

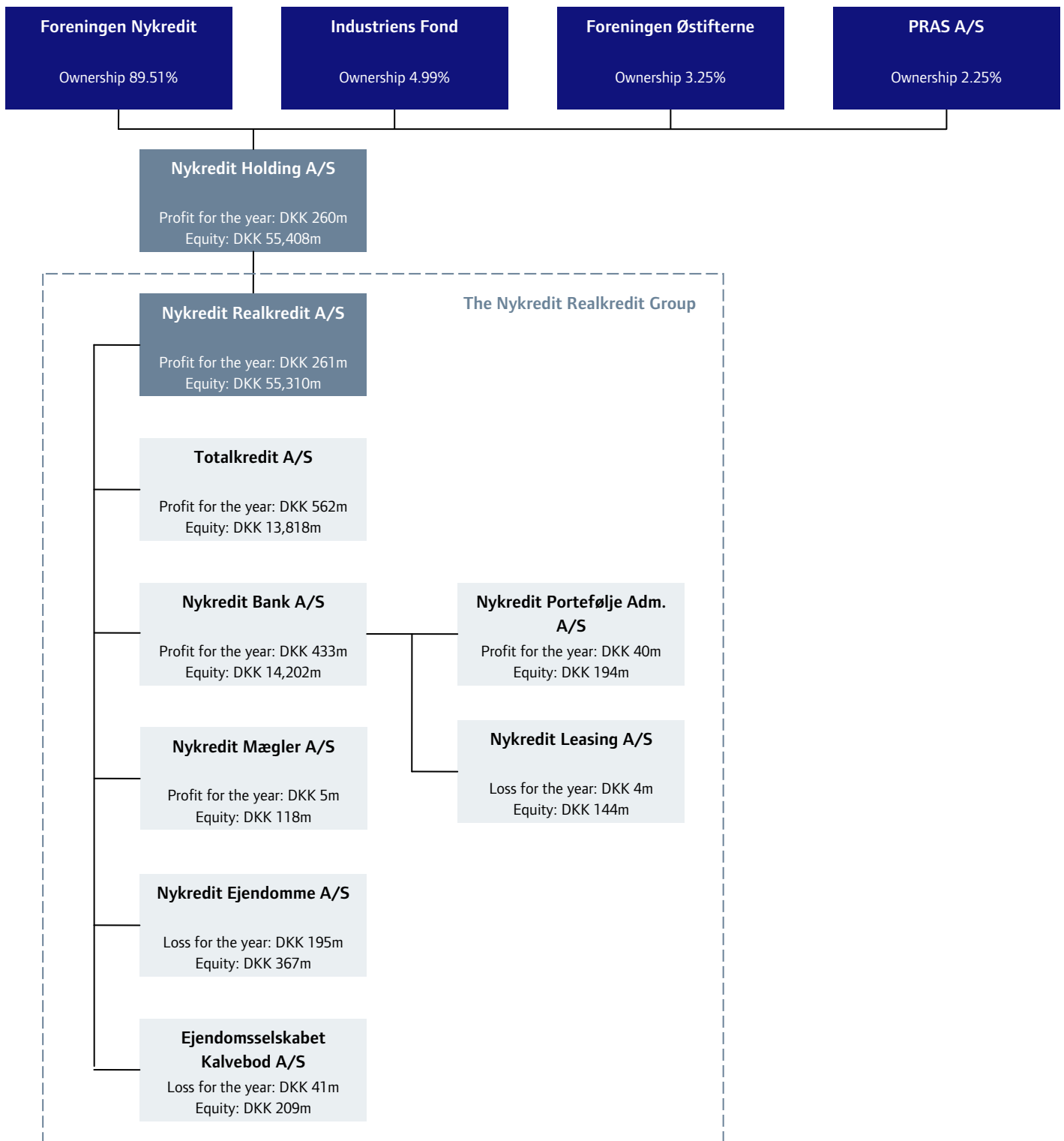
Risk and Capital Management 2011
The Nykredit Realkredit Group

Nykredit

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GROUP CHART



SPECIAL EVENTS IN 2011

The Nykredit Realkredit Group

2011 was a year in which financial results and confidence levels were marked by the debt crisis in southern Europe. In Denmark the debt crisis caused low economic growth, but also record-low interest rates. Homeowners, for instance, benefited from the fact that the fixed-rate bullet bonds funding their adjustable-rate mortgages (ARMs) were sold at lower rates than French government bonds.

Nykredit finds that the current crisis in the Danish economy is to a large extent imported. Measured by the domestic conditions, which have the largest influence on the loss levels of the Nykredit Group, the situation is more favourable. This applies to unemployment in particular, which has decreased slightly over the past year. Consensus expectations point towards a minor increase in 2012, which will bring the unemployment rate to a little less than 7% by year-end. In a historical context, this is a low level – during the housing market crisis in the early 1990s, the unemployment rate approached 13%.

As a consequence of the confidence crisis, private sector savings have reached record high levels. When the confidence crisis eases in the course of 2012, the way will be paved for growth in both investments and private consumption. Combined with a number of one-off easing measures, this suggests renewed growth momentum in 2012.

In spite of the crisis, retail and commercial lending of the Nykredit Realkredit Group increased by DKK 35bn to just under DKK 1,123bn in 2011. At the same time, loan impairment losses decreased by DKK 1.4bn and thereby returned to a normal level.

Danish households are characterised by a high gross debt level and large financial assets, which is rendered possible by the extensive mortgage and pension systems. Gross household debt is matched by large pension savings and home equity. The arrears level of Danish households is very low, indicating that due to the extent to which the high gross debt of Danish households is matched by assets, the Danish financial sector has not suffered any losses.

Housing prices in 2011 are expected to have decreased by up to 5%. This may not be good news, but it has brought down the housing costs of first-time buyers to quite a low level. Hence, it is market psychology rather than the real economy that prevents the housing market from normalising.

In the market for rental properties, we saw a number of purchases of large rental complexes by financially strong foreign investors in 2011. Properties which used to be a problem were sold, and there are indications that the prices of commercial properties are stabilising.

The supplementary security requirement increased in 2011 in the wake of the declining housing prices. This resulted in higher cost of capital and ratings for the Nykredit Realkredit Group and was the reason why Nykredit in late 2011 announced that administration margins would be raised. The changes in the administration margin were designed to better reflect the risk pertaining to the loans. Accordingly, the price of ARMs and interest-only loans will increase more than the price of fixed-rate loans.

2011 was a year of waning confidence among Danish households and enterprises. However, we expect the confidence crisis to ease in the course of 2012, paving the way for a brighter economic future.

Capital policy

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

As a financial institution, Nykredit is subject to a capital requirement of 8% of risk-weighted items. Nykredit has estimated the Group's internal capital adequacy requirement to amount to 9.6% in case of a weaker economic climate in 2012. In comparison, the total capital ratio was 17.1% and the Tier 1 capital ratio 17.1% at end-2011.

Sustainable mortgage lending

In summer 2011, Nykredit launched the concept "Sustainable mortgage lending". The objective was to ensure sufficiently robust earnings at a time characterised by higher capital requirements and cost of capital, and thereby maintain the Nykredit Realkredit Group's lending capacity and solid ratings in the long term. To this end, Nykredit opened a new SDO capital centre (H) for the issuance of bonds funding loans subject to refinancing. Beginning on 1 April 2012, Nykredit will issue loans to retail customers through Totalkredit, and in the course of Q2/2012 the Group will introduce combined mortgaging of private residential property.

In November 2011, the Danish competition authorities approved Nykredit's plans to raise the administration margin payable by existing Nykredit customers. Nykredit still plans to provide new loans at new administration margins through Totalkredit from 1 April 2012, as Nykredit did not obtain approval to raise the administration margins for new lending in Nykredit.

Nykredit one of the best capitalised European credit institutions

The European Banking Authority, EBA, has conducted a stress test of 71 major credit institutions in the EU.

The stress test assessed the capital levels of the individual institutions as at 30 September 2011 based on common rules for the measurement of sovereign exposures etc. The EBA furthermore harmonised the determination of capital across member states.

According to the stress test, Nykredit's core Tier 1 capital ratio amounts to 14.0% of risk-weighted items after statutory deductions and subject to the CRD 3 rules in force from 1 January 2012 relative to a benchmark of 9%.

The stress test therefore confirms Nykredit's very solid capital structure.

Ratings

In connection with a change of rating criteria in December 2011, Standard & Poor's affirmed the unsecured ratings of Nykredit Realkredit A/S and Nykredit Bank A/S at the current levels. As a consequence of the revised criteria, the rating of hybrid capital issued by Nykredit Realkredit A/S was downgraded by one notch to BBB. In September 2011, Standard & Poor's assigned the top rating AAA to covered bonds (SDOs) issued out of Nykredit Realkredit A/S's new Capital Centre H. In September 2011, Capital Centre H was assigned the rating Aa1 by Moody's Investors Service.

In July 2011, Moody's downgraded the long-term unsecured ratings of Nykredit Realkredit A/S and Nykredit Bank A/S by one notch to A2 and assigned a negative outlook.

Moody's also downgraded the rating of subordinated debt issues by one notch. Further, the rating of covered bonds (ROs) issued out of Capital Centre D was downgraded by one notch to Aa1, while the rating of junior covered bonds issued out of Capital Centre E was lowered twice by a total of two notches to A2. A number of Danish market participants decided to discontinue their collaboration with Moody's in 2011.

Regulation

In July 2011, the European Commission published a proposal for new capital and liquidity rules applying to credit institutions. The Danish EU Presidency tabled an updated proposal in early 2012.

The proposal is very extensive and is to a great extent based on the recommendations of the Basel Committee of late 2010. The negotiations on the proposal in the European Council of Ministers and the European Parliament are expected to be completed in 2012. This implies that a large part of the new rules may enter into force as early as in 2013.

Nykredit has a positive stance on the main principles of the new regulatory provisions, which will make for a safer banking system. However, it will also become more expensive for the customers. On the backdrop of the current euro crisis, it should be considered to postpone the new rules until financial markets have become calmer.

Nykredit meets coming capital requirements today, both for the temporary core Tier 1 capital and the capital base.

The European Commission's proposal also contains extensive liquidity rules applying to credit institutions. The wording of the rules is of great importance to mortgage banks. The liquidity rules are based on two main liquidity ratios: The Liquidity Coverage Ratio (LCR), which regulates short-term liquidity, and the Net Stable Funding Ratio (NSFR), which regulates long-term liquidity.

The LCR will be introduced in the course of 2015 after an observation period. During the observation period, the EBA will assess whether covered bonds are to be recognised as liquid securities in line with government bonds. It is of importance to the Danish financial system that covered bonds can be fully included in the short-term liquidity of the institutions. We anticipate that Danish covered bonds will be recognised as liquid assets, partly due to the high liquidity of Danish covered bonds during the financial crisis compared with other asset classes.

For a long observation period, credit institutions must report the NSFR to the authorities. As it has not yet been decided whether the NSFR will be introduced, there is no final date for its implementation.

As part of the Danish Bank Rescue Package IV, an expert committee was set up under the then Ministry of Economic and Business Affairs charged with examining systemically important financial institutions in Denmark, including mortgage banks.

The expert committee is to issue its recommendations in 2012 on the criteria for being systemically important, the requirements of systemically important institutions (higher capital requirements, increased regulatory supervision, etc) and on what can be done if a systemically important institution is in distress.

Nykredit expects to be classified as systemically important in Denmark considering its market share of some 30% of total lending and the fact that Nykredit issues more than half of all Danish covered bonds. As one of few institutions in Denmark, Nykredit was able to maintain its lending activity throughout the financial crisis.

FSA inspections of credit quality

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

In 2011 the FSA conducted inspections of the Nykredit Group. The published inspection reports are available at nykredit.dk.

RISK MANAGEMENT

GROUP CHARACTERISTICS

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

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

TYPES OF RISK

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

The Nykredit Realkredit Group is exposed to different types of risk. Each type of risk has its own special features, and risk management is structured accordingly.

Nykredit distinguishes between the following general types of risk:

- *Credit risk* reflects the risk of loss following the non-performance of counterparties.
- *Market risk* reflects the risk of loss of market value as a result of movements in financial markets (interest rate, foreign exchange, equity price, volatility risks, etc).
- *Liquidity risk* reflects the risk of loss as a result of insufficient liquidity to cover current payment obligations.
- *Operational risk* reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

ORGANISATION, DELEGATION OF RESPONSIBILITIES AND REPORTING

The Board of Directors of Nykredit Realkredit A/S is responsible for defining limits to and monitoring group risks as well as approving overall instructions and policies. The Board is responsible for the overall approach to capital and risk management and knows the capital requirement rules and the internal models. Risk exposures and activities are reported to the Board of Directors on a current basis.

The Board of Directors has assigned the day-to-day responsibility to the Group Executive Board which is in charge of operationalising overall instructions. The responsibility for the continuous monitoring and managing of risk has been assigned to a number of committees all chaired by a member of the Group Executive Board.

Board committees

The Board of Directors of Nykredit Realkredit A/S has set up an Audit Board, a Remuneration Board and a Nomination Board. Each board

committee monitors selected areas and prepares cases for review by the entire Board of Directors.

Audit Board

The Audit Board of Nykredit Realkredit A/S serves as a joint audit board for the companies in the Nykredit Realkredit Group which are required to set up such a board. In addition to Nykredit Realkredit A/S, the companies in question are Totalkredit A/S and Nykredit Bank A/S. The principal tasks of the Audit Board are to monitor the external financial reporting process, the effectiveness of the Nykredit Realkredit Group's internal control systems, internal audit and risk management, the statutory audit of the financial statements, etc and to monitor and verify the independence of the auditors.

Remuneration Board

In autumn 2010, Nykredit Realkredit A/S appointed a joint remuneration board serving all the companies of the Nykredit Realkredit Group.

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

Nomination Board

In June 2011, Nykredit Realkredit A/S appointed a joint nomination board serving all the companies of the Nykredit Realkredit Group.

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

Executive Board committees

The most important committees of the Nykredit Group are the Risk Committee, the Asset/Liability Committee, the Credits Committee, the Treasury Committee and the Remuneration Committee.

The Risk Committee is charged with assessing all group risks and internal capital adequacy requirements as well as implementing the capital policy. Furthermore, the Risk Committee approves measurement methods and models for all types of risk and reports risk to the boards of directors of the group companies.

The Asset/Liability Committee is responsible for the Group's overall asset/liability and liquidity management.

The Credits Committee and the Treasury Committee are responsible for managing group credit, market and liquidity risks. Both committees

approve or endorse risk exposures within the limits provided by the Board of Directors of Nykredit Realkredit A/S to the Executive Board.

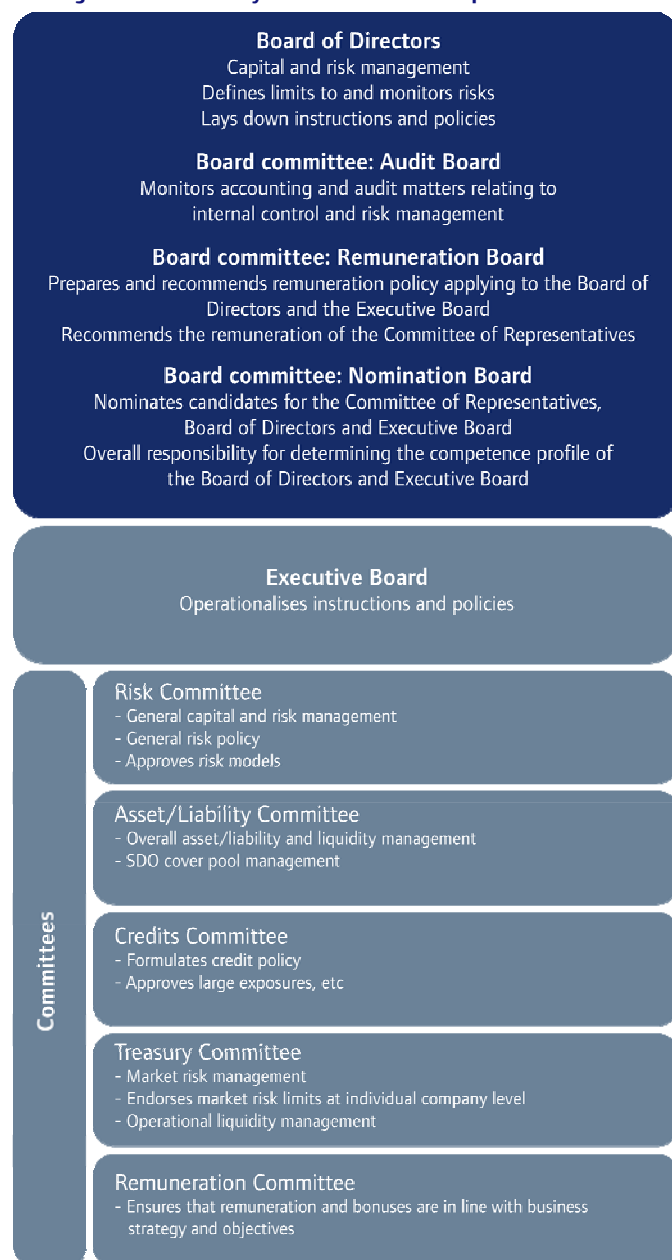
The objective of the Remuneration Committee is to assist the Group Executive Board in ensuring that Nykredit's remuneration practices, including bonus payments, match Nykredit's business strategy and targets.

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

Reporting

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

Risk organisation in the Nykredit Realkredit Group



Internal Audit reviews the Group's internal models and their application annually. The review includes an assessment of the organisational structure, the estimation of risk parameters and verification that the Group complies with the requirements of the Danish Executive Order on Capital Adequacy and the Danish Financial Business Act.

Over the past few years, Nykredit has expanded and improved current risk reporting. Risk is reported to the Board of Directors, the Executive Board, the relevant management levels and the business areas. The tables below show a selection of the most important risks reported.

