt	1.3	0.8	0.1	0.0	0.1	2.2
Own funds	2.5	1.9	0.0	0.0	5.3	9.7
Liabilities, total	185.0	109.8	12.6	0.2	15.6	323.2
Capital base	3.8	2.6	0.1	0.0	4.8	11.4
Risk-weighted assets	41.9	33.0	0.7	0.0	2.5	78.1
Solvency ratio	9.0%	8.0%	8.0%	8.0%	193.5%	14.6%

¹⁾ The funds have been allocated to capital centre E to strengthen the capital profile of this capital centre.

The above table specifies the relevant amounts on capital centre E, capital centre B, series with joint and several liability and Husejerners Kreditkasse (the sum of 8 small series reserve funds) and the institution as a whole.

All in all, BRFkredit has issued mortgage bonds totalling DKK 290.4bn, which hold a statutory position as secured bonds. The security behind these issued mortgage bonds is provided by the following assets:

- Mortgages on real property at a value of DKK 208.0bn. (in the calculated value, impairment has been made on all commitments with an objective indication)
- Investment securities at a value of DKK 111.4bn
- Other assets at a value of DKK 3.8bn.

Thus the excess cover seen in relation to the calculated accounting value of the issued mortgage bonds is DKK 29bn.

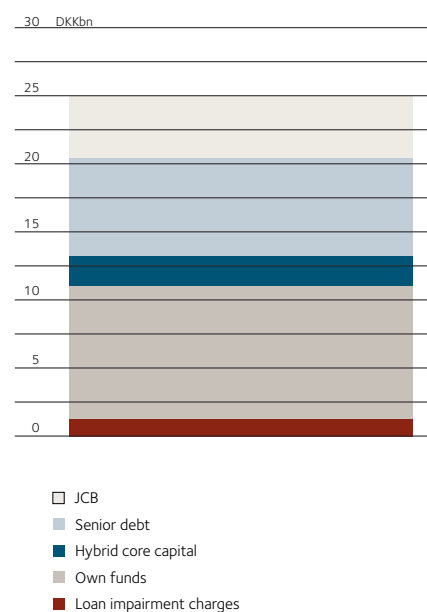
Capital Base

The security behind BRFkredit's bonds is made up of the mortgaged properties, BRFkredit's own funds and other capital

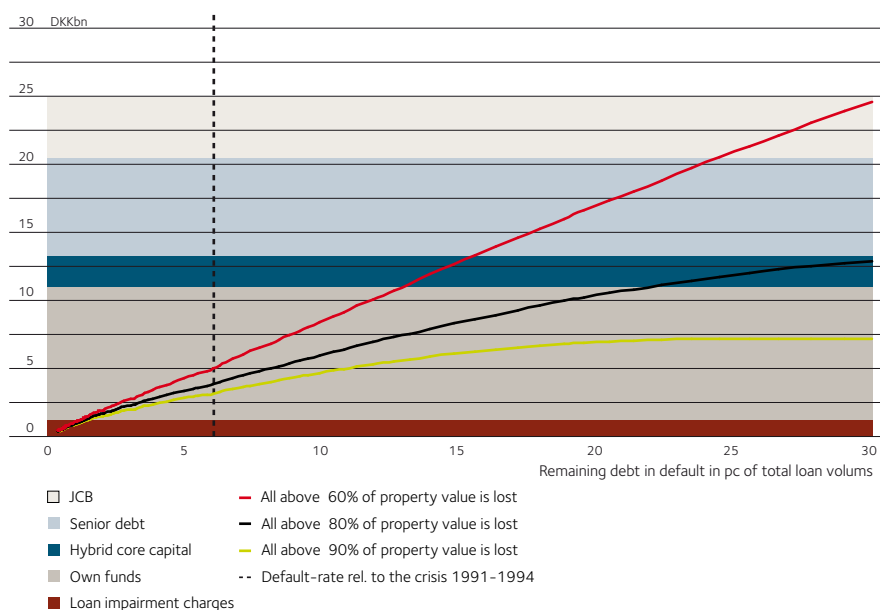
elements and guarantees. At the end of 2010, BRFkredit's total capital base amounted to just below DKK 25bn, of which just below half is core capital. The remaining part is made up of Junior Covered Bonds and senior debt.