Risk areas reviewed by committees

Annually

Capital and risk policy	Review of and decision on Nykredit's required capital base, internal capital adequacy requirement (ICAAP result) as well as the long-term capital requirement and risk policy
Return	Review of and decision on current return targets
Risk models	Review of ongoing model development and consequences thereof
Stress tests	Review of results of Nykredit's stress tests and scenario analyses

Current

Risk reporting	<p>Quarterly/semi-annual reporting on key risk areas:</p> <ul style="list-style-type: none"> ▪ Capital structure, required capital base and internal capital adequacy requirement ▪ Liquidity risk and SDO risk <ul style="list-style-type: none"> ▪ Balance principle and placing rules ▪ Liquidity position ▪ Credit risk <ul style="list-style-type: none"> ▪ Development in credit risk and parameters, and ratings ▪ Concentration risk and exposures by size ▪ Development in housing prices and LTV ratios ▪ Loan impairment, arrears and recognised losses ▪ Market risk <ul style="list-style-type: none"> ▪ Interest rate, foreign exchange and equity price risks (conventional measures and Value-at-Risk) ▪ Credit risk of investment portfolios ▪ Back tests and stress tests ▪ Operational risk ▪ Regulatory risk <p>Monthly reporting on key risk areas:</p> <ul style="list-style-type: none"> ▪ Market risk <ul style="list-style-type: none"> ▪ Interest rate, foreign exchange and equity price risks (conventional measures and Value-at-Risk) ▪ Investment portfolio income and return relative to benchmark ▪ Liquidity
Exposure review	Review and assessment of exposures above a certain limit

BONUS PROGRAMMES

A number of individual bonus programmes apply to the top management and specialists in key areas of the Nykredit Group.

No variable remuneration, including bonus programmes, applies to the Board of Directors and the Group Executive Board.

For 2011, 30 risk-takers were designated in the Group, and nine managing directors of group subsidiaries receive variable remuneration. Pursuant to the Danish Financial Business Act they are subject to special restrictions, chiefly in relation to disbursement. Some of these restrictions are deferral of disbursement over a several-year period, partial disbursement through bonds subject to selling restrictions instead of cash payment and Nykredit's ability to retain the deferred amount under special circumstances.

The risk-takers are designated by the Board of Directors based on the size of the loss risk that the individual risk-taker may inflict on Nykredit in terms of credit or market risk. As Nykredit is the largest lender in Denmark, the majority of the risk-takers have been designated because they may inflict credit-related losses on Nykredit.

For 2011 the managing directors of group subsidiaries and risk-takers were awarded bonuses of about DKK 12m compared with about DKK 20m in 2010.

Executives reporting directly to the Group Executive Board participate in an individual bonus programme with a potential bonus of up to three months' salary. For 2011 the executives who were not risk-takers were awarded bonuses of about DKK 3m compared with DKK 5m in 2010.

Special individual bonus programmes apply to some of the staff of Markets, Asset Management and Group Treasury in line with market standards for such positions. The remuneration of these staff members is based on their job performance, and the bonus component is generally high relative to the rest of the Group's staff. Similar individual programmes apply to selected staff of core functions with responsibility for the largest customers. For 2011 the management and staff members of these areas who are not also risk-takers were awarded bonuses of about DKK 80m compared with DKK 130m in 2010.

Other management and staff members have participated in a general bonus programme until 2011. The programme will be discontinued from 2012, and the number of staff participating in special programmes has been reduced. Bonuses awarded to other staff amounted to about DKK 15m in 2011 compared with DKK 45m in 2010.

The total bonuses awarded for 2011 came to about DKK 110m, which was close to half the amount for 2010.

Risk areas reviewed by committees

Risk Committee	
Capital policy and requirement	Assessment of Nykredit's required capital base and future capital requirement (ICAAP)
Models and methods	Review of analyses and model-related initiatives and changes, including: <ul style="list-style-type: none"> ▪ New models and risk assessment methods ▪ Sensitivity analyses and stress tests ▪ Validation and back tests
Risk reporting	Review and analysis of: <ul style="list-style-type: none"> ▪ Credit risk, including LTV ratios ▪ Market risk ▪ Liquidity risk ▪ Operational risk ▪ Other risk ▪ New products ▪ Rating of bonds and companies
Legislative measures	Assessment of amendments to financial legislation from the Danish FSA and the EU
Asset/Liability Committee	
Liquidity	Liquidity position of group entities Current funding levels (money market and senior capital) Current funding activity (covered bonds and other funding) Stress tests of free liquidity
Capital structure and ALM	Capital structure of group entities Current funding levels and funding capacity
SDOs (Danish covered bonds)	Assessment of development in prices of mortgaged properties Assessment of volume of interim loan guarantees Required supplementary security and issuance of junior covered bonds
Business capital	Capital allocation and return
Credits Committee	
Credit policy	Maintenance and development of credit policies
Approval of selected exposures	Approval based on assessment of: <ul style="list-style-type: none"> ▪ Customer (finances, payment record, rating, etc) ▪ Exposure ▪ Security
Board approval	Recommendations to the Board of Directors concerning approval of special exposures beyond the authority of the Credits Committee
Credit institutions	Review of credit lines granted to credit institutions
Treasury Committee	
General themes	Macroeconomics Market themes
Risk and return	Overview of exposures and risk of the individual companies Equities: Risk and portfolios Interest rates: Risk and portfolios Investment portfolio income and return relative to benchmarks Value-at-Risk, stress tests and back tests Corporate bonds: Risk and portfolios Limits and utilisation of market risk limits in subsidiaries
Strategy and recommendations	Equity price, interest rate, foreign exchange and credit risks Scope for action
Market risk limits	Market risk limits and their utilisation within the Group
Remuneration Committee	
Remuneration policy	Maintenance and development of remuneration policy
Risk-takers	Procedures for approval of risk-takers
Legislative measures	Assessment of amendments to financial legislation from the Danish FSA and the EU concerning remuneration

CAPITAL REQUIREMENTS

The Nykredit Realkredit Group

Capital base

DKK million	2011	2010
Core Tier 1 capital	55,159	55,188
Statutory deductions from core Tier 1 capital	-	-
Proposed dividend	(200)	(300)
Intangible assets, including goodwill, and deferred capitalised tax assets	(4,413)	(4,671)
Current loss for the year	-	-
Exposures exempt from limits applicable to large exposures	-	-
Core Tier 1 capital after primary deductions	50,546	50,217
Hybrid capital	11,204	11,055
Tier 1 capital after primary deductions	61,750	61,272
Other deductions from Tier 1 capital	-	-
Deduction for insurance business	-	-
Equity investments, etc > 10%	(152)	(148)
Sum of equity investments, etc >10%	-	-
Deduction for half the difference between IRB-calculated losses and impairments	(1,050)	(599)
Deduction for half the expected losses on equity investments	(29)	(29)
Other statutory deductions	(1,031)	-
Tier 1 capital after statutory deductions	59,487	60,497
Supplementary capital		
Subordinated debt	-	594
Revaluation reserves	151	132
Reserves in series	49	53
Total supplementary capital	200	780
Statutory deductions from capital base		
Deduction for insurance business	-	-
Equity investments > 10%	(152)	(148)
Sum of equity investments >10%	-	-
Deduction for half the difference between IRB-calculated losses and impairments	(1,050)	(599)
Deduction for half the expected losses on equity investments	(29)	(29)
Other statutory deductions	1,031	-
Total statutory deductions from capital base	(200)	(776)
Total capital base after statutory deductions	59,487	60,500

CAPITAL BASE

The capital base of the Nykredit Realkredit Group stood at DKK 59.5bn at end-2011 against DKK 60.5bn at end-2010.

Nykredit's Tier 1 capital consists mainly of equity. As shown in the table on the left, Tier 1 capital after statutory deductions amounted to DKK 59.5bn, of which hybrid capital accounted for DKK 11.2bn.

In 2011, Nykredit Bank prematurely redeemed subordinated debt of about DKK 575m as planned.

In accordance with the Danish Executive Order on capital base determination, Tier 1 capital and the capital base are adjusted for the difference between the IRB-calculated loss and impairment losses for accounting purposes on exposures subject to internal ratings-based (IRB) approaches. In line with FSA guidelines, the IRB-calculated loss is determined based on the Basel parameter Loss Given Default (LGD) for the period 1991-1993, cf "IRB-calculated losses". The IRB-calculated loss is a concept applied for regulatory purposes and does not correspond to Nykredit's own loss expectations.

The Nykredit Realkredit Group

Loan capital

	Interest rate	Maturity	DKKm
Nykredit Realkredit A/S			
Hybrid capital	4.9% until 22.09.2014, then floating	Perpetual	500
Hybrid capital	9.0% until 01.04.2015, then floating	Perpetual	900
Total (EUR)			1,400
Nykredit Bank A/S			
Hybrid capital	6.3% until 22.10.2014, then floating	Perpetual	150
Hybrid capital	3M Cibar + 1.7% until 01.05.2016, then floating	Perpetual	100
Total (DKK)			250

CAPITAL REQUIREMENT – DETERMINATION METHODS**Credit risk**

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

- Mortgage lending by Nykredit Realkredit A/S and Totalkredit A/S
- Retail lending by Nykredit Bank A/S.

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

- Commercial lending by Nykredit Bank A/S.

Nykredit is developing models in order that the part of the portfolio that is subject to the IRB foundation approach may also become subject to the IRB advanced approach in the long term.

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

- Sovereign and credit institution exposures
- Minor individual portfolios.

Market risk

For the determination of the capital requirement for market risk, Nykredit Realkredit A/S has obtained FSA approval to apply a Value-at-Risk (VaR) model to estimate the general risk related to equities, instruments of debt and foreign exchange. Only assets in the trading book are included. Empirical correlations are applied across risk groups.

Nykredit Bank A/S has obtained FSA approval to apply a VaR model to estimate the general risk related to instruments of debt and foreign exchange.

As a consequence of the new Executive Order on Capital Adequacy, Nykredit Realkredit and Nykredit Bank are required to calculate a stressed VaR in addition to the current VaR for determining the capital adequacy requirement. Stressed VaR must be calculated for the current portfolio, but using volatilities and correlations (market data)

from a period of significant stress. This period will be fixed annually on the basis of the current portfolios.

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

Operational risk

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

Transitional rules

Under a transitional rule applicable to 2011, the capital requirement may not decrease by more than 20% compared with the Basel I rules. On applying the 20% limit, the Group's capital requirement amounted to DKK 48.1bn at 31 December 2011.

The current transitional rule has been extended and will also apply in 2012.

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

2011	IRB advanced approach %	IRB foundation approach %	Standardised approach %	Total %	Total exposure DKKm
Retail exposures	99.8	-	0.2	100.0	723,493
<i>Of which</i>					
- mortgages on property	99.8	-	0.2	100.0	712,061
- revolving exposures, etc	100.0	-	-	100.0	5,249
- other retail exposures	100.0	-	-	100.0	6,183
Commercial exposures	80.2	18.3	1.5	100.0	442,556
Credit institution exposures ¹	-	-	100.0	100.0	67,714
Sovereign exposures	-	-	100.0	100.0	54,548
Equity exposures ²	98.0	-	2.0	100.0	3,906
Securitisations	100.0	-	-	100.0	274
Assets with no counterparty	100.0	-	-	100.0	4,253
Total 2011	83.7	6.2	10.0	100.0	1,296,744
Total 2010	83.0	6.9	10.0	100.0	1,232,211

¹ Credit institution exposures include guarantees issued by banks of a total of DKK 18.5bn.

² Capital charges for equity exposures in the banking book have been determined using the simple risk weight approach. Of the total exposure of DKK 3.8bn, DKK 1.9bn is unlisted and is assigned a risk weight of 370%.

The Nykredit Realkredit Group**Capital requirement and capital adequacy**

DKK million	2011	2010
Credit risk		
Standardised approach		
Exposures to central governments or central banks	0	0
Exposures to regional or local authorities	-	-
Exposures to administrative bodies and non-commercial undertakings	-	-
Exposures to multilateral development banks	-	-
Exposures to international organisations	-	-
Exposures to institutions	980	1,247
Exposures to corporates, etc	370	253
Retail exposures	37	70
Exposures secured by mortgages on property	-	-
Exposures in arrears or overdrawn	-	-
Covered bonds	-	-
Short-term exposures to corporates, etc with a short-term credit rating	-	-
Exposures to collective investment schemes	-	-
Exposures in the form of other items, incl assets with no counterparty	-	-
Total credit risk, standardised approach	1,387	1,571
Internal ratings-based (IRB) approach		
Retail exposures	8,811	7,257
<i>Of which</i>		
– mortgages on property	8,443	6,852
– revolving exposures, etc	66	62
– other retail exposures	302	343
Commercial exposures	12,741	12,629
Equity exposures	946	1,115
Assets with no counterparty	340	326
Settlement risk	0	0
Total credit risk, IRB approach	22,839	21,328
Securitisation positions, IRB approach	290	371
Total credit risk	24,516	23,270
Loss guarantee	(1,224)	-
Total credit risk incl loss guarantee	23,293	23,270
Market risk	3,086	1,672
Operational risk	1,474	1,272
Total capital requirement	27,562	26,213
Risk-weighted items	348,155	327,665
Capital base	59,487	60,500
Total capital ratio, %	17.1	18.5
Basel II transitional rule		
Capital requirement subject to transitional rule ¹	48,077	45,016

¹ The capital requirement subject to the transitional rule has been determined in accordance with the transitional provisions of the Executive Order on Capital Adequacy. The capital requirements in 2010-2011 must constitute at least 80% of the capital requirement determined under Basel I.

CAPITAL REQUIREMENT

At 31 December 2011, the Group's capital requirement was DKK 27.9bn, and risk-weighted items totalled DKK 348.2bn. With the capital base of DKK 59.5bn, this corresponds to a total capital ratio of 17.1%.

The Group's required capital base stood at DKK 33.4bn at end-2011, equal to an internal capital adequacy requirement of 9.6%. The required capital base expresses the amount of capital required to cover the Group's risks in the medium term. The determination of capital is described further under "Required capital base".

CAPITAL BASE AND CAPITAL REQUIREMENTS OF GROUP COMPANIES

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

CONSOLIDATION METHODS

The capital requirement is determined according to the rules of the Danish Financial Business Act and the Executive Order on Capital Adequacy. The determination comprises Nykredit Realkredit A/S (the Parent Company) and the enterprises in which Nykredit Realkredit A/S exercises direct or indirect control of the enterprises' financial and operational management. Nykredit Realkredit A/S and its subsidiaries are collectively referred to as the Nykredit Realkredit Group.

The consolidated risk exposures include:

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

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

DIFFERENCES COMPARED WITH FINANCIAL STATEMENTS

Unexercised loan offers, credit and loan commitments, etc are included in exposures in the capital requirement determination. The same applies to guarantees.

Capital charges in relation to securities are calculated at ISIN level.

Capital base and capital requirements of group companies

2011	Nykredit Realkredit A/S	Totalkredit A/S	The Nykredit Bank Group	The Nykredit Realkredit Group
DKK million				
Credit risk incl loss guarantee	27,419	6,209	4,635	23,293
Market risk	2,276	475	827	3,086
Operational risk	1,097	264	443	1,474
Total capital requirement not subject to transitional rule	30,792	6,948	5,905	27,852
Total capital requirement subject to transitional rule ¹	33,853	15,479	5,649	48,077
Capital base	59,376	16,358	14,259	59,487

¹ The capital requirement subject to the transitional rule has been determined in accordance with the transitional provisions of the Executive Order on Capital Adequacy. The capital requirement in 2011 must constitute at least 80% of the capital requirement determined under Basel I.

CAPITAL MANAGEMENT

CAPITAL POLICY AND STRUCTURE

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

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

With the application of the IRB approaches, the capital requirement will change as losses and arrears are observed since such changes will affect the estimated risk parameters.

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

The required capital base expresses the amount of capital required to cover the Group's risks in the medium term (3 years). Nykredit determines the required capital base so that it may cover increased losses and capital requirements in a weaker economic climate. The determination of the required capital base and internal capital adequacy requirement (ICAAP result) is described in more detail overleaf.

Group equity after expected dividend distribution was DKK 55.1bn at end-2011.

Nykredit divides its equity into four elements:

- *Required capital base* of DKK 33.4bn. Nykredit's assessment of the required capital base is partly based on the consequences of deterioration of the current economic climate.
- *Countercyclical buffer* of DKK 12.5bn covering the expected rise in the required capital base should the economic climate change from an economic downturn to a severe recession with unemployment rates rising to the high levels of the early 1990s or other adverse events occur. The countercyclical buffer is determined by means of stress tests combined with management judgements.
- *Statutory capital deductions (goodwill, etc)* relating to intangible assets of DKK 4.4bn.
- *Strategic capital* of DKK 4.8bn, the long-term capital maintained for strategic initiatives.

The Nykredit Realkredit Group Capital structure, end-2011

Equity after proposed dividend DKK 55.1bn				
Pillar I DKK 25.3bn	Pillar II DKK 8.1bn	Countercyclical buffer capital (reserve for severe recession) DKK 12.5bn	Statutory capital deductions DKK 4.4bn	Strategic capital DKK 4.8bn
Required capital base DKK 33.4bn				

Capital ratios

2011	Nykredit Realkredit A/S	Totalkredit A/S	The Nykredit Bank Group	The Nykredit Realkredit Group	The Nykredit Holding Group
% of risk-weighted items					
Tier 1 capital ratio, %	15.4	15.6	19.3	17.1	16.4
Total capital ratio, %	15.4	18.8	19.3	17.1	16.4
Core Tier 1 capital ratio, %	12.6	15.6	19.0	13.9	13.3
Total risk-weighted items (DKKm)	384,897	86,849	73,811	348,155	363,632

REQUIRED CAPITAL BASE

Pursuant to the Danish Financial Business Act, it is the responsibility of the Board of Directors and Executive Board to ensure that Nykredit has the required capital base (capital adequacy). The required capital base is the minimum capital required in Management's judgement to cover all significant risks as determined in the Internal Capital Adequacy Assessment Process (ICAAP).

required capital base is determined using a confidence level of 99.97% for all exposures.

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

In determining the required capital base, Nykredit applies statistical confidence levels higher than the 99.9% required by law. The Group's

Required capital base

2011 DKK million	Nykredit Realkredit A/S	Totalkredit A/S	The Nykredit Bank Group	Nykredit Realkredit Group
Calculation assumptions				
Statistical confidence level applied at group level, %	99.97	99.97	99.97	99.97
Statistical confidence level applied at company level, %	99.97	99.97	99.93	-
Time horizon ¹	1 year	1 year	1 year	1 year
Determination				
Credit risk (internal credit risk model)	27,419 ²	6,479	3,135	17,962
Market risk (internal Value-at-Risk model)	4,109	812	900	5,821
<i>Of which stressed VaR</i>	1,844	508	444	2,797
Operational risk (standardised approach)	752	180	409	1,373
Risk relating to own properties	-	-	-	128
Pillar I, total	32,281	7,471	4,444	25,284
Capital buffer	-	-	-	1,325
Weaker economic climate (stress test, etc)	1,572	662	203	2,463
Other ³	36	-	992	1,417
Model and calculation uncertainties	1,427	813	564	2,916
Pillar II, total	3,034	1,475	3,084	8,122
Total required capital base	35,315	8,946	7,529	33,405

¹ Risks are calculated for a term of one year, while charges for a weaker economic climate under Pillar II are based on 3-year scenarios.

² The credit risk of Nykredit Realkredit A/S includes the capital charge of intercompany exposures, including investments in subsidiaries and joint funding with Totalkredit A/S. Intercompany exposures are eliminated in the determination for the Nykredit Realkredit Group, for which reason the credit risk is higher for Nykredit Realkredit A/S than for the Nykredit Realkredit Group.

³ Other includes assessment of control risk, strategic risk, external risk, concentration risk, liquidity risk, etc.

Internal capital adequacy requirement (ICAAP)

2011 % of risk-weighted items	Nykredit Realkredit A/S	Totalkredit A/S	The Nykredit Bank Group	The Nykredit Realkredit Group
Determination				
Credit risk (internal credit risk model)	7.1	7.5	4.2	5.2
Market risk (internal Value-at-Risk model)	1.1	0.9	1.2	1.7
Operational risk (standardised approach)	0.2	0.2	0.6	0.4
Risk relating to own properties	-	-	-	0.0
Pillar I, total	8.4	8.6	6.0	7.3
Capital buffer	-	-	1.8	0.4
Weaker economic climate (stress test, etc)	0.4	0.8	0.3	0.7
Other ¹	0.0	-	1.3	0.4
Model and calculation uncertainties	0.4	0.9	0.8	0.8
Pillar II, total	0.8	1.7	4.2	2.3
Total internal capital adequacy requirement	9.2	10.3	10.2	9.6

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

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

In Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S, the capital charges for exposures with an elevated risk of loss are increased through internal credit models, in which such exposures are rated 0, 1 or 2, cf "Credit risk models". Nykredit applies the following methods to determine the required capital base, see also the table above:

- Credit risk is determined using Nykredit's internal model with the same parameters as the IRB models, but without the statutory requirements for minimum levels. The underlying loss data cover 1991 onwards.
- Market risk is determined using Nykredit's internal Value-at-Risk model, including stressed VaR, which is described under "Market risk".
- The required capital base may not be lower than the statutory capital requirement, cf section 124(2) of the Danish Financial Business Act.
- No deductions are made for any diversification effects between risk types, business areas and countries.
- A number of stress tests are applied to determine the capital requirement for increasing impairment losses and the capital requirement in a weaker economic climate.
- Operating losses in stress tests increase the capital requirement, while operating profits are not included.

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

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

Pillar I

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

Pillar II

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

Weaker economic climate

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

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

Other factors

The determination of other factors includes any additional risk relating to own properties and reputation risk, which are determined using

internal estimates, as well as assessments of control risk, strategic risk, external risk, concentration risk, etc.

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

The establishment of the guarantee resulted in a DKK 1.2bn reduction of the Bank's credit risk exposure at end-2011.

In Management's assessment, the guarantee will only be invoked in case of severe deterioration of the economic climate, and the probability of the guarantee being invoked is deemed to be low. In the capital structure, the loss guarantee is included in the countercyclical buffer (Pillar IV), leaving the long-term capital requirement unchanged.

In light of the risk of cyclical fluctuations in impairment losses on unsecured bank loans and the risk of an increased capital requirement for counterparty risk from 2013, a capital buffer in the amount of DKK 1.3bn has been established in Nykredit Bank. Furthermore, Nykredit Bank has a target of maintaining a Tier 1 capital ratio of at least 12%. Seen in relation to the future business growth and the future regulation, however, the capitalisation level of Nykredit Bank will be maintained.

As an integral part of assessing both the internal capital adequacy requirement and the capital policy, Nykredit actively addresses the part of the loan portfolio that requires interest rate adjustments, focuses on supplementary security and assesses its ability to absorb losses.

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

Model and calculation uncertainties

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

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

COUNTERCYCLICAL BUFFER

In addition to the required capital base, Nykredit reserves capital to cover the expected rise in the required capital base if the economic climate changes into a severe recession, corresponding to an increase in unemployment to around 10% along with high interest rates, cf "Stress tests and capital projections". The buffer also contains elements aimed at ensuring that Nykredit's total capital base is adequate to withstand any special events and consequences of future legislation.

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

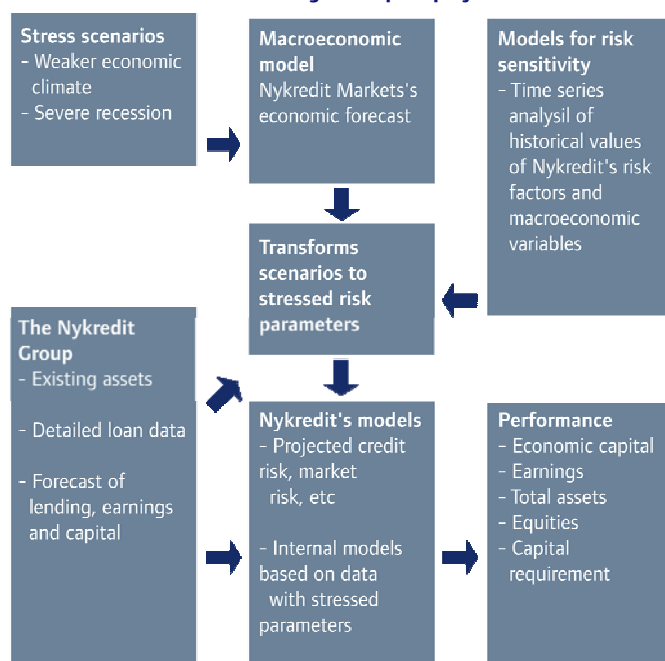
STRESS TESTS AND CAPITAL PROJECTIONS

The capital projection model is applied to calculate a large number of stress tests and determine the required capital base and long-term capital requirements. The results are applied at both group and company level and are included in the annual assessment by the individual boards of directors of the internal capital adequacy requirement. In the determination of the capital requirements, the stress tests are not the only element, but are included in the overall assessment along with the company's business model, risk profile and capital structure.

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

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

Model structure for stress testing and capital projection



Stress scenarios for determination of capital requirement

%	2012	2013	2014
Weaker economic climate (scenario applied under Pillar II)			
GDP, growth	0.5	0.5	0.5
Interest rates ¹	2.5	3.0	4.0
Property prices, growth	-5.0	-5.0	0.0
Unemployment	4.5	4.5	4.5
Danish equity index	-5.0	-5.0	0.0
Severe recession (scenario applied under countercyclical buffer)			
GDP, growth	-4.5	-1.0	0.0
Interest rates ¹	6.5	8.0	7.5
Property prices, growth	-15.0	-10.0	-5.0
Unemployment	6.5	9.0	10.5
Danish equity index	-10.0	-7.5	-5.0

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

recession. Both in a weaker economic climate and during a severe recession, the capital requirement for credit risk builds on correlations between customer default rates (PD) and the size of the loss in case of customer default (LGD). The most important macroeconomic factors identified are:

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

Scenario: base case

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

Scenario: weaker economic climate in 2012-2014

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

The calculations factor in any negative earnings impact due to higher impairment losses etc. By including this charge under Pillar II, which is a central element of the internal capital adequacy requirement, any potential increase in the capital requirement is taken into account.

Scenario: severe recession (countercyclical buffer)

A central element of Nykredit's capital policy is to have sufficient capital resources, also in the long term. Capital is as far as possible concentrated in the Parent Company, Nykredit Realkredit A/S, to ensure flexibility and leeway.

To this end, Nykredit reserves capital to cover the expected rise in the capital requirement if the economic climate changes into a severe recession. When determining the size of the countercyclical buffer, it is assumed that the current lending volume is maintained regardless of the economic downturn.

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

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

The charge for a severe recession amounted to DKK 12.5bn at 31 December 2011.

Nykredit publishes the results of stress tests under Pillar II and Pillar IV on a quarterly basis.

FSA stress tests

As part of the Group's capital policy, in addition to calculating its own scenarios, Nykredit also assesses the stress scenarios prepared by the Danish FSA. The scenarios of the FSA and Nykredit are generally similar, but differ in terms of model setup. Since the FSA published its scenario analyses in 2010, Nykredit has regularly assessed the results in relation to those of its own models. The FSA's stress scenarios,

which now cover mortgage banks as well, have not given rise to adjustments of Nykredit's own stress calculations, nor of its capital policy.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

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

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

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

The Nykredit Realkredit Group Ratings

2 January 2012	Nominal bonds DKKbn	Moody's Investors Service	Standard & Poor's
SDOs, ROs and JCBs			
Nykredit Realkredit A/S			
- Capital Centre C (covered bonds (ROs))	5	Aa1	AAA
- Capital Centre D (covered bonds (ROs))	278	Aa1	AAA
- Capital Centre E (covered bonds (SDOs))	435	Aaa	AAA
- Capital Centre E (junior covered bonds (JCBs))	26	A2 ¹	-
- Capital Centre G (covered bonds (ROs))	16	Aa3	-
- Capital Centre H (covered bonds (SDOs))	240	Aa1	AAA
- Capital Centre H (junior covered bonds, (JCBs))	5	A2 ¹	-
- Nykredit Realkredit In General (covered bonds (ROs))	3	Aa1	AAA
Totalkredit A/S			
- Capital Centre C (covered bonds (ROs))	75	Aaa	AAA
Other ratings			
Nykredit Realkredit A/S			
- Short-term unsecured rating		P-1	A-1
- Long-term unsecured rating		A2 ¹	A+
- Hybrid capital (Tier 1)		Baa2 ¹	BBB
Nykredit Bank A/S			
- Short-term deposit rating		P-1	A-1
- Long-term deposit rating		A2 ¹	A+
Bank Financial Strength Rating (BFSR)		C- ¹	-
EMTN Programme			
- Short-term senior debt		P-1	A-1
- Long-term senior debt		A2 ¹	A+
Euro Commercial Paper Programme and Certificate of Deposit Programme			
- Short-term senior debt		P-1	A-1

¹ Negative outlook.

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

NYKREDIT'S RATINGS

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

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

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

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

In September 2011, Standard & Poor's assigned the rating AAA to SDOs issued out of Nykredit Realkredit A/S's new Capital Centre H.

In connection with a change of rating criteria in December 2011, Standard & Poor's affirmed the current unsecured ratings of Nykredit Realkredit A/S and Nykredit Bank A/S. As a consequence of the revised criteria, the rating of hybrid capital issued by Nykredit Realkredit A/S was lowered by one notch to BBB.

In February 2011, Moody's Investors Service assigned the rating Aa3 to ROs issued out of Capital Centre G.

Moody's lowered the rating of ROs issued out of Capital Centre D by one notch to Aa1 in July 2011.

The rating of junior covered bonds issued out of Capital Centre E was downgraded by two notches to A2 in 2011.

In September 2011, Moody's assigned the rating Aa1 to SDOs issued out of the new Capital Centre H.

In October 2011, Moody's assigned the rating A2 to junior covered bonds issued out of Capital Centre H.

In July 2011 Moody's downgraded the long-term unsecured ratings of Nykredit Realkredit A/S and Nykredit Bank A/S by one notch to A2 with a negative outlook.

Moody's also downgraded the rating of subordinated debt issues by one notch.

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

CREDIT RISK

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

Because of Nykredit's size, the credit policy allows for the aim of a suitable market presence and an objective of limited losses. The credit policy has been prepared with a view to hedging the risks affected by changes in economic trends between the granting of loans and their final settlement.

The Board of Directors lays down the overall framework of credit granting and is presented with the Group's largest credit applications for approval or briefing on a current basis. Within the framework laid down by the Board of Directors, the Group Executive Board is responsible for the policies governing the individual business areas and Treasury. On behalf of the Group Executive Board, the Credits Committee considers large credit applications on a current basis.

Group Credits is responsible for managing and monitoring credit risk in accordance with the guidelines laid down by the Board of Directors and the Group Executive Board. The Credits Committee undertakes all reporting on individual exposures. The Risk Committee is responsible for approving credit models and assessing credit risk at portfolio level.

Exposures exceeding a specified amount are subject to approval by either the Group's Credits Committee or the Board of Directors of Nykredit Realkredit A/S.

Nykredit's local centres are authorised to decide on most credit applications in line with the Group's aim to process most credit applications locally.

Credit applications exceeding the authority assigned to the centres are processed centrally by Group Credits. The applications submitted are decided by Group Credits unless they involve exposures requiring the approval of the Credits Committee or the Board of Directors. The Board of Directors grants or approves loans and/or facilities that, if granted, will bring Nykredit's total exposure to a customer over DKK 200m and, subsequently, when the exposure increases by multiples of DKK 100m (DKK 300m, 400m, 500m, etc). The Credits Committee grants or approves loans and/or facilities that, if granted, will bring Nykredit's total exposure to a customer over DKK 50m and, subsequently, when the exposure increases by multiples of DKK 25m.

The credit limits are higher if the customer is a bank or mortgage lender. This means that the Board of Directors must grant or approve exposures over a certain amount and subsequently when they increase by specific multiples.

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

When processing credit applications, the centres conduct an assessment of the individual customer. The assessment is based on a cus-

tomers rating computed by Nykredit's own credit models which reflects a conversion of a customer's probability of default (PD). The customer rating is supplemented with an assessment of the customer's financial position and any other relevant matters. In connection with mortgage loan applications, the statutory property valuations are also performed. The overall guidelines on customer assessment and property valuation have been prescribed by Group Credits.

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

Banking exposures exceeding DKK 2m and mortgage exposures exceeding DKK 20m are reviewed at least once a year. This is part of the monitoring of credit exposures based on updated financial and customer information. In addition, all exposures showing signs of risk are reviewed.

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

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

As a consequence of the set-off agreement, Totalkredit A/S is responsible for the full capital charge as well as any impairment losses on the loans. The capital charge for credit risk determined for mortgage lending in Totalkredit A/S came to DKK 6.9bn at 31 December 2011.

Through the banks' risk hedging, Totalkredit offset losses in the amount of DKK 177m in 2011.

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

The principal activities of Ejendomsselskabet Kalvebod A/S are to temporarily own and manage properties held for resale.

The company's property portfolio amounted to DKK 753m at end-2011.

The Nykredit Realkredit Group Credit exposures and capital charge

2011 DKK million	Mortgage lending	Bank lending	Guarantees issued	Other	Total exposures	Of which undrawn com- mitments	Exposure- weighted average risk weight %	Capital charge for credit risk
Retail exposures	695,427	24,233	3,833	-	723,493	7,681	15.3	8,849
<i>Of which</i>								
- mortgages on property ¹	695,427	16,237	398 ²	-	712,061	4,849	14.9	8,481
- revolving exposures, etc	-	5,249	0	-	5,249	2,259	15.7	66
- other retail exposures	-	2,748	3,435 ³	-	6,183	573	61.1	302
Commercial exposures	360,509	76,297	5,750	-	442,556	17,581	37.0	13,110
Credit institution exposures	18,478	-	598	48,638	67,714	173	18.1	980
Sovereign exposures	26,198	-	105	28,246	54,548	-	-	-
Equity exposures	-	-	-	3,906	3,906	-	302.8	946
Securitisations	-	-	-	274	274	-	1,325.0	290
Assets with no counterparty	-	-	-	4,253	4,253	-	100.0	340
Total 2011	1,100,611	100,531	10,285	85,317	1,296,744	25,435	23.6	24,516
Total 2010	1,043,011	100,050	15,603	73,546	1,232,211	27,158	23.6	23,269

¹ Bank lending secured by mortgages on property mainly relates to mortgage equity release credits.

² Guarantees issued exclusively relate to interim loan certificates.

³ Guarantees issued exclusively relate land registration guarantees.

The Nykredit Realkredit Group Credit exposures by maturity

2011 DKK million	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total exposure
Retail exposures	299	7,211	715,983	723,493
<i>Of which</i>				
- mortgages on property	299	7,211	704,551	712,061
- revolving exposures, etc	-	-	5,249	5,249
- other retail exposures	-	-	6,183	6,183
Commercial exposures	1,638	41,204	399,713	442,556
Credit institution exposures	48,638	598	18,478	67,714
Sovereign exposures	28,246	105	26,198	54,548
Equity exposures	-	-	3,906	3,906
Securitisations	-	-	274	274
Assets with no counterparty	4,253	-	-	4,253
Total 2011	83,074	49,118	1,164,551	1,296,744
Total 2010	81,135	44,433	1,106,540	1,232,211

¹ Bank lending secured by mortgages on property mainly relates to mortgage equity release credits.

The Nykredit Realkredit Group Credit exposures by type of counterparty

2011 DKK million	Retail customers	Non-profit housing	Private resi- dential rental	Office and retail	Agriculture	Industry and trades	Other	Total exposure
Retail exposures	679,423	892	12,529	6,549	22,544	1,556	-	723,493
<i>Of which</i>								
- mortgages on property	668,799	891	12,366	6,342	22,441	1,223	-	712,061
- revolving exposures, etc	5,058	0	35	52	19	84	-	5,249
- other retail exposures	5,566	1	128	155	84	249	-	6,183
Commercial exposures	-	51,679	122,775	130,751	88,595	48,755	-	442,556
Credit institution exposures	-	-	-	-	-	-	67,714	67,714
Sovereign exposures	-	-	-	-	-	-	54,548	54,548
Equity exposures	-	-	-	-	-	-	3,906	3,906
Securitisations	-	-	-	-	-	-	274	274
Assets with no counterparty	-	-	-	-	-	-	4,253	4,253
Total 2011	679,423	52,571	135,304	137,299	111,139	50,311	130,695	1,296,744
Total 2010	639,952	48,720	126,597	128,407	108,008	52,333	128,194	1,232,211

DETERMINATION OF CREDIT RISK

In the determination of credit risk, exposures are calculated as the sum of the carrying amounts of actual loans as well as credit commitments and guarantees of individual customers. The exposures are adjusted for the expected utilisation of the undrawn part of the credit commitments made and outstanding credit offers. The determination of credit risk also includes counterparty risk.

Total credit exposures came to DKK 1,297bn against DKK 1,232bn at end-2010.

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

Guarantees received issued by banks are recognised as credit institution exposures in mortgage lending. At 31 December 2011, those guarantees amounted to DKK 18.2bn.