The above figure shows how BRFkredit's capital base may be affected in the event of different default rates and in connection with different trends in the mortgage

BRFKREDIT'S CAPITAL SITUATION



BRFKREDIT'S PAID-UP EXCESS COVER



security (property value). If we assume a scenario with a default rate of 6 pc where all value beyond 80 pc of the property value is lost, BRFkredit would lose less than 20 pc of BRFkredit's total capital base, exclusive of guarantees, corresponding to just below DKK 4bn.

If we assume a scenario where all value beyond 60 pc and 90 pc, respectively, of the property value is lost, 20 pc and just below 13 pc, respectively, of BRFkredit's capital base would be lost. It also shows that only BRFkredit's own funds would suffer a loss, since neither hybrid core capital, senior debt nor JCBs would be affected in the mentioned scenarios. In comparison it can be mentioned that the default rate for Q4 2010 is 1.2 pc against 6 pc during the crisis in the 1990s. BRFkredit's capital base is therefore estimated to be highly satisfactory.

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. Since the end of 2008, BRFkredit has used the IRB method in the calculation of the risk-weighted items in terms of credit risk.

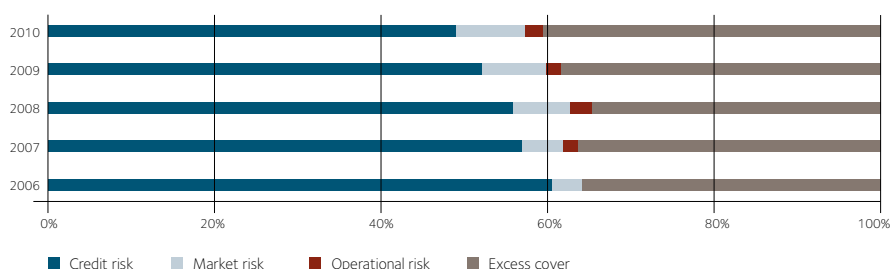
For the biggest part of the portfolio, credit risk in BRFkredit is calculated by means of the IRB method, where BRFkredit's own internal parameter estimates are used in the calculation of the capital

RISK WEIGHTED ITEMS AND CAPITAL REQUIREMENT FOR THE BRFKREDIT GROUP

As at 31 December 2010

DKKm	Risk-weighted items	Capital Requirement
Use of Standard Method under IRB-Method		
	5,533	
- government exposure	0	
- financial institution exposure	1,043	
- commercial undertaking exposure	2,049	
- retail exposure	2,442	
- share exposure	0	
IRB-Method		
	62,734	
- government exposure	-	
- financial institution exposure	-	
- commercial undertaking exposure	44,678	
- retail exposure with mortgage on real property	16,132	
- qualified revolving retail exposure	0	
- other retail exposure	0	
- share exposure	0	
- assets without counterparts	1,924	
- delivery risk	0	
Securitization Positions – Standard Method		
	0	
Securitization Positions – IRB-Method		
	0	
Credit Risk etc.		
	68,268	5,461
Instruments of debt	10,811	
Shares etc.	349	
Collective investment schemes	0	
Currency risk	489	
Raw materials risk	0	
Internal VaR models	0	
Market Risk		
	11,649	932
Operational Risk		
	3,029	242
Group-wise provisions under the standard method	-106	-8
Risk-Weighted Items, Total	82,840	6,627

RISK-WEIGHTED ITEMS' SHARE OF CAPITAL BASE FOR THE BRFKREDIT GROUP



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. Up-

dates of the business-related PF and LGD values as well as the relevant supplements are made at least once each quarter.

The Group has not yet benefitted from the full alleviation of the transition to the IRB method, as transition rules have been in place in regard to the size of the alleviation in the capital requirement. Originally it was the intention that the full effect of the transition to the IRB method would be felt in 2010, but the current interim rule has been prolonged to comprise 2011 as well; this means that for both 2010 and 2011 the capital base must make up 80 pc of the capital requirement calculated according to the standard method before the implementation of the CRD Directive into Danish legislation.

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 2010, the capital base of the Group totalled DKK 11.1bn against DKK 11.2bn at the end of 2009. The unchanged capital base is primarily a consequence of the consolidation phase BRFKredit has been going through in 2010 when focus was on improving earnings and reducing cost. The Group estimates that the capital base is sufficient to ensure continued operations and handle any future challenges that may arise due to the development in the quality of the loan portfolio.