Similarly, guarantees issued by the government are recognised as sovereign exposures under mortgage lending. They amounted to DKK 26.5bn at end-2011.

The Nykredit Group has no lending activities outside Europe. Nykredit Realkredit A/S's activities in Poland (DKK 2bn) are being phased out, and the activities in the rest of Europe mainly concern mortgage loans for properties in Sweden (DKK 16.5bn), Germany (DKK 12.0bn), the UK (DKK 4.0bn), France (DKK 3.7bn) and Spain (DKK 3.5bn). Lending in these countries accounts for nearly 90% of total international lending of DKK 45bn. All in all, foreign credit exposures represent less than 5% of the total portfolio.

MORTGAGE LENDING

Group mortgage lending at fair value increased from DKK 1,031bn at end-2010 to DKK 1,086bn at end-2011.

The portfolio is highly diversified in terms of loan type, geography, loan term and size of debt outstanding. The greater part of the mortgage portfolio is private residential mortgages in Denmark, which accounted for 62% of total mortgage lending at 31 December 2011. Group commercial lending accounted for nearly 12%, while lending to

the residential rental and agricultural segments accounted for 17% and 9%, respectively.

Measured by the Nykredit Realkredit Group's total lending, fluctuations in the portfolio's composition by loan type have been moderate. The share of fixed-rate loans in relation to total lending was 26% in Q4/2010 and had edged down to 23% in the same quarter in 2011. Over the same period, the share of variable-rate loans rose from 41% to 44%, while the share of RenteMax and Cibor6 loans remained largely unchanged.

The share of fixed-rate loans in the Nykredit Realkredit Group's private residential lending dropped from 31% in Q4/2010 to 29% in the same quarter in 2011. As the share of RenteMax loans also decreased in that period, the share of ARMs grew from 43% to 47%.

Geographically, around half of lending was in Jutland, just over a quarter in the metropolitan area and the remainder on Funen and the rest of Sealand. Most of the Group's lending relates to the parts of Denmark that saw the smallest property price declines after the peak in 2006-2007. The Group's total lending increased in all Danish regions in the period Q4/2010-Q4/2011, but in absolute figures the largest increase was in the Central Denmark Region. The smallest increase was seen in Region Sealand.

Housing prices

Since the peak in late 2007, house prices have dropped by around 18% at national level. The corresponding decrease for flats is 25%. The development in prices reflects large regional variations. The largest movements in recent years have occurred on Sealand, while prices have been less volatile in the North Denmark Region and the Central Denmark Region.

Prices of detached and terraced houses fell by nearly 7% at national level from Q3/2010 to Q3/2011. Over the same period, flat prices dropped by 5%. This was primarily a result of a sharp fall in prices of around 3.5% from Q2 to Q3/2011, while the development in H1/2011 was stable. Nykredit expects that housing prices decreased by around 1% from Q3 to Q4/2011 and that prices will stabilise through 2012 from the resulting level.

Prices decreased in all Danish regions from Q3/2010 to Q3/2011, albeit to varying degrees. House prices in the North Denmark Region plunged by 11% in the period, while house prices in the Central Denmark Region were down by 4.5%. Owner-occupied flats saw the largest price fall (10%) in the South Denmark Region and the smallest fall (2.5%) in Region Sealand. The number of houses and flats sold for the period decreased by 40% and 30%, respectively, bringing property turnover to a historically low level. The low turnover causes extraordinary uncertainty about the recent housing price development as well as the development in loan-to-value ratios.

Owing to the decrease throughout 2011, housing prices have reached a level that implies quite low housing costs. Average homebuyers spend around 35% of their disposable income on housing-related costs, such as mortgage payments and current user costs related to the home. The low housing costs indicate that it is market psychology rather than the real economy that prevents the housing market from normalising.

The Nykredit Realkredit Group

Credit exposures

DKK million	2011	2010
Retail exposures	723,493	684,516
<i>Of which</i>		
- mortgages on property ¹	712,061	671,948
- revolving exposures, etc	5,249	4,369
- other retail exposures	6,183	8,198
Commercial exposures	442,556	419,501
Credit institution exposures	67,714	78,493
Sovereign exposures	54,548	40,530
Equity exposures	3,906	4,747
Securitisations	274	350
Assets with no counterparty	4,253	4,075
Total	1,296,744	1,232,211

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

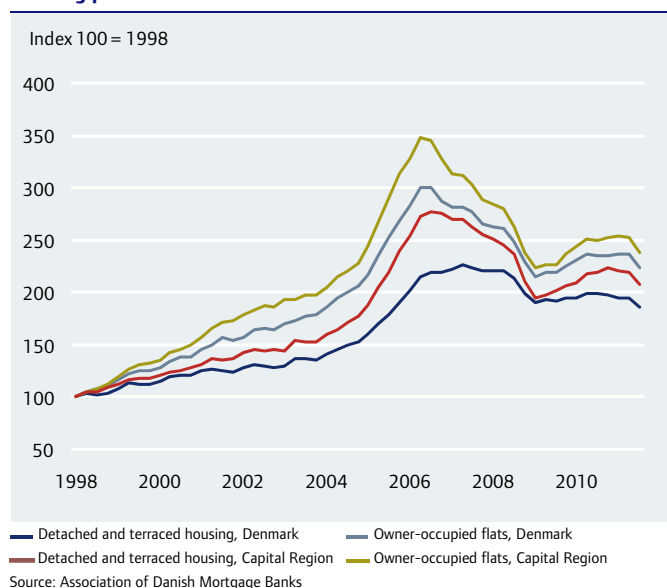
The Nykredit Realkredit Group
Mortgage lending

Fair value at 31 December 2011 DKK million	Private residential property	Non-profit housing	Private residential rental	Office and retail	Agriculture	Industry and trades	Other	Total
Mortgage loans								
- Bond debt outstanding	666,157	67,804	104,216	104,924	101,661	24,496	16,633	1,085,890
- Number of loans	685,469	20,661	26,249	21,150	44,089	3,354	3,110	804,082
Bond debt outstanding by loans involving:								
- Public guarantees	1	52,001	158	34	319	0	132	52,644
- Bank guarantees ¹	19,563	0	0	0	0	0	0	19,563
- Set-off agreement with partner banks	461,644	0	0	0	0	0	0	461,644
- No guarantee	184,950	15,803	104,058	104,890	101,342	24,496	16,501	552,040
Total	666,157	67,804	104,216	104,924	101,661	24,496	16,633	1,085,890
Bond debt outstanding by loan type								
Fixed-rate loans								
- Repayment loans	147,347	14,754	16,411	16,798	14,849	5,418	6,409	221,987
- Interest-only loans	71,393	191	19,736	14,508	17,052	3,434	873	127,187
Adjustable-rate mortgage loans (ARMs)								
- Repayment loans	82,863	21,048	9,217	14,778	15,740	3,296	1,478	148,420
- Interest-only loans	226,052	504	34,503	35,786	29,976	7,053	811	334,683
Money market-linked loans								
Loans with interest rate caps								
- Repayment loans	54,624	48	932	939	1,690	151	524	58,909
- Interest-only loans	81,248	6	716	318	1,902	8	39	84,236
Loans without interest rate caps								
- Repayment loans	220	147	2,619	7,068	4,276	3,128	2,815	20,272
- Interest-only loans	2,385	147	19,909	14,685	15,857	2,008	3,399	58,391
Index-linked loans	26	30,958	171	45	320	1	284	31,804
Total	666,157	67,804	104,216	104,924	101,661	24,496	16,633	1,085,890
Bond debt outstanding by region								
Capital Region of Denmark	154,601	37,533	24,298	1,942	26,527	2,585	5,318	252,805
Region Sealand	95,691	7,110	8,211	2,415	8,224	15,278	1,964	138,892
North Denmark Region	88,701	10,696	6,270	2,424	9,421	24,824	1,517	143,854
Central Denmark Region	168,096	20,617	12,944	8,490	22,549	31,790	4,227	268,714
South Denmark Region	148,321	15,370	16,081	5,010	18,600	26,871	3,604	233,858
- Faroe Islands and Greenland	2,141	307	0	1	111	0	2	2,562
- International	8,606	12,583	0	4,213	19,492	312	0	45,206
Total	666,157	104,216	67,804	24,496	104,924	101,661	16,633	1,085,890
Bond debt outstanding by debt outstanding, DKKm								
0-2	510,690	7,132	14,904	12,104	23,635	1,645	1,199	571,310
2-5	142,043	8,593	17,059	13,207	31,857	2,346	1,939	217,043
5-20	12,294	28,560	32,572	23,267	39,320	5,180	5,940	147,134
20-50	1,079	17,047	15,820	13,453	5,353	3,199	3,905	59,855
50-100	51	4,652	5,490	9,370	1,085	1,917	1,062	23,627
100-	0	1,820	18,371	33,523	411	10,209	2,587	66,922
Total	666,157	67,804	104,216	104,924	101,661	24,496	16,633	1,085,890
Bond debt outstanding by remaining loan term, years								
0-10	12,868	3,200	6,661	20,514	2,391	3,520	759	49,914
10-15	28,193	7,562	7,272	23,873	3,492	7,651	2,118	80,161
15-20	37,027	11,119	12,492	35,854	9,044	7,475	2,871	115,883
20-25	250,890	10,680	37,172	8,248	44,025	784	4,489	356,287
25-30	337,179	12,439	40,567	16,435	42,708	5,067	6,389	460,784
30-35	0	15,293	50	0	0	0	7	15,351
35-	0	7,511	1	0	0	0	0	7,511
Total	666,157	67,804	104,216	104,924	101,661	24,496	16,633	1,085,890

Note: Incl lending to Nykredit Ejendomme

¹ Bank guarantees denote debt outstanding covered by loss guarantee.

Housing prices in Denmark

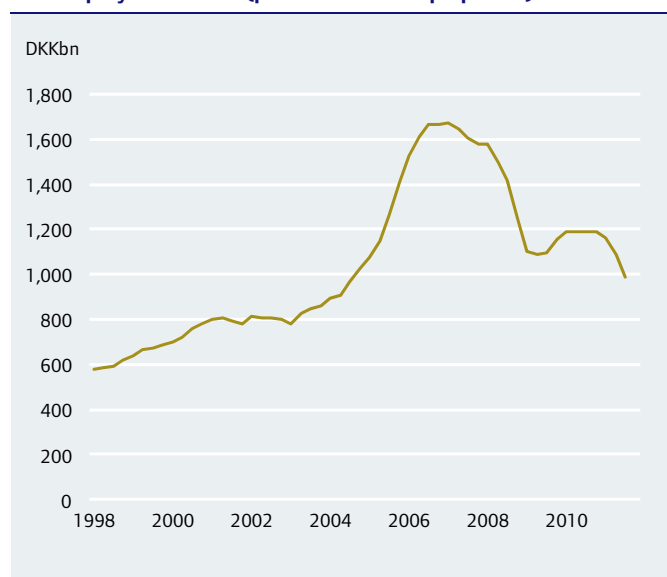


Housing costs – fixed-rate repayment mortgage loans



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

Home equity in Denmark (private residential properties)



Commercial property prices

From Q1/2010 to Q1/2011, the price of retail properties plunged by over 15%. Prices of mixed residential and retail properties declined by around 5% in the same period, and prices of industrial properties remained largely unchanged relative to H1/2010. Due to the low transaction level, however, the figures are subject to extraordinary uncertainty. The most recent available data on commercial property prices are from Q2/2011.

Home equity

Home equity levels peaked at the beginning of 2007 at around DKK 1,700bn. Since then, home equity has shrunk by over DKK 600bn until end-2011. In a historical context, home equity levels are still quite high. Home equity exhibits considerable regional variations – some 50% of total home equity is held by homeowners in the Capital Region.

Loan-to-value ratios (LTVs) and property valuation model

As a result of a new data source of housing prices, Nykredit has developed a new property valuation model, which was implemented at end-Q2/2011.

In Nykredit's opinion, the new model combined with improved price data provides a better projection basis for the types of property included, ie detached houses, owner-occupied flats and holiday homes. The model is applied to the types of property mentioned above that satisfy specific requirements for mortgageable value (LTV), risk classification and time since the last valuation. The statistical valuations are performed centrally and supplemented with local valuations.

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

The tables below break down the Group's mortgage lending by LTV category and type of property. The proportion of lending covered by guarantees provided by public authorities has been deducted. Public authority guarantees mitigate the credit risk relating to subsidised housing that forms part of lending to the non-profit housing segment. For this reason, LTVs of non-profit housing offer no relevant risk data.

The debt outstanding is distributed continuously by LTV category. In the table, loans with security covering for example between 0% and 60% of the mortgageable value are distributed with two thirds of the debt outstanding in the LTV category 0-40% and one third in the LTV category 40-60%. For example, the table shows that where owner-occupied dwellings are concerned, 58% of mortgage lending falls within 40% of the property values.

Development in LTVs in 2011

At end-2010 the LTV ratio for the aggregate portfolio of the Nykredit Realkredit Group was 61%, which had risen to 66% at end-2011. The stabilisation in the housing market in H1/2011 resulted in slightly falling LTVs in that period, while the sharp decline in housing prices in Q3/2011 lifted LTV levels in the last part of the year. Viewed separately, expectations of stabilisation in the housing market in 2012 suggest improved LTV levels for the Group's aggregate portfolio in the coming years.

The LTV ratio of the Nykredit Realkredit Group's private residential mortgage lending increased from 66% to 73% from Q4/2010 to Q4/2011. This development reflects a Denmark divided in terms of LTV. The LTV level for private residential property in the Capital Region rose moderately from 69% to 72%, while LTV levels in all other regions rose quite considerably. The LTV level of the Group's private residential mortgage lending in the Capital Region is on the same level as a couple of years ago, while the LTV level today is higher in the other four Danish regions than two years ago. This may suggest that the housing price correction has ended in the Capital Region and is still ongoing outside the capital.

The LTV level of the Group's commercial lending (excluding private rental) is lower than for residential lending and has developed more favourably. The LTV ratio for total commercial lending was 53% at end-2011, the same level as end-2010. For lending to Industry and Trades, the LTV ratio edged up from 47% to 48% in the period, while the LTV ratio for the Group's lending to Office and Retail remained at 55%.

During the same period, the LTV ratio for lending to agricultural customers increased from 55% to 57%. Again in 2011, the development in the agricultural segment was monitored closely and various risk-mitigating measures were taken. For example, the maximum price of agricultural land for valuation purposes was reduced to DKK 150,000/ha.

The share of residential properties with LTVs over 100% in the Nykredit Realkredit Group grew from just under 0.2% in Q4/2010 to 0.4% in Q4/2011. The majority of them are located on Sealand. It should be

noted that homeowners with LTVs over 100% often only inflict losses on the Nykredit Realkredit Group if they experience social events such as loss of job and/or divorce. However, Nykredit's expected losses rise concurrently with rising LTV levels.

The so-called vintage LTV reflects the current LTV ratio of a loan disbursed in a specified year. The table below shows residential mortgage loans disbursed in the period 2006-2008 when prices at national level peaked. The table compares the original LTV ratios at the time of disbursement and the current LTV ratios at 31 December 2011. Generally, the LTVs for vintage loans remained almost unchanged in the period under review except for a slight upward trend in the share of loans with LTV above 80%.

Stress test of homeowners' LTV levels

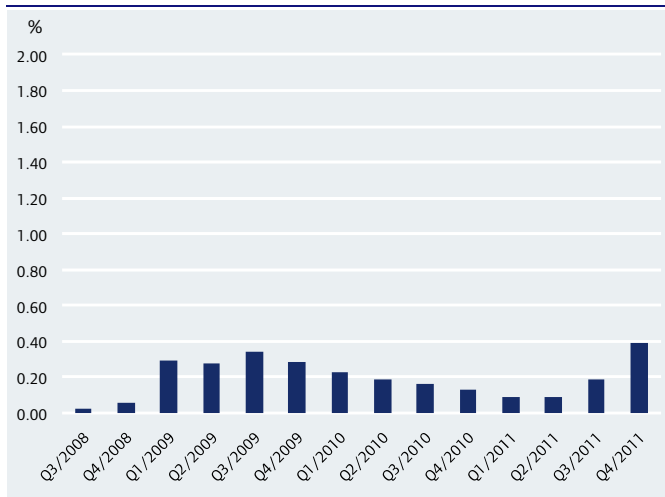
To ensure that the credit and capital policies are sustainable in the long term, Nykredit has developed a range of models that link the development in macroeconomic variables such as unemployment, interest rates, disposable income and housing prices to the development in the LTV levels of the Nykredit Realkredit Group's private residential mortgage lending. The models factor in the bond prices prevailing at the time of calculation. Housing prices are calculated using the Nykredit Realkredit Group's regional housing price model (NORAH).

Nykredit uses the setup to calculate the consequences of the expected development in housing prices for the development in the LTVs of the Group's private residential mortgage lending. From a risk management perspective, however, it is more valuable to analyse the consequences of stressed housing price scenario for the development in LTVs. The analyses are presented quarterly at BoligForum, an inter-company housing forum set up in 2008. The objective of the housing forum is to discuss the current condition of the housing market on a quarterly basis.

Particular focus is on the development in the number of homeowners with LTVs over 100%, and that development has been analysed in a severe recession scenario. The overall conclusion of these stress tests was that both unemployment rates and interest rates must increase rather steeply before a major increase can be observed for the part of homeowners that have LTVs above 100%. In a severe recession scenario in which both unemployment and long-term interest rates increase by 5 percentage points, around 20% of homeowners will have LTVs above 100% as a result of a housing price dive of nearly 35%.

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

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



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

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

Fair value 2011 %	LTV (loan-to-value)						Total
	0-40	40-60	60-80	80-90	90-100	Over 100	
Good ratings (rating categories 7-10)	38	13	8	1	0	0	61
Medium ratings (rating categories 3-6)	16	8	6	1	0	0	32
Weak ratings (rating categories 0-2)	3	2	1	0	0	0	7
Total	58	22	15	3	1	0	100

The Nykredit Realkredit Group**Debt outstanding relative to estimated property values**

Fair value 2011 DKK million	LTV (loan-to-value)						Total	LTV median ¹ , %	LTV, avg ²
	0-40	40-60	60-80	80-90	90-100	Over 100			
Private residential property	386,354	149,860	100,360	20,781	6,210	2,592	666,157	34	73
Private residential rental	68,473	21,348	11,912	1,157	487	840	104,216	28	64
Industry and trades	19,817	3,993	526	61	46	53	24,496	21	48
Office and retail	77,732	21,733	4,417	418	221	403	104,924	25	55
Agriculture	73,991	19,159	6,723	961	436	391	101,661	25	57
Non-profit housing	-	-	-	-	-	-	67,803	-	-
Other	13,609	2,376	478	69	45	57	16,633	20	47
Total 2011	639,976	218,468	124,416	23,446	7,446	4,335	1,085,890	30	66
Total 2010	646,756	205,613	98,599	10,339	4,480	836	1,031,266	27	61

Note: The tables allow for any financed costs. Eg, a fully mortgaged owner-occupied dwelling with financed costs of 2% will appear in the interval > 80%.

¹ Determined as the mid part of the debt outstanding relative to estimated property values.

² Determined as the top part of the debt outstanding relative to estimated property values.

The Nykredit Realkredit Group**Debt outstanding relative to estimated property values**

Fair value 2011 %	LTV (loan-to-value)					
	0-40	40-60	60-80	80-90	90-100	Over 100
Private residential property	58	22	15	3	1	0
Private residential rental	66	20	11	1	0	1
Industry and trades	81	16	2	0	0	0
Office and retail	74	21	4	0	0	0
Agriculture	73	19	7	1	0	0
Non-profit housing	-	-	-	-	-	-
Other	82	14	3	0	0	0
Total 2011¹	63	21	12	2	1	0

¹ Based on debt outstanding excl non-profit housing, whereby the sum total does not constitute 100%.

The Nykredit Realkredit Group**Change in debt outstanding relative to property values in 2011**

Fair value 2011 Percentage point	LTV (loan-to-value)					
	0-40	40-60	60-80	80-90	90-100	Over 100
Private residential property	-6	0	3	2	1	0
Private residential rental	-1	0	0	0	0	1
Industry and trades	-1	0	0	0	0	0
Office and retail	1	0	-1	0	0	0
Agriculture	-1	1	1	0	-1	0
Non-profit housing	-	-	-	-	-	-
Other	0	0	-1	0	0	0
Total change	-4	0	2	1	0	0

Nykredit Realkredit A/S**Mortgage debt outstanding relative to original and estimated property values for loans disbursed in selected years****Owner-occupied dwellings, %**

Fair value 2011 %	LTV (loan-to-value)					Total, DKKm
	0-20	20-40	40-60	60-80	Over 80	
Loans disbursed in 2006						
- balance at 31.12.2006 ¹	33	30	24	13	0	53,809
- balance at 31.12.2011 ²	32	30	23	12	3	28,494
Loans disbursed in 2007						
- balance at 31.12.2007 ¹	33	31	24	12	0	42,344
- balance at 31.12.2011 ²	30	28	23	14	4	22,126
Loans disbursed in 2008						
- balance at 31.12.2008 ¹	32	30	24	13	0	33,250
- balance at 31.12.2011 ²	29	28	23	15	4	15,611
Loans disbursed in 2009						
- balance at 31.12.2009 ¹	32	30	25	14	0	43,789
- balance at 31.12.2011 ²	30	28	24	15	4	37,111
Loans disbursed in 2010						
- balance at 31.12.2010 ¹	32	30	24	14	0	38,591
- balance at 31.12.2011 ²	29	28	24	15	4	36,786

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

² LTV has been calculated on the basis of the estimated property value and the fair value of the debt outstanding on the property at the balance sheet date.

Totalkredit A/S**Mortgage debt outstanding relative to original and estimated property values for loans disbursed in selected years****Owner-occupied dwellings, %**

Fair value 2011 %	LTV (loan-to-value)					Total, DKKm
	0-20	20-40	40-60	60-80	Over 80	
Loans disbursed in 2006						
- balance at 31.12.2006 ¹	28	27	25	20	1	117,682
- balance at 31.12.2011 ²	28	27	23	19	4	54,155
Loans disbursed in 2007						
- balance at 31.12.2007 ¹	28	27	25	20	1	117,247
- balance at 31.12.2011 ²	26	25	23	21	5	48,047
Loans disbursed in 2008						
- balance at 31.12.2008 ¹	28	27	25	20	1	105,189
- balance at 31.12.2011 ²	26	25	23	21	5	45,698
Loans disbursed in 2009						
- balance at 31.12.2009 ¹	28	27	25	19	1	139,192
- balance at 31.12.2011 ²	27	26	23	21	3	118,168
Loans disbursed in 2010						
- balance at 31.12.2010 ¹	28	27	24	19	2	96,753
- balance at 31.12.2011 ²	26	26	23	22	3	118,911

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

² LTV has been calculated on the basis of the estimated property value and the fair value of the debt outstanding on the property at the balance sheet date.

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

2011	Exposure at fair value DKKbn	Credit risk Distribution ¹ %	Average risk weighting %	Loans, LTV > 70% DKKbn	Loans, LTV > 100% DKKbn	LTV average ²
Copenhagen City	45.5	2.9	6.1	4.9	0.1	73
Greater Copenhagen	46.8	1.9	3.9	4.5	0.1	70
North Sealand	60.6	3.4	5.3	6.3	0.3	72
East Sealand	28.5	1.9	6.4	3.8	0.3	77
West and South Sealand	67.3	16.3	22.9	11.4	1.4	83
Funen	58.5	11.5	18.8	6.9	0.2	74
North Jutland	88.8	18.4	19.9	8.1	0.0	71
East Jutland	113.1	10.7	9.1	11.5	0.1	72
West Jutland	55.1	13.6	23.7	6.2	0.0	74
South Jutland	90.0	15.8	16.8	8.5	0.0	71
Bornholm	1.8	0.6	33.0	0.3	0.0	78
Greenland and Faroe Islands	2.1	0.3	18.5	0.1	0.0	76
International	7.4	2.5	30.9	0.5	0.0	63
Total 2011	665.4	100.0	14.3	73.0	2.6	73
Total 2010	634.0	100.0	11.7	39.3	0.8	66

¹ Determined as Pillar I according to the Executive Order on Capital Adequacy.

² Determined as the top part of the debt outstanding relative to estimated property values.

BANK LENDING

The credit exposures of the Nykredit Bank Group totalled DKK 141bn at end-2011, down DKK 8bn compared with end-2010. Corporate Banking exposures amounted to DKK 86bn, or 61% of the Bank's total exposures. Retail Banking exposures amounted to DKK 28bn, corresponding to 20% of total exposures.

Guarantees issued amounted to DKK 11bn, or 8% of total exposures, while undrawn commitments amounted to DKK 21bn, or 15% of total exposures.

Guarantee issued by Nykredit Holding A/S to the Bank

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

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

The establishment of the guarantee resulted in a reduction of DKK 15.3bn of the Bank's risk-weighted assets at end-2011. The risk-

weighted assets decreased correspondingly for the Nykredit Realkredit Group.

Value adjustment of derivatives and corporate bonds

A number of commercial customers with floating-rate mortgages have hedged their interest rate risk through swaps with a fixed rate of typically 4-5%. Nykredit Bank's interest rate risk on these swaps is highly limited, as the risk is hedged on an ongoing basis by entering into offsetting swap transactions with large European and US banks.

As a consequence of the interest rate falls in recent years, Nykredit Bank is required to post additional collateral with European banks – typically in the form of government bonds or similar instruments. In principle, commercial customers must post corresponding collateral with Nykredit Bank. However, according to agreement a number of customers have been exempt from providing such collateral in full, which thereby increases Nykredit Bank's credit risk (counterparty risk) in relation to these customers.

Nykredit makes fair value adjustments of counterparty risk in accordance with the international accounting standards. Credit value adjustment (CVA) has been made for customers whose credit ratings with Nykredit have subsequently dropped to the level of weak exposures.

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

2011 DKK million	Bank lending	Guarantees issued	Other	Total exposures	Of which undrawn commitments	Exposure- weighted average risk weight, %	Capital charge for credit risk
Retail exposures	24,221	3,845	-	28,066	5,497	35.8	805
<i>Of which</i>							
- mortgages on property	16,237	398	-	16,634	2,664	32.8	437
- revolving exposures, etc	5,249	0	-	5,249	2,259	15.7	66
- other retail exposures	2,736	3,447	-	6,183	573	61.1	302
Commercial exposures	80,141	6,216	-	86,357	14,776	66.8	4,614
Credit institution exposures	-	1,194	21,969	23,163	311	20.0	371
Sovereign exposures	-	105	2,960	3,065	-	-	-
Equity exposures	-	-	250	250	-	214.9	43
Assets with no counterparty	-	-	410	410	-	100.0	33
Total 2011	104,362	11,359	25,589	141,311	20,584	51.9	5,866
Total 2010	99,076	15,603	33,907	148,586	22,124	53.4	6,352

**The Nykredit Realkredit Group – banking activities
Credit exposures by maturity**

2011 DKK million	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total exposure
Retail exposures	-	-	28,066	28,066
<i>Of which</i>				
- mortgages on property	-	-	16,634	16,634
- revolving exposures, etc	-	-	5,249	5,249
- other retail exposures	-	-	6,183	6,183
Commercial exposures	-	19,441	66,916	86,357
Credit institution exposures	21,969	1,194	-	23,163
Sovereign exposures	2,960	105	-	3,065
Equity exposures	-	-	250	250
Assets with no counterparty	-	-	410	410
Total 2011	24,929	20,740	95,642	141,311
Total 2010	46,025	23,660	78,901	148,586

Adjustment of the market value came to a charge of DKK 642m in 2011 compared with a charge of DKK 121m in 2010. Interest rate rises will reduce Nykredit Bank's receivables, causing market value adjustments to decrease or potentially cease.

Supervisory diamond model for banks

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

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

As at 30 June 2011 and 31 December 2011, Nykredit Bank was within the limit values prescribed by the FSA. Further, Nykredit Bank was on most points either better or on a level with the other group 1 banks at 30 June 2011 when the FSA published the latest comparative bank figures.

COUNTERPARTY RISK

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

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

The exposure value for counterparty risk amounted to DKK 21.9bn at 31 December 2011, and the capital requirement was DKK 780bn.

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

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

The capital requirement for counterparty risk is calculated according to the same approach as that applied to other types of credit risk.

For the purpose of calculating the capital requirement, the exposure value of counterparty risk is calculated according to the market value method, ie as any positive market value of the transaction plus a potential future credit exposure.

The Nykredit Bank Group Supervisory diamond



NON-PERFORMING EXPOSURES

Loan impairment

Continuous individual reviews and risk assessments are conducted of all mortgage and bank exposures of a certain size with a view to uncovering any objective evidence of impairment and an expected adverse effect on future cash flows from loans. If necessary, impairment provisions are subsequently made for individual exposures. Minor exposures are reviewed to identify any need for individual provisioning in case of objective evidence of impairment.

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

Collective impairment provisions are calculated using a rating model that uses adjusted key parameters from the advanced credit models for loss calculations. The parameters are adapted to the accounting rules so that they are based on events occurred, cash flows from loans until maturity and discounting of loss flows to present value. As a supplement to the rating model, events resulting from sudden changes in the economic climate and therefore not yet captured by the model are also taken into account.

Loans subject to collective provisioning include loans in rating categories 0, 1 and 2 as well as loans in default for which no individual provisions have been made. This is a change compared with 2010 when collective provisioning was made for all rating categories. The change has had no effect on collective impairment provisions, only on the item "Loans and advances before collective impairment provisions", which has been adjusted according to estimates.

Impairment losses on loans and advances (earnings impact) decreased by DKK 860m to DKK 1,386m at 31 December 2011.

Impairment losses on mortgage lending came to DKK 1,026m, equivalent to 0.1% of lending. Impairment losses on bank lending came to DKK 360m, equivalent to 0.6% of lending.

In 2012 impairment losses are estimated to range between DKK 1.0bn and 2.0bn, an impairment level of DKK 1.5bn deemed to be the most likely. As in 2011, impairment losses are expected to be largest for SMEs.

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

Arrears and property portfolio

At end-2011 the arrears ratio had decreased relative to end-2010. At the September due date, the Group's 75-day mortgage loan arrears made up 0.60% of total mortgage payments due compared with 0.64% at the same time in 2010.

During 2011 the Group repossessed 529 properties and sold 455 properties. The property portfolio counted 347 properties at end-2011. In comparison, Nykredit had a portfolio in the region of 1,500 properties in the early 1990s. The properties repossessed will be sold at the highest possible price, ensuring the best possible satisfaction of Nykredit's claim. The Group's mortgages on properties resulted in a limited amount of impairment losses.

Exposures in default

An exposure is in default where it is deemed improbable that the customer will repay all debt in full, or where a significant amount has been in arrears for 90 days. For mortgage products, Nykredit considers 75 days of arrears to be a clear sign that a customer is unable to repay its debt in full, while for bank products the third reminder will constitute such a sign.

For Nykredit Bank, exposures in default accounted for approximately 8% of the Bank's total exposures at end-2011. Commercial exposures in default represented around 10% of total commercial exposures. Of these, around 50% have been provided for. 20% of total commercial exposures in default derived from Forstædernes Bank, while 3% were secured by financial collateral. The remaining commercial exposures in default represented just under 3% of the total commercial exposures of Nykredit Bank.

The Bank's retail exposures in default represented around 2% of total retail exposures. Of these, some 60% have been provided for and 20% of total retail exposures in default are secured by financial collateral.

For Nykredit Realkredit and Totalkredit, just over 2% of total mortgage exposures were in default. More specifically, 1% of retail exposures and just under 3% of commercial exposures were in default. This should be seen in the context that large parts of the mortgage loans are secured by mortgages on property.

For the Nykredit Realkredit Group as a whole, just over 2% of the exposures were in default, broken down into 1% of retail exposures and just over 4% of commercial exposures.

The Nykredit Realkredit Group**Total individual and collective loan impairment provisions excl provisions for guarantees**

2011 DKK million	Individual impairment provisions	Collective impairment provisions	Total impairment provisions	2010 Total impairment provisions
Impairment provisions, beginning of period	6,980	1,389	8,369	9,755
Additions relating to acquisitions	-	-	-	-
Impairment provisions for the year	1,746	44	1,790	2,864
Impairment provisions reversed	(885)	-	(885)	(1,353)
Value adjustment of properties repossessed	(105)	-	(105)	(95)
Impairment provisions recognised as lost	(2,391)	-	(2,391)	(2,800)
Impairment provisions, year-end	5,345	1,433	6,778	8,369
Loans and advances before impairment provisions	16,860	81,391	98,251	93,767
Impairment provisions	5,345	1,433	6,778	8,369
Loans and advances after impairment provisions	11,515	79,958	91,473	85,398

The Nykredit Realkredit Group**Total individual and collective loan impairment provisions incl provisions for guarantees**

2011 DKK million	Individual impairment provisions	Collective impairment provisions	Total impairment provisions	Total claims in default
Retail exposures	1,034	554	1,588	694
<i>Of which</i>				
- mortgages on property	742	538	1,279	833
- revolving exposures, etc	32	5	38	35
- other retail exposures	259	12	271	262
Commercial exposures	4,421	878	5,299	4,589
Credit institution exposures	0	0	0	0
Sovereign exposures	0	0	0	0
Total	5,455	1,433	6,887	5,719

The Nykredit Realkredit Group**Loans, advances and guarantees and impairment losses on loans and advances**

DKK million	Loans, advances and guarantees ¹		Loans in default		Total provisions for loan impairment and guarantees		Impairment losses – earnings impact	
	2011	2010			2011	2010	2011	2010
Mortgage lending								
Nykredit Realkredit	594,476	574,947	13,305	11,587	1,781	1,703	579	730
Totalkredit	473,704	455,260	2,979	2,154	704	523	447	158
Total	1,068,180	1,030,207	16,284	13,741	2,485	2,226	1,026	888
<i>Of which arrears</i>	<i>574</i>	<i>571</i>			-	-	-	-
Bank lending								
Nykredit Bank	53,494	56,075	1,371	1,550	2,885	3,168	453	421
Terminated exposures from Forstædernes Bank	2,282	2,758	2,282	2,758	1,409	2,975	(93)	937
Total	55,776	58,833	3,653	4,308	4,294	6,143	360	1,358
Repo lending	22,007	12,920			0	-	0	-
Guarantees	10,142	15,225			114	745	28	136
<i>Of which obligations relating to the Private Contingency Association</i>	<i>0</i>	<i>659</i>			<i>0</i>	<i>659</i>	<i>(1)</i>	<i>279</i>

¹ Mortgage lending determined at nominal value including arrears.