In the calculation of the capital based by means of the IRB method, a deduction must be made in both the core capital and the capital base. This deduction is calculated as the difference between anticipated 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 anticipated 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 anticipated loss in the capital base. Inversely, loans already subjected to provisions should not be 'punished' twice, and so any already implemented provisions is to be offset.

CAPITAL BASE FOR THE BRFKREDIT GROUP

As at 31 December 2010

DKKm	IRB-Method
Share capital	306
Share premium	102
Reserves	4,898
Transferred profit or loss	11
Reserves in series without repayment obligation	4,419
Core Capital before Deductions	9,736
Immaterial assets	-4
Capitalized tax assets	-301
Core Capital after Primary Deductions	9,431
Hybrid core capital	2,217
Core capital incl. hybrid core capital after primary deductions	11,648
Half of the difference between anticipated losses and accounting value adjustments and provisions	-257
Core Capital incl. Hybrid Core Capital after Deductions	11,390
Subordinate loan capital	3
Revaluation reserves	6
Supplementary Capital	9
Capital Base before Deductions	11,399
Half of the difference between anticipated losses and accounting value adjustments and provisions	-257
Capital Base after Deductions	11,143

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 2010, the expected loss amounted to a total of DKK 1,775m (DKK 662m on the private customer base, and DKK 1,113m on the corporate 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 1,262m. The total deduction in the calculation of the capital base thus amounted to DKK 514m at the end of 2010.

Adequate Capital Base

The Board of Directors and the Executive Board must ensure that BRFKredit has an adequate capital base and a set of internal procedures for the control and management of risk for an ongoing assessment and maintenance of a capital base of a size suitable to cover BRFKredit's risk. A calculation of the adequate capital base must be made by BRFKredit as well as BRFBank, but in addition a corresponding calculation must also be made on a consolidated level, i.e. for the BRFKredit Group as a whole.

The calculations of the adequate capital base for BRFBank, BRFKredit and the BRFKredit Group have been subjected to audit.

Internal Processes

The basis for the calculation of the adequate capital base for BRFKredit and BRFBank, respectively, is the risk profile and the economic conditions that are believed to have an influence on future earnings and capital requirement. On a concrete level, Danish legislation lists 17 factors that must be included in the calculation of the adequate capital base for BRFKredit as well as BRFBank. In addition, the guidelines given in the instructions for an adequate capital base and the solvency requirement for financial institutions are observed.

Quarterly reports are made in which the adequate capital base for the Group, BRFKredit and BRFBank is calculated. The reports for the Group and BRFKredit are presented to the Board of Directors and the Executive Board of BRFKredit, whereas the reports for BRFBank are presented to the Board of Directors and the Executive Board of BRFBank.

At least once a year, the respective Boards will approve method documents in which the different types of risk are being commented on and in which the calculation methods used for each individual risk type are described. Immaterial risk is not included in the quarterly calculations of the adequate capital base, but is described in the method document. In addition, the method document contains an in-depth description of the stress tests used

ADEQUATE CAPITAL BASE FOR BRFKREDIT	
DKKbn	Q4 2010
Capital requirement – Pillar 1	6.0
- credit risk	4.9
- market risk	0.9
- operational risk	0.2
Capital requirement – Pillar 2	0.7
- core earnings	-0.4
- credit risk	0.8
- market risk	0.2
- Group risk	0.1
Adequate capital base	6.7

as opposed to the more general description in the quarterly reports.

The methods behind the calculation of the adequate capital base for BRFKredit and BRFBank, respectively, are different since BRFKredit calculates the capital requirement by means of the IRB method, while BRFBank uses the standard method.

Calculation Method for BRFKredit

The calculation of the adequate capital in BRFKredit takes its starting point in the capital requirement of 8 pc calculated by means of the IRB method. In addition, capital is set aside for other types of risk not comprised by the IRB method, just as capital is set aside based on the result of the stress test of the material risks.

The stress test scenarios span a period of three years.