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

%	Arrears of total mortgage payments	Bond debt outstanding affected by arrears of total bond debt outstanding	Bond debt outstanding affected by arrears DKKm
Due dates			
2011			
- September	0.60	0.67	7.1
- June	0.56	0.66	7.0
- March	0.66	0.66	6.9
2010			
- December	0.62	0.74	7.7
- September	0.64	0.75	7.8

The Nykredit Realkredit Group**Properties repossessed/sold**

	2011	2010	2009	2008	2007
Addition of properties	529	473	284	79	21
<i>Of which owner-occupied dwellings</i>	351	339	223	70	17
Disposal of properties	455	363	178	29	27
<i>Of which owner-occupied dwellings</i>	293	265	154	22	21
Property portfolio, year-end	347	273	163	57	7
<i>Of which owner-occupied dwellings</i>	248	190	120	51	3

The Nykredit Realkredit Group**Arrears by due date by property category**

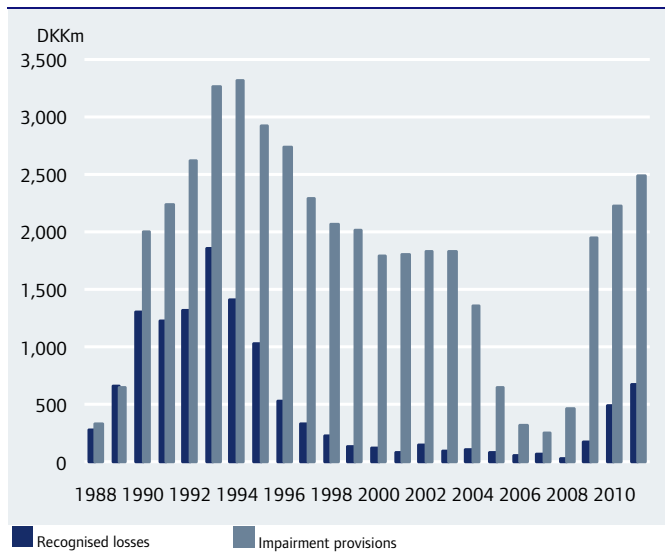
DKK million	Loans and advances, end of period 2011	Loans and advances subject to individual provisioning	Total arrears	Arrears Q4/2011	Arrears Q3/2011	Arrears Q2/2011	Arrears Q1/2011	Arrears pre-2011
Owner-occupied dwellings, %	661,014	3,288	270	195	30	15	8	21
Private residential rental	114,901	3,425	76	53	11	5	4	4
Industry and trades	27,783	281	40	22	5	3	2	8
Office and retail	94,812	371	88	64	9	6	4	5
Agriculture	97,251	620	63	44	9	5	3	2
Non-profit housing	55,503	86	23	18	1	1	0	3
Other	16,342	54	9	6	1	1	0	0
Total	1,067,606	8,126	569	402	66	36	22	43

The Nykredit Bank Group**Loans, advances and guarantees by sector**

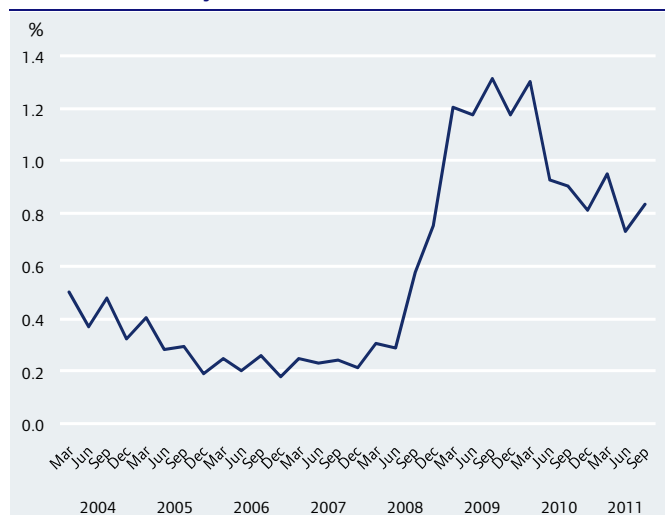
DKK million	Bank loans, advances and guarantees		Provisions for bank loan impairment and guarantees	
	2011	2010	2011	2010
Public authorities	542	806	0	0
Agriculture, hunting, forestry and fishing	2,448	2,556	120	82
Manufacturing, mining and quarrying	5,652	6,627	105	256
Energy supply	1,306	2,418	33	18
Construction	1,687	1,482	254	285
Trade	2,472	2,235	287	375
Transport, accommodation and food service activities	2,308	1,634	90	61
Information and communication	964	1,443	65	54
Financial and insurance activities	28,656	18,616	935	1,705
Property	14,613	16,739	1,312	1,664
Other trade and industry	7,767	10,350	530	1,481
Total corporate customers	67,873	64,100	3,731	5,981
Retail customers	19,636	22,311	676	907
Total	88,051	87,217	4,407	6,888

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

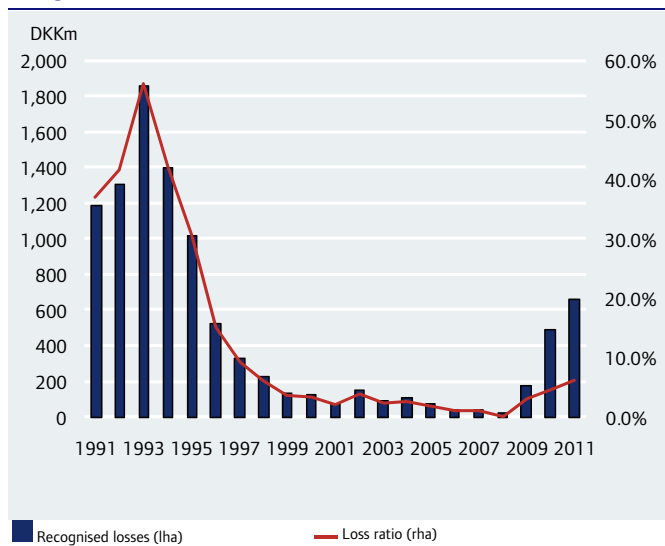
**The Nykredit Realkredit Group – mortgage lending
Recognised losses and impairment provisions**



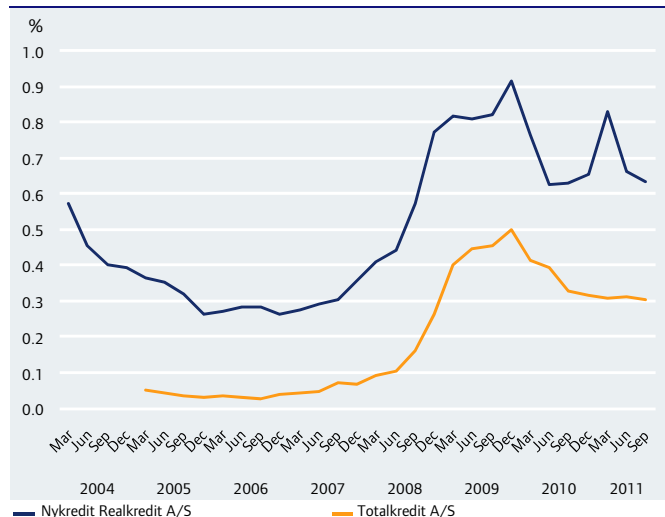
**The Nykredit Realkredit Group
Arrears ratio – 75-day arrears**



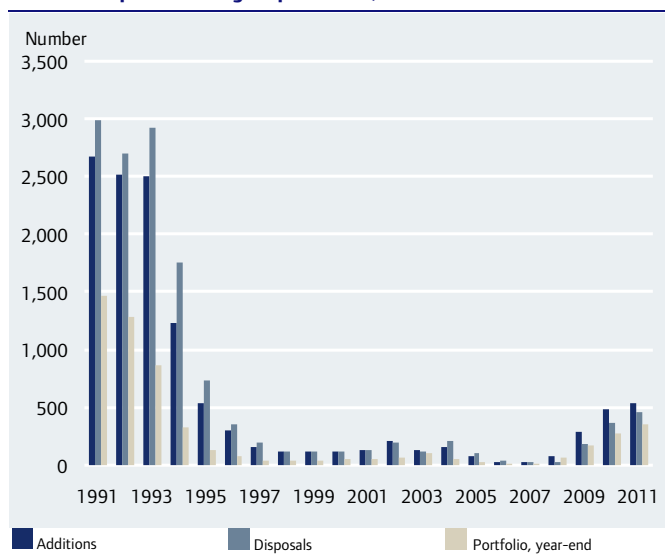
**The Nykredit Realkredit Group – mortgage lending
Recognised losses and loss ratios**



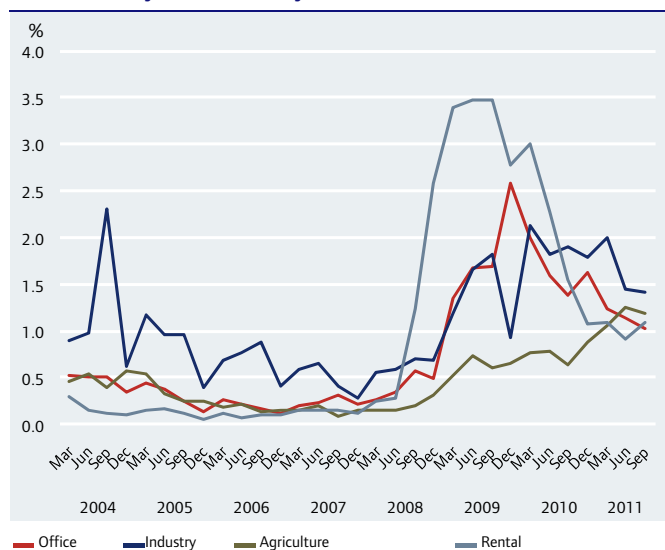
**Nykredit Realkredit A/S – Retail Customers and Totalkredit A/S
Arrears ratio – 75-day arrears**



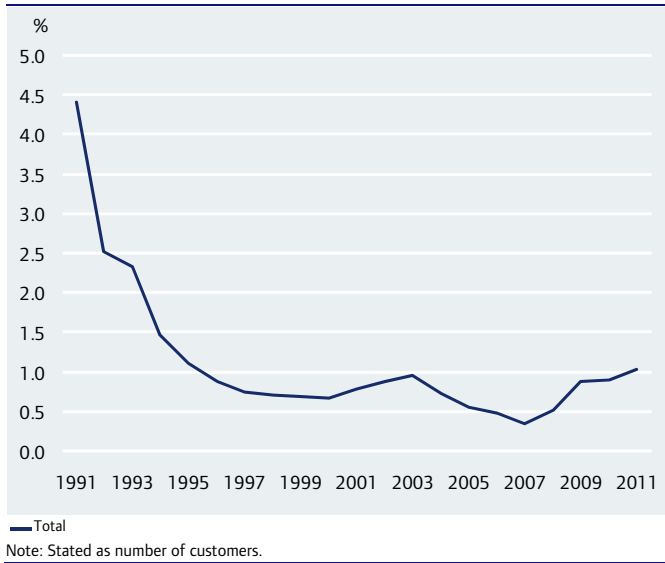
**The Nykredit Realkredit Group – mortgage lending
Owner-occupied dwellings repossessed/sold**



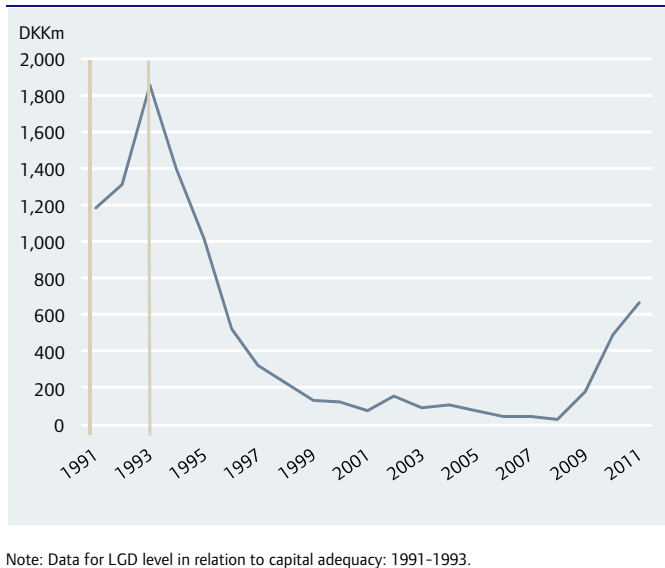
**Nykredit Realkredit A/S – Commercial Customers
Arrears ratio by sector – 75-day arrears**



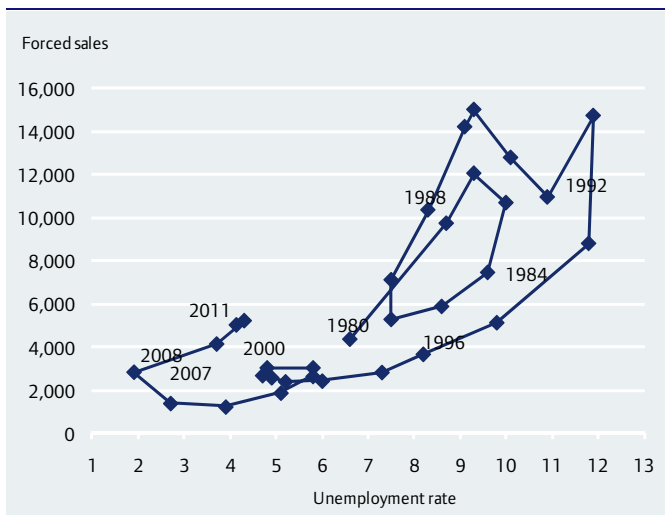
Nykredit Realkredit A/S
Default rate and calibration of PD



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



Correlation between unemployment and number of forced sales in Denmark (1980-2011)



CREDIT RISK MODELS

The determination of credit risk is based on three key parameters:

- PD: Probability of Default – the probability of a customer defaulting on an obligation to the Nykredit Group.
- LGD: Loss Given Default – the loss rate of an exposure given a customer's default.
- EV: Exposure Value – the total exposure to a customer in DKK at the time of default, including any drawn part of a credit commitment.

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

Modelling principles

According to the Danish Executive Order on Capital Adequacy, PDs must be estimated on the basis of long-term averages of one-year default rates, while LGD estimates must reflect an economic downturn.

In the early 1990s, the Danish economy suffered a general crisis, and the financial sector saw a relatively large number of borrower defaults and increased losses. Nykredit stores data from that period and may thereby benefit from the experiences gained during a recession when developing models.

PD is calibrated by weighting current data against data dating back to the early 1990s at a 40:60 ratio. That way, PDs during an economic upturn become higher than if only current data had been applied, and vice versa during a recession.

LGD ratios are calibrated so that the parameters reflect an economic downturn equal to the period 1991-1993.

The modelling principles are of great importance when comparing PD and LGD estimates with current, observed values of default and loss rates. During an economic upturn, the PD and LGD estimates applied to calculate capital charges will be higher than the observed values. This is due to the fact that, contrary to the risk parameters, the observed values mirror only the current economic climate.

The principles applied to estimate the risk parameters ensure that Nykredit's capital requirement remains more stable throughout an economic cycle than if the estimation were based exclusively on current data.

Probability of default (PD)

Nykredit calculates the PD for each individual customer of the Group. This method is called direct estimation. PD expresses the probability of a customer defaulting on an obligation to the Nykredit Group.

The PDs of retail customers and small enterprises are determined on the basis of a customer's credit score and payment behaviour. Credit scoring is a statistical calculation of a customer's creditworthiness.

With respect to other customer segments, statistical models have been developed based on conditional probabilities estimating PDs that factor in business-specific circumstances such as financial data, arrears and loan impairment as well as industry-specific conditions and the macroeconomic climate.

External ratings are used to a very limited extent in respect of a few types of counterparties for which no meaningful statistical models can be developed due to the absence of default data. External ratings are translated into PDs.

PDs are updated as Nykredit receives new information about general economic conditions or about the customer. Updates are made at least once a year.

The accuracy of the estimated PDs can be assessed by comparing the estimates at the beginning of the year with the PDs observed at year-end. Observed PD is the observed default rate of Nykredit's exposures and thus reflects the current economic situation. To obtain a meaningful

comparison, it is therefore necessary to recalculate the estimated PDs at the beginning of the year into estimates which reflect only the current economic trends (point-in-time estimates).

The table below shows applied PD stated as point-in-time PD (current value), observed PD (current value), and applied PD, the latter being used to calculate the capital requirement at year-end.

The PD estimates applied for calculating the capital requirement are estimated on the basis of data covering economic upturns as well as downturns. They are therefore not directly comparable with the observed default rates or point-in-time PDs. The table shows that the applied PDs are higher than the observed PDs.

PD: Example of mortgage exposures

The capital requirement determination is based on "applied PD", which reflects periods of economic downturn. The capital requirement determination was based on the assumption that 1.4% of Nykredit's customers would default on their loans.

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

The actual default rate, "observed PD", was 0.8%. The levels of the capital requirement determination were thus higher than the actual levels for the period.

From PD to rating

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

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

The Nykredit Realkredit Group Probability of default, PD

%	Point-in-time PD Beginning of 2010	Observed PD End-2010	Applied PD End-2010	Point-in-time PD Beginning of 2011	Observed PD End-2011	Applied PD End-2011
Mortgage exposures						
Retail exposures	0.61	0.74	0.95	0.75	0.75	1.32
<i>Of which:</i>						
- mortgages on property	0.61	0.74	0.95	0.75	0.75	1.32
- revolving exposures, etc	-	-	-	-	-	-
- other retail exposures	-	-	-	-	-	-
Commercial exposures	1.00	0.96	1.37	0.82	0.93	1.57
Total mortgage exposures	0.75	0.82	1.09	0.77	0.81	1.40
Banking exposures						
Retail exposures	0.72	0.91	1.93	1.53	0.83	1.20
<i>Of which:</i>						
- mortgages on property	0.75	0.47	1.86	1.49	0.65	1.03
- revolving exposures, etc	0.51	0.49	1.46	1.18	0.65	1.11
- other retail exposures	0.75	2.18	2.35	1.81	1.66	1.76
Commercial exposures	1.35	3.18	2.86	1.74	1.65	2.98
Total banking exposures	1.15	2.54	2.61	1.68	1.43	2.49
Aggregate exposures						
Retail exposures	0.61	0.74	0.99	0.78	0.76	1.32
<i>Of which:</i>						
- mortgages on property	0.61	0.73	0.97	0.77	0.75	1.31
- revolving exposures, etc	0.51	0.49	1.46	1.18	0.65	1.11
- other retail exposures	0.75	2.12	2.35	1.81	1.66	1.76
Commercial exposures	1.06	1.30	1.64	0.98	1.05	1.81
Total aggregate exposures	0.77	0.95	1.23	0.85	0.86	1.50

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

The rating of retail customers having equity release credits with Nykredit Bank was changed in 2011. When the product was introduced in 2004, customers were expected to behave much like customers having ordinary current accounts. But that was not the case – customers having equity release credits have high utilisation rates and make few and large withdrawals. To adjust for this behavioural pattern, Nykredit has improved the rating models so as to obtain more accurate ratings and ranking. As a consequence of the model improvement, the share of exposures in rating categories 9 and 10 has grown considerably. At the same time, all the Group's retail customer models were recalibrated. Consequently, the models are now better at predicting the probability of customer default.

The Nykredit Realkredit Group

Rating scale and marginal probabilities of default (PD)

2011 Rating category	PD floor %	PD ceiling %	Average applied PD %
10	> 0.00	≤ 0.15	0.10
9	> 0.15	≤ 0.25	0.20
8	> 0.25	≤ 0.40	0.33
7	> 0.40	≤ 0.60	0.49
6	> 0.60	≤ 0.90	0.73
5	> 0.90	≤ 1.30	1.07
4	> 1.30	≤ 2.00	1.56
3	> 2.00	≤ 3.00	2.42
2	> 3.00	≤ 7.00	4.35
1	> 7.00	≤ 25.00	12.54
0	> 25.00	< 100.00	54.91
Exposures in default	100.00		100.00

Note: Average applied PD is exposure-weighted. Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

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

2011 Rating category	Total exposure DKKkM	Of which undrawn commitments DKKkM	Exposure-weighted average LGD ¹ %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKkM
10	41,295	50	5.7	1.5	50
9	67,721	64	7.3	3.2	174
8	131,531	61	9.1	5.7	603
7	180,847	48	12.1	10.1	1,465
6	122,532	33	14.5	15.9	1,556
5	52,017	27	15.0	20.7	861
4	35,635	27	15.1	26.6	757
3	15,401	22	13.2	31.0	382
2	21,289	94	12.9	41.6	708
1	14,943	29	13.8	70.6	844
0	4,717	1	15.0	70.7	267
Exposures in default ²	6,245	1	12.8	67.9	339
Total	694,174	458	11.6	14.4	8,006

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

¹ Pursuant to section 70(5) of the Executive Order on Capital Adequacy, the exposure-weighted average LGD for retail exposures secured by mortgages on property must be at least 10% in the determination of the capital charge. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the 10% requirement, cf section 70(5) of the Executive Order.