Earnings

BRFKredit's earnings are the first financial buffer to absorb future losses. The calculation of earnings is based on the current portfolio as well as expectations of the market activity. A relatively large share of BRFKredit's earnings – administration margins on the loans – is relatively stable, whereas other elements are dependent on the activity level and thus less stable. In the determination of the activity level for 2011 we have taken our starting point in the budgeted activity level for 2011. BRFKredit in addition has material earnings from the administration of its equity, but due to the low interest level, lower earnings can be expected. As regards costs and expenses, the anticipated fixed costs as well as interest payable on the hybrid core capital and the JCBs are calculated. Based on earnings and costs and expenses, an amount for "basic earnings" is determined, i.e. earnings without the material risks (provisions, market price adjustments and results of subsidiaries). The basic earnings is calculated each year over the three years and has been calculated at a total of DKK 0.4bn. Next, all material risks will be stressed, and if the stress tests lead to an overall loss, capital will be reserved in Pillar 2.

Credit Risk

As a starting point, credit risk is stressed on the basis of a mild recession scenario. In addition, we make provisions to cover additional credit risk due to an anticipated higher risk on ARM loans, large commitments and loans under observation for increased credit risk. The stress test is made over a period of three years and not just with a one-year horizon as required by law. On the whole, for the three years capital has been allocated to losses on credit risk amounting to just below DKK 0.8bn in Pillar 2. To this should be added capital provisions in Pillar 1 totaling DKK 4.9bn (without taking the interim rule regarding exposure-weighted average LGD for private customers into consideration).

Market Risk

BRFKredit's capital is placed in negotiable securities, primarily government and mortgage credit bonds as well as a small

portfolio of infrastructure shares. Stress tests of market risk comprise stress testing of interest rate risk and share price risk, whereas BRFKredit has a highly limited currency risk, which is not believed to require additional provisions of capital. The calculation of the anticipated loss on interest-bearing assets is calculated as a parallel shift of the yield curve by 0.75 pc point for the coming year, however the increase in return on the bond portfolio caused by the change in interest rates is included. The anticipated loss on the share portfolio is estimated at a fall of 25 pc of the current market value for the coming year. On the whole, provisions have been made for losses on market risk amounting to just below DKK 0.2bn apart from the DKK 0.9bn already set aside in Pillar 1.

Operational Risk

BRFKredit calculates operational risk by means of the standard method. It is estimated that the capital requirement in Pillar 1 is sufficient to cover the operational risk in BRFKredit.

Liquidity Risk

Like in other mortgage credit institutions, there is in BRFKredit a close connection between lending and funding, which means that liquidity risk is highly limited. Any liquidity deficit will be quite short-lived, e.g. in connection with term payments, and will be handled via liquidity budgets and various procedures. It is estimated that the highly limited liquidity risk in BRFKredit does not necessitate the reservation of additional capital.

Refunding Risk JCBs/Senior Debt

The demand for additional security means that the capital centres must have an influx of additional capital if the LTV value of a given property exceeds the lending limit, e.g. due to falling prices in the housing market. The capital base of the capital centre may contribute, but if it is not sufficient, supplementary capital may be required, and so BRFKredit would be exposed to refunding risk. BRFKredit is constantly monitoring the development in property prices and in LTV values for the properties in the SDO-issuing capital centre, which makes it possible to plan the

issuance and refunding of supplementary capital. It is estimated that BRFKredit is not currently faced with refunding risk, and so no capital is reserved for this purpose.

Group Risk

BRFKredit is the full owner of BRFBank, whose main activity – like BRFKredit – is to grant loans against a mortgage on real property. Due to falling property prices, the risk profile of BRFBank has increased in recent years. Based on a stress test for BRFBank, a reservation has been made by BRFKredit of DKK 0.1bn.

Adequate Capital Base

BRFKredit's adequate capital base is calculated as the sum of the capital requirement and the additional capital required to cover the increased risk, cf. above. At the end of 2010, BRFKredit's adequate capital base totals DKK 6.7bn, of which DKK 0.7bn is reserved in Pillar 2.

BRFKredit's adequate capital base corresponds to a solvency requirement of 8.6 pc. At the end of 2010, BRFKredit had a solvency ratio of 14.6 pc.

Calculation Method for BRFBank

The calculation of the adequate capital base for BRFBank is based on the probability method, cf. the guidelines from the Danish FSA, i.e. that it is based on a solvency requirement of 0 pc with subsequent calculation of all risks.

Earnings

The stress testing of BRFBank's earnings follows the recommendations of the guidelines, i.e. a fall of 12 pc in net interest income and a fall of 17 pc in net fee income based on the most recent budget. That way, BRFBank's earnings are estimated at DKK 54m. It is estimated no other circumstances justify a harder stress test of the future earnings of the Bank.