² The determination of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions.

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

2011 Rating category	Total exposure DKKkM	Of which undrawn commitments DKKkM	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKkM
10	10,067	20	14.1	15.1	122
9	31,533	953	14.0	20.1	506
8	90,083	1,947	12.6	22.4	1,617
7	87,341	219	14.5	29.0	2,024
6	41,679	65	12.9	28.4	948
5	27,303	1,425	15.4	40.4	883
4	23,188	30	12.0	34.7	644
3	13,072	267	14.7	47.2	493
2	12,457	109	12.8	43.5	433
1	3,298	9	15.7	70.3	186
0	4,430	5	15.9	70.9	251
Exposures in default ¹	10,463	2	16.4	37.1	311
Total	354,914	5,050	13.7	29.6	8,417

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

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

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

2011 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD ¹ %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	7,377	2,837	27.4	4.2	25
9	3,155	915	29.9	9.6	24
8	2,654	769	28.8	13.9	30
7	2,218	551	29.0	19.5	35
6	2,259	525	29.2	25.5	46
5	2,518	551	29.9	35.0	70
4	3,075	524	30.3	43.9	108
3	1,745	215	37.5	64.2	90
2	1,892	224	31.8	68.3	103
1	449	64	33.2	100.0	36
0	77	10	35.0	115.5	7
Exposures in default ²	649	19	42.7	445.5	231
Total	28,066	7,204	30.0	35.8	805

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

¹ Pursuant to section 70(5) of the Executive Order on Capital Adequacy, the exposure-weighted average LGD for retail exposures secured by mortgages on property must be at least 10% in the determination of the capital charge. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the 10% requirement, cf section 70(5) of the Executive Order.

² The determination of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions.

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

2011 Rating category	Total exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	Capital charge for credit risk DKKm
10	4,551	2,095	42.9	30.0	109
9	8,718	1,984	44.4	44.1	308
8	17,520	3,683	44.3	55.4	776
7	14,804	1,444	44.5	64.7	766
6	6,871	875	44.7	75.3	414
5	4,104	449	44.5	86.0	282
4	3,681	648	44.7	102.4	301
3	2,800	221	44.2	110.9	249
2	6,631	484	44.2	142.2	754
1	1,416	74	44.4	182.7	207
0	1,920	75	44.5	128.1	197
Exposures in default ¹	8,206	499	44.5	0.0	0
Total	81,222	12,531	44.4	67.2	4,364

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

¹ The calculation of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions. No determination is made of the capital charge for exposures in default under the IRB foundation approach, cf the Executive Order on Capital Adequacy.

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

2011	Total exposure	Of which undrawn commitments	Exposure-weighted average LGD ¹	Exposure-weighted average risk weight	Capital charge for credit risk
Rating category	DKKm	DKKm	%	%	DKKm
10	48,672	2,888	2.4	1.9	74
9	70,876	979	8.3	3.5	199
8	134,185	829	9.5	5.9	633
7	183,065	599	12.3	10.2	1,499
6	124,791	558	14.7	16.0	1,602
5	54,534	578	15.6	21.4	932
4	38,710	551	16.3	27.9	865
3	17,146	238	15.7	34.4	471
2	23,181	318	14.4	43.8	811
1	15,392	94	14.4	71.5	880
0	4,793	11	15.3	71.4	274
Exposures in default ²	6,894	20	15.6	103.5	571
Total	722,240	7,662	11.8	15.2	8,811

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

¹ Pursuant to section 70(5) of the Executive Order on Capital Adequacy, the exposure-weighted average LGD for retail exposures secured by mortgages on property must be at least 10% in the determination of the capital charge. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the 10% requirement, cf section 70(5) of the Executive Order.

² The determination of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions.

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

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

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

¹ The calculation of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions. The low risk weight of exposures in default in the Nykredit Realkredit Group results from the fact that the risk weight of commercial exposures in default in the Nykredit Bank Group is calculated using the IRB foundation approach under which the risk weight is zero.

Loss given default (LGD)

The LGD, which is calculated for each customer exposure, reflects the percentage share of an exposure which is expected to be lost in case of customer default.

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

LGD: Example of mortgage exposures

The capital requirement determination is based on "applied LGD", which reflects the economic downturn period 1991-1993. The capital requirement determination is based on the assumption that Nykredit would sustain a loss equal to 12.3% of lending in case of default.

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

The actual loss ratio, "observed LGD", was 6.1%. The levels of the capital requirement determination were thus higher than the actual levels for the period.

Nykredit calculates losses as the Group's claims at the time of realisation. Furthermore, costs incidental to debt collection, proceeds from the realisation of security, payments from customers, etc are included.

The loss on a defaulting borrower cannot be determined until the case has been finally settled. This often takes several years. In cases involving security in the form of a mortgage on property, for example, the loss cannot be determined until Nykredit has sold the repossessed property. The determination of losses includes an estimate of the final losses in cases not finally settled.

LGDs vary with economic trends. In periods of high business activity, default will often not lead to any loss as the value of the security will typically exceed the value of the loan. This applies in particular to loans secured by mortgages on property. Conversely, the Group would expect more and greater losses during an economic downturn.

The accuracy of the estimated LGDs can be assessed by comparing the estimates at the beginning of the year with the LGDs observed at year-end. Observed LGDs are determined on the basis of actual losses for the year plus individual impairment provisions at year-end. Observed LGDs reflect the current economic climate. To obtain a meaningful comparison, it is therefore necessary to recalculate the estimated LGDs at the beginning of the year into point-in-time estimates.

The Nykredit Realkredit Group**Loss given default, LGD**

%	Point-in-time LGD Beginning of 2010	Observed LGD End-2010	Applied LGD End-2010	Point-in-time LGD Beginning of 2011	Observed LGD End-2011	Applied LGD End-2011
Mortgage exposures						
Retail exposures	5.75	3.45	10.76	6.10	6.96	11.56
<i>Of which</i>						
- mortgages on property	5.75	3.45	10.76	6.10	6.96	11.56
- revolving exposures, etc	-	-	-	-	-	-
- other retail exposures	-	-	-	-	-	-
Commercial exposures	10.00	4.56	13.37	10.52	4.63	13.63
Total mortgage exposures	7.25	3.78	11.62	7.57	6.08	12.25
Banking exposures						
Retail exposures	17.12	54.18	27.83	18.08	38.12	29.73
<i>Of which</i>						
- mortgages on property	18.25	27.57	20.45	19.03	50.02	23.59
- revolving exposures, etc	15.78	27.86	40.14	15.88	24.17	40.28
- other retail exposures	15.79	64.99	35.51	17.46	31.09	37.75
Commercial exposures ¹	26.19	63.41	43.60	28.01	38.42	44.33
Total banking exposures	23.38	62.80	39.29	25.08	38.34	40.35
Aggregate exposures						
Retail exposures	6.23	7.42	11.45	6.59	9.36	11.81
<i>Of which</i>						
- mortgages on property	6.04	3.89	10.98	6.40	8.40	11.39
- revolving exposures, etc	15.78	27.86	40.14	15.88	24.17	40.28
- other retail exposures	15.79	64.99	35.51	17.46	31.09	37.75
Commercial exposures	12.48	48.00	18.94	13.48	13.68	18.95
Total aggregate exposures	8.61	31.74	14.21	9.10	11.24	14.44

Note: Exposure-weighted and excl exposures in default. Applied LGD for retail exposures has been determined after adjustment to ensure compliance with the 10% requirement, cf section 70(5) of the Executive Order on Capital Adequacy.

¹ LGD after credit risk hedging. Commercial lending in Nykredit Bank is determined using the IRB foundation approach.

The table above shows the "point-in-time LGD" (current value), "observed LGD" (current value) and "applied LGD" used for determination of the capital charge at year-end.

Applied LGD reflects the economic downturn in the period 1991-1993 and corresponds to the loss rate during a recession. Applied LGD is therefore not comparable with the observed losses or point-in-time estimates, which both reflect the current economic climate.

Mortgage banking is characterised by low LGDs as the security provided by way of mortgages on property offers good protection against losses. Nykredit's use of security is described in more detail under "Security".

Exposure value (EV) and conversion factors (CF)

EV is estimated for all exposures of a customer and reflects the total expected exposure to a customer at the time of default, including the utilisation of any credit commitments granted, in terms of conversion factors (CF).

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

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

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

	Observed CF End-2010	Applied CF End-2010	Observed CF End-2011	Applied CF End-2011
Banking exposures¹				
Retail exposures	1.02	1.12	1.03	1.11
<i>Of which</i>				
- mortgages on property ²	1.02	1.15	1.03	1.15
- revolving exposures, etc	1.03	1.07	1.02	1.07
- other retail exposures	1.01	1.03	1.04	1.04
Total banking exposures	1.02	1.12	1.03	1.11

Note: Exposure-weighted. Includes only exposures subject to the IRB advanced approach using internal CF estimates for products with undrawn credit.

¹ Covers only exposures of Nykredit Bank subject to the IRB advanced approach.

² Including exposures such as mortgage equity release and mortgage equity withdrawal credits.

IRB-calculated losses

Model-based IRB-calculated losses and recognised losses are shown in the table below. IRB-calculated losses are a concept applied for regulatory purposes and do not correspond to Nykredit's own expectations for future losses. The IRB-calculated loss on an exposure is calculated as the product of the PD, LGD and EV estimates.

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

The level of recognised losses remained low in 2011 in Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S. Total recognised losses amounted to DKK 1,143m in 2011 against DKK 718m in 2010.

Validation and control of models

Nykredit develops and improves its credit risk models on an ongoing basis. As the parameter estimates are used both in the determination of the capital requirement and for many internal business purposes, it is decisive that the models work as intended and provide consistent results.

The models are developed by Risk Management which is independent of group credit granting and operations in general. To ensure a good forecasting ability and consistent estimates, all credit models are validated at their development stage and are subject to ongoing validation – at least once a year. Model development and model validation are separate functions. The results are reported to the Risk Committee.

The ongoing validation includes:

- *Back tests*: Comparison of the expected and the actual number of defaults, as well as the loss rates within and across rating categories. Analysis of changes in ratings during the year.
- *Expert forums*: Nykredit's experienced credits and case officers and analysts compile and analyse any discrepancies between model estimates and internal assessments of business risk.
- *Ongoing monitoring*: Ongoing monitoring of model ranking of customers, payment patterns, etc.
- *Quality assurance and data input checks*: Data used for calculating the risk parameters are subject to a number of automatic controls. This applies to both internal data and data from external suppliers.
- *Data representativity*: The composition of customers may change over time. It is assessed whether the models work as intended if the composition of customers has changed since the model was devel-

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

DKK million	Total impairment provisions, 2011 ¹	Recognised losses, 2011 ²	IRB-calculated losses, 2012 ³
Mortgage exposures			
Retail exposures	1,137	283	1,256
<i>Of which</i>			
- mortgages on property	1,137	283	1,256
- revolving exposures	-	-	-
- other retail exposures	-	-	-
Commercial exposures	1,343	42	806
Total mortgage exposures	2,480	325	2,062
Banking exposures			
Retail exposures	451	42	107
<i>Of which</i>			
- mortgages on property	142	4	45
- revolving exposures	38	4	23
- other retail exposures	271	34	39
Commercial exposures	3,956	775	969
Total banking exposures	4,407	818	1,076
Aggregate exposures			
Retail exposures	1,588	325	1,363
<i>Of which</i>			
- mortgages on property	1,279	287	1,301
- revolving exposures	38	4	23
- other retail exposures	271	34	39
Commercial exposures	5,299	818	1,771
Total aggregate exposures	6,887	1,143	3,134

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches. IRB-calculated losses for retail exposures secured by mortgages on property have been determined on the basis of LGD after adjustment to ensure compliance with the 10% requirement, cf section 70(5) of the Executive Order on Capital Adequacy.

¹ Total impairment provisions are individual and collective loan impairment provisions including provisions for guarantees.

² Not including recognised losses on repossessed properties as they cannot be distributed by exposure category.

³ The IRB-calculated loss has been determined at end-2011 and denotes the model-based expected loss for the next year. The loss has been determined exclusive of exposures in default. The IRB-calculated loss has been determined using LGD for 1991-1993 pursuant to the rules of the Executive Order on Capital Adequacy. This should be seen in the light of Nykredit's impairment provision forecast for 2012 of DKK 1bn-2bn.

oped.

- *Data entry control:* Nykredit's controllers review the case processing at all centres at least once a year, including data entry.

Internal estimates

For a number of years, Nykredit has applied credit models for risk management, capital management, customer assessment, collective impairment provisions and pricing. The credit models have become an integral part of business and are used in several areas:

- *Capital management:* Nykredit's risk and capital management is based on a required capital base, which is also applied in connection with the internal performance measurement.
- *Granting of loans:* A uniform approach to credit assessment is taken, albeit with due regard for the characteristics of the individual business units. Credit assessment comprises the customer's creditworthiness and valuation of the security provided and the nature of the transaction concerned.

The credit assessment of customers and the granting of loans are typically based on an overall assessment of the risk elements of the individual case and take into consideration the size of the total exposure to the customer concerned. Creditworthiness is determined on the basis of financial strength, stability in relation to external factors, managerial strength (businesses), etc.

When granting loans to retail customers, customer ratings are applied. The rating may be supplemented with policy rules based on key ratios on customers' personal finances and behaviour. For selected exposures, customer ratings are also used as input for granting advance approval of credit extensions. Furthermore, the assessment includes the quality of the security provided.

This loan granting approach is used for retail exposures secured on property, revolving exposures, etc and other retail exposures.

The assessment of commercial customers includes an assessment of the customer's financial position, payment history and rating as well as

the stability of value and transferability of the security provided etc. The lower the customer rating, the greater the importance of the security to the overall assessment.

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

SECURITY

The decision to grant a loan is usually based on a customer's creditworthiness and a valuation of the security provided. The greater part of Nykredit's lending is secured by mortgages on property. Other types of security are guarantees, financial collateral and charges on equipment, machinery, plant, vehicles, etc.

In the determination of the capital requirement and required capital base, only the effect of mortgages on property, guarantees received and financial collateral is included.

Property

Mortgages on property reduce the credit risk substantially. Typically, no losses are incurred on loans secured on properties with initially low LTVs.

The mortgageable value of a property is determined at the time of loan granting. Valuations are based on the marketability, stability of value, alternative use, letting potential, etc of a property.

Nykredit has FSA approval to apply a statistical model as part of the valuation of properties. The model-based valuation is applied to detached and terraced houses that meet specific requirements for mortgageable value and risk classification. Valuations must always be confirmed by the relevant local Nykredit centre and are supervised centrally.

Following the initial valuation, the market value of the properties is monitored regularly. Nykredit uses a statistical model in respect of

The Nykredit Realkredit Group Types of security and credit exposures

2011 DKK million	Property ¹	Guarantees received	Financial collateral ²	Total collateral value	Total exposure
Retail exposures	941,898	18,478	-	960,375	723,493
Of which					
– mortgages on property	941,898	18,478	-	960,375	712,061
– revolving exposures	-	-	-	-	5,249
– other retail exposures	-	-	-	-	6,183
Commercial exposures	462,248	26,198	3,754	492,200	442,556
Credit institution exposures	-	-	-	-	67,714
Sovereign exposures	-	-	-	-	54,548
Equity exposures	-	-	-	-	3,906
Securitisations	-	-	-	-	274
Assets with no counterparty	-	-	-	-	4,253
Total 2011	1,404,146	44,675	3,754	1,452,576	1,296,744
Total 2010	1,029,724	54,064	6,365	1,090,152	1,232,211

Note: Exposures also include guarantees issued by banks (DKK 18.5bn), which are recognised under credit institution exposures, and government guarantees (DKK 26.2bn), which are recognised under sovereign exposures.

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

² Collateral relating to repos and reverse transactions not included.

detached and terraced houses, owner-occupied flats and holiday homes that satisfy specific requirements for mortgageable value, risk classification and time since last valuation. The statistical valuations are performed centrally and supplemented with local valuations as required. The valuations are included in the LGD estimate.

Nykredit has a special monitoring team comprising experienced staff with in-depth knowledge of the housing market and solid valuation competencies. This team monitors market conditions and may identify areas and properties which should be checked separately and propose adjustments of the statistical models and policies.

Guarantees

Nykredit mainly receives guarantees from public authorities and banks.

Guarantees issued by public authorities mitigate the credit risk mainly within mortgage lending to subsidised housing. Public authority guarantees are guarantees whereby the guarantor assumes primary liability. This means that Nykredit may enforce a guarantee as soon as a loan falls into arrears.

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

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

In the determination of the capital requirement and the required capital base, Nykredit's internal models divide each individual loan into a guaranteed and a non-guaranteed part, and credit risk is subsequently calculated separately for each part.

Financial collateral

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

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

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

When establishing limits for financial products, Nykredit will also often require that a contractual basis be established providing group companies with a netting option. The contractual framework will typically be based on market standards such as ISDA or ISMA agreements. In the determination of the need for collateral from the individual counterparty or customer, all the financial contracts of a customer governed by the contractual basis are netted. Netting means that the potential obligations of each customer are determined as the sum of potential obligations under all the contracts of a customer less the sum of potential claims.

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

CONCENTRATION RISK

The regular, quarterly risk reports submitted to the boards of directors in 2011 included analysis of the Nykredit Group's concentration risk. The analysis focused on any concentration risks related to individual exposures, industries or geographical areas.

In its Guide on the required capital base and internal capital adequacy requirement, the Danish FSA applies the so-called Herfindahl Hirschmann Index (HHI), which standard institutions in particular must apply in assessing concentration risk by industry. IRB-approved institutions factor in the correlations between individual industries through their credit risk models. HHI ranges from 0 to 1 – the closer to 0, the greater the concentration risk. According to the FSA, portfolios having a maximum concentration corresponding to an HHI of 0.2 will not trigger a charge. For benchmarking purposes, Nykredit has carried out similar HHI portfolio calculations, which combined with other concentration risk measures leads to the conclusion that neither of Nykredit Realkredit A/S, Nykredit Bank A/S or Totalkredit A/S have any noteworthy concentration risk.