Growth in Lending

DKK 44m has been set aside for growth in lending as BRFBank will be initiating a strategic expansion of its activities in 2011.

ADEQUATE CAPITAL BASE FOR BRFBANK

DKKm	Q4 2010
- core earnings	-54
- growth in lending	44
- credit risk	561
- market risk	13
- liquidity risk	0
- operational risk	22
- management judgment	60
Adequate capital base	645

Credit Risk

As regards credit risk, BRFBank divides its loan portfolio into three segments: corporate customers, private customers and customers in subsidised housing facilities. For private customers, the recommended stress level of the guidelines is followed, i.e. 4.27 pc, whereas a lower stress level, 2.15 pc, is used for subsidised housing due to the higher security of this segment. For corporate customers, a higher stress level is used, 8.54 pc, as this segment holds more risk. On the whole, capital has been allocated to the loan portfolio for the general stress test corresponding to a loss level of DKK 241m. Furthermore, for all guarantees a division has been made into guarantees with limited risk (conveyance guarantees and mortgage guarantees) and guarantees associated with risk (guarantees for interim loans). Apart from a stress level of 4.27 pc, the latter category contributes with a capital reservation of DKK 12m, whereas the former – based on a stress level of 1.00 pc – requires a reservation of DKK 12m.

To cover the more specific credit risk, BRFBank has calculated an allocation to cover 'weak' commitments of DKK 230m. No additional capital has been set aside to cover large commitments, since BRFBank had no large commitments at the end of 2010.

Via its defined activity area, BRFBank has concentrations of credit risk. The corporate loans portfolio is mainly concentrated on rental and property administration companies, and it has been experienced in recent years that these company types are particularly vulnerable to the development in interest rates, especially when the liquidity provided by other financial institutions is being limited. Part of BRFBank's

area of activities has been subsequent funding, and the fall in property prices has had the effect that part of the loan portfolio now has security exceeding 100 pc of the current value of the properties. On this basis, a reservation of DKK 65m has been made to cover the credit risk concentration.

On the whole, a total of DKK 561m has been allocated to cover credit risk in the calculation of the adequate capital base.

Market Risk

Market risks in BRFBank are relatively limited, since a highly limited part of the Group's market risks is placed in BRFBank and only in the form of interest rate risk, i.e. no share price or exchange rate risk. Stress testing of interest rate risk within and outside the commercial portfolio follows the limits stipulated in the guidelines and results in a total capital reservation of DKK 13m.

Liquidity Risk

BRFBank has a considerable deposit surplus, and even after a liquidity stress test with a one-year horizon, BRFBank has no funding requirement.

Operational Risk

Capital is reserved to cover operational risk corresponding to the capital requirement for operational risk (Pillar I), i.e. DKK 22m.

Last but not least DKK 60m has been reserved for so-called management judgment, which covers additional conservative management estimates in BRFBank.

Adequate Capital Base

BRFBank's adequate capital base is calculated as the sum of the various part components covering BRFBank's aggregate risk, cf. above. At the end of 2010, BRFBank's adequate capital base totals DKK 645m.

BRFBank's adequate capital base corresponds to a solvency requirement of 9.8 pc. At the end of 2010, BRFBank's solvency ratio was 17.9 pc.

Capital Requirement for the BRFKredit Group

The BRFKredit Group and the various members of the Group have different statutory requirements in regard to the size of the capital base.

The adequate capital base of the Group corresponds to a solvency requirement of 8.7 pc. At the end of 2010, the Group had a solvency ratio of 13.5 pc.

REQUIRED CAPITAL BASE AND EXCESS COVER

	Required capital base, DKKbn			Required capital base, pc			Excess cover, DKKbn		
	BRFBank	BRFKredit	The BRFKredit Group	BRFBank	BRFKredit	The BRFKredit Group	BRFBank	BRFKredit	The BRFKredit Group
Capital requirement (without interim rule)	0.5	6.3	6.6	8.0	8.0	8.0	0.6	5.1	4.5
Capital requirement (with interim rule)	-	7.2	7.7	-	9.2	9.2	-	4.2	3.5
Adequate capital base	0.6	6.7	7.2	9.8	8.6	8.7	0.5	4.6	3.9