THE NYKREDIT REALKREDIT GROUP

Concentration risk by individual exposures

The 20 largest exposures of the Nykredit Realkredit Group increased from DKK 65bn in Q4/2010 to DKK 71bn in the same quarter in 2011. Relative to total lending, the share of the 20 largest exposures was unchanged, ie representing 5% of total lending at both end-2010 and end-2011. The 20 largest exposures totalled some DKK 15bn more than equity at end-2011. The corresponding amount at end-2010 was DKK 10bn. None of the 20 largest exposures made up more than 10% of the capital base. The solid security behind the largest exposures of the Nykredit Realkredit Group should be taken into account when assessing the concentration risk by individual exposures.

NYKREDIT REALKREDIT A/S

Concentration risk by industry

Although the Nykredit Realkredit Group is an IRB-approved institution and as such factors in the correlations between individual industries through its credit risk models, it may be informative to identify the Group's concentration risk using a more specific measure of concentration risk by industry.

The Nykredit Realkredit Group's commercial exposures are generally characterised by high quality, as a large proportion of the exposures are in the high rating categories. Nonetheless, it is relevant to identify how evenly the loan portfolios are distributed by industry. The HHI for commercial lending of Nykredit Realkredit A/S was 0.21 at end-2010, and the same value applied at end-2011. This value places the mortgage bank's commercial lending concentration risk marginally above the level which for mortgage banks using the standardised approach would trigger the smallest possible capital charge. Combined with the fact that the mortgage bank's credit risk models factor in concentration risk in the determination of credit risk under Pillar I, the benchmark assessment thus does not give rise to an additional charge in the internal capital adequacy requirement.

NYKREDIT BANK A/S

Concentration risk by individual exposures

The 20 largest exposures of Nykredit Bank decreased from DKK 20bn at end-2010 to DKK 16bn at end-2011. The Bank's 20 largest exposures accounted for 11% of total bank lending at end-2011, compared with 13% at end-2010.

At end-2011 the Bank's 20 largest exposures made up 114% of equity. The corresponding figure at end-2010 was 145%. None of the 20 largest exposures accounted for over 10% of the capital base at end-2011.

Concentration risk by industry

Nykredit Bank's exposures by industry are of fairly high credit quality, as the Bank's lending to the different industries is in the high rating categories. A distribution by industry of Nykredit Bank's loan portfolio shows that, with the exception of Financing and Insurance, none of the Bank's exposures represent more than 25% of total lending. The HHI for Nykredit Bank's commercial lending was 0.29 at end-2011, compared with 0.26 the year before. Increased repo lending to the Financing and Insurance industry, mainly issued against collateral in the form of bonds, is the cause of the increase in the HHI.

TOTALKREDIT A/S

Geographical concentration risk

Total mortgage lending of Totalkredit A/S rose by just over DKK 33bn to DKK 464bn from end-2010 to end-2011. Mortgage lending increased in all subregions, but the largest increases were recorded in northern and eastern Jutland, up by DKK 6bn-8bn in both subregions. Measured relative to total lending, lending figures by subregion were up to a maximum of 20%, indicating a fairly moderate geographical concentration risk on Totalkredit's mortgage lending. This is also confirmed by the HHI, which was 0.12 at end-2011. The same HHI applied to Totalkredit's mortgage lending in 2010.

The Nykredit Realkredit Group
Investment portfolio credit risk

DKK million	2011	2010
Government bonds		
Denmark	18,216	3,491
Exposure to GIISP countries ¹	57	231
Total government bonds	17,558	2,701
Covered bonds including ROs and SDOs		
Rating Aaa/AAA	63,089	59,130
Rating Aa1/AA+ – Aa3/AA-	33,800	18,888
Rating A1/A+ – Baa3/BBB-	1,356	1,368
Rating Ba1/BB+ or lower	-	-
Not rated	7	2
Total covered bonds including ROs and SDOs	98,252	79,388
Corporate bonds		
Rating Aaa/AAA	(329)	332
Rating Aa1/AA+ – Aa3/AA-	1,506	1,085
Rating A1/A+ – Baa3/BBB-	4,560	5,685
Rating Ba1/BB+ or lower	772	2,293
Not rated	1,672	1,090
Total corporate bonds	8,181	10,485
<i>Of which:</i>		
Subordinate loan capital and hybrid capital in Danish banks ²	1,684	1,355
Subordinate loan capital and hybrid capital in other banks ²	1,294	1,126
Kalvebod and Scandinotes	91	1,236
Structured bonds	53	-
Hedge funds	-	-
Collateralised Loan Obligations (CLO)	-	-
Total credit exposures	106,433	89,873
Note: Kalvebod and Scandinotes are structured bonds with cover assets in the form of hybrid capital and subordinate loan capital in Scandinavian banks.		
¹ Greece, Ireland, Italy, Spain and Portugal.		
² Excl Kalvebod and Scandinotes.		

The Nykredit Realkredit Group
Credit derivatives in the trading book

Nominal value 2011 DKK million	Risk dis- posed of	Risk received	Total
Financial institutions			
Rating Aaa/AAA	-	230	230
Rating Aa1/AA+ – Aa3/AA-	-	316	316
Rating A1/A+ – Baa3/BBB-	-	-	-
Rating Ba1/BB+ or lower	-	-	-
Not rated	-	-	-
Financial institutions, total	-	546	546
Corporates			
Rating Aaa/AAA	-	-	-
Rating Aa1/AA+ – Aa3/AA-	-	-	-
Rating A1/A+ – Baa3/BBB-	-	-	-
Rating Ba1/BB+ or lower	-	-	-
Not rated	-	-	-
Corporates, total	-	-	-
Sovereigns	558	287	845
Index	483	595	1,078
Total credit derivatives, 2011	1,041	1,428	2,469
Total credit derivatives, 2010	84	1,316	1,232

LARGE EXPOSURES

Monitoring of large exposures forms an integral part of the Group's risk management.

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

Nykredit Realkredit A/S and Nykredit Bank A/S have no large exposures in a legal sense, ie defined as exposures amounting to over 10% of the capital base. Large exposures in Totalkredit A/S comprise one exposure to a bank and one intercompany exposure.

CREDIT RISK OF INVESTMENT PORTFOLIO

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

The Nykredit Realkredit Group holds DKK 17.6bn worth of government bonds. At DKK 57m, sovereign exposures to GIIPS countries account for only 0.3% of the Group's total credit risk exposure.

Of the Nykredit Realkredit Group's total credit risk exposure to investments in ROs, SDOs, other covered bonds and corporate bonds of an aggregate DKK 106.4bn, the exposure to securities rated Aa3/AA- or higher amounted to DKK 98.1bn.

The Nykredit Realkredit Group
Large exposures by company

2011	Number of large exposures (>10% of capital base)	Sum of large exposures relative to capital base
Nykredit Realkredit A/S	0	0
Totalkredit A/S	1	13
Nykredit Bank A/S	0	0

MARKET RISK

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

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

Nykredit's market risk relates mainly to the investment portfolios. Furthermore, the banking activities involve market risk.

The limits relating to market risk in the Nykredit Realkredit Group are subject to approval by the Board of Directors. Through the Treasury Committee and within the limits provided by the Board of Directors, the Executive Board delegates and approves market risk limits to the group companies. The boards of directors of the individual companies then prescribe limits to their activities.

The limits provided by the boards of directors restrict the scope for assuming interest rate, equity price, foreign exchange, volatility, commodity and credit risks. The limits permit the use of financial instruments if the risk involved can be determined and managed. Financial instruments are included in the limit for the underlying asset.

Compliance with risk limits is monitored daily and independently of the acting entities of the Group. Any non-compliance is reported to

the Treasury Committee or Nykredit's Board of Directors depending on the nature of the non-compliance.

Determination, management and reporting of market risk require a range of different tools in the form of statistical models, key ratios and limits. In addition to the Value-at-Risk model approved by the Danish FSA for the determination of capital requirements, Nykredit uses an internal Value-at-Risk model covering the market risk of the entire Group.

THE GROUP'S INVESTMENT POLICY

The Group pursues a long-term investment policy that implies very low credit risk on the investment portfolio, and it primarily invests in Danish and European covered bonds. In addition, Nykredit has invested in high-rated bank bonds. The interest rate risk involved is reduced by way of offsetting selling of government bonds and the use of interest rate derivatives. This creates an exposure to yield spreads between covered bonds and government bonds/interest rate swaps. This exposure is not hedged.

On 1 December 2011, Nykredit Bank opened a branch in Stockholm for serving Swedish and international clients. The new branch is to increase Nykredit's activity in Swedish bonds and thereby generate growth in the Bank. The branch's market risk is managed in line with the rest of the Bank's activities.

The Nykredit Realkredit Group

Capital requirement for items involving market risk

2011 DKK million	Specific risk	General risk	Total capital requirement	Total capital requirement 2010
Value-at-Risk (99%, 10 days)	-	744	744	573
Stressed Value-at-Risk (99%, 10 days)		1,292	1,292	-
Outside Value-at-Risk model:				
Instruments of debt	732	199	931	1,024
Equities	52	18	70	46
Foreign exchange risk	-	2	2	1
Collective investment schemes	47	0	47	28
Total market risk	830	2,255	3,086	1,672

The Nykredit Realkredit Group

The Board of Directors' principal market risk limits at group level, end-2011

Financial ratios	Definition	Limit
Value-at-Risk	Maximum loss in one day at a 99% confidence level	DKK 300m
Interest rate risk	Loss on general rise in interest rates of 1 percentage point	DKK (800)m to 1,600m
Equities	Measured at book value	DKK (3,000)m to 8,250m
Corporate bonds	Measured at book value	DKK (2,000)m to 11,000m
- Up to A1/A+	Measured at book value	DKK (2,000)m to 6,000m
- Up to -Baa3/BBB- and not rated	Measured at book value	DKK (1,000)m to 2,000m
Volatility risk	Measured as loss on general rise in interest rate volatility of 1 percentage point	DKK (200)m to 200m

KEY FIGURES ON MARKET RISK

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

Parameters used to determine Value-at-Risk

Value-at-Risk is a statistical measure of the maximum loss on a portfolio at a given probability within a given time horizon. The Nykredit Realkredit Group calculates Value-at-Risk subject to a 99% confidence level and a time horizon of one day. Risk is determined using a Value-at-Risk model that includes the risk relating to spreads between mortgage bond yields and swap rates, and for selected government, covered and corporate bonds in Nykredit Realkredit.

Parameters of Value-at-Risk determination:

Risk factors:	All exposures are transformed into a number of risk factors for equity price, interest rate, interest rate volatility and foreign exchange risks.
Volatilities and correlations:	Daily volatilities and correlations for the above-mentioned risk factors. In calculating the volatilities, last-dated observations have the highest weighting. Volatilities and correlations are calculated on the basis of data for the last 250 banking days.
Time horizon:	Value-at-Risk is determined on the basis of a time horizon of 1 day but may be scaled to other time horizons. The following time horizons are applied: <ul style="list-style-type: none"> ▪ Capital requirement for market risk: 10 days ▪ Day-to-day business management: 1 day
Confidence level:	Value-at-Risk is calculated with the following confidence levels: <ul style="list-style-type: none"> ▪ Capital requirement for market risk: 99% ▪ Day-to-day business management: 99%

Back tests:

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

Stress testing:

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

The Nykredit Realkredit Group

Value-at-Risk (99%, 1 day)

DKK million	Average	Min	Max	Year-end
2011	140	89	321	120
2010	142	107	232	110

The Nykredit Realkredit Group

Value-at-Risk

2011	1 day	10 days
DKK million		
Internal Value-at-Risk (99.00%)	120	378
Value-at-Risk for capital requirement (99.00%) ¹	62	197
Stressed Value-at-Risk for capital requirement (99.00%) ²	126	398

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

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

² Stressed VaR is calculated using volatilities and correlations from a period of significant stress.

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

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

Value-at-Risk

Nykredit has the approval of the Danish FSA to apply Value-at-Risk in determining the capital charge for the market risk of Nykredit Realkredit A/S and Nykredit Bank A/S. The choice of time horizon in the model depends on the specific purpose of the calculations. The VaR model for determining the capital requirement applies a statutory confidence level of 99% and a time horizon of 10 days, while a time horizon of 1 day is applied in the model for the day-to-day internal management. For the purpose of determining the capital requirement, Nykredit Realkredit A/S only calculates VaR in respect of the trading book, whereas Nykredit Bank A/S calculates VaR for the trading book as well as the banking book excluding equities.

VaR is calculated and reported on a daily basis, and the model is incorporated in Nykredit's securities systems. VaR limits exist at group, company and organisational entity levels.

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

The new Executive Order on Capital Adequacy therefore requires Nykredit Realkredit A/S and Nykredit Bank A/S to calculate a stressed VaR in addition to the current VaR for determining the total VaR for the capital requirement. Stressed VaR was first calculated as at 31 December 2011.

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

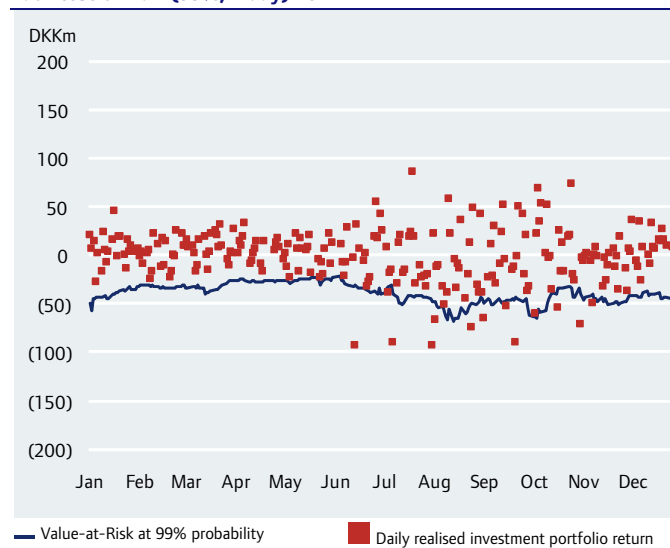
Nykredit Realkredit A/S has FSA approval to apply the period 13 March 2008-12 March 2009 for calculating stressed VaR. Nykredit Bank A/S has approval to apply the period 8 September 2008-7 September 2009. These two periods were characterised by very substantial fluctuations in the model parameters.

The Group's total internal VaR was DKK 120m at end-2011 against DKK 110m at end-2010. According to Nykredit's model, the Group would thus, at a 99% probability, lose a maximum of DKK 120m in one day at end-2011 in consequence of market fluctuations.

The Group's total VaR amounted to DKK 2,036m at end-2011 against DKK 573m at end-2010. Stressed VaR was first calculated as at 31 December 2011. The Group's total VaR for capital requirement determination therefore increased considerably relative to 2010 when stressed VaR was not calculated.

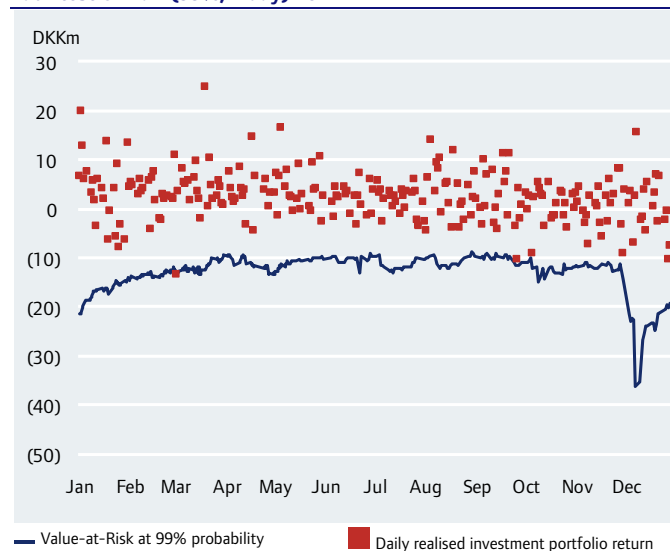
Nykredit Realkredit A/S

Back test of VaR (99%, 1 day) 2011



Nykredit Bank A/S

Back test of VaR (99%, 1 day) 2011



Stress test scenarios

Nykredit Realkredit A/S	Nykredit Bank A/S
<ul style="list-style-type: none"> ▪ EUR rates rise by 0.25 percentage point ▪ Other rates rise by 0.50 percentage point ▪ Yield spreads between government bonds and swaps widen by 0.25 percentage point ▪ Equities decrease by 5% in general ▪ Danish bank equities decrease by 10% 	<ul style="list-style-type: none"> ▪ Yield spreads between government bonds and swaps widen by 0.20 percentage point ▪ Rise in Danish rates: 1 week (5 percentage points), 1 month (3 percentage points) and 3 months (1 percentage point) ▪ Interest rate spreads between Danish and foreign rates widen by 0.20 percentage point ▪ 5% devaluation of DKK vs all other currencies

Back tests and daily stress tests

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

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

There were 15 and 3 exceedings in the VaR models of Nykredit Realkredit A/S and Nykredit Bank A/S, respectively, in 2011. In comparison, both companies had 2 exceedings in 2010.

The model of Nykredit Realkredit has been expanded as a result of the number of exceedings. Risk factors have been added related to selected European government bonds, covered bonds and corporate bonds.

As a supplement to VaR, systematic stress tests are performed daily to measure the risk of loss during turbulent market conditions. The tests are based on simulated market movements and events. Stress testing is an attempt to assess the sensitivity of the portfolios to probable events.

The main focus of the daily stress tests is the market risk to which the individual companies are exposed. The scenarios applied in the individual companies are therefore different and reflect their respective risk profiles. The tests are adjusted in line with business developments. In 2011 the stress tests did not give rise to a change of the Nykredit Realkredit Group's risk profile.

More comprehensive stress testing is performed periodically.

In connection with the determination of the required capital base, further stress tests are applied, cf "Capital management". The stress tests applied to determine the required capital base also contain elements relating to market risk, but they are less detailed than the daily stress tests of the VaR models.

Interest rate risk

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

Spread risk

Spread risk is the risk of spread widening between covered bond/corporate bond yields and swap rates. The spread risk of the Group's portfolio of covered bonds amounted to DKK 2.9bn at end-2011. This means that Nykredit would lose DKK 2.9bn on its investments in covered bonds if the yield spread between covered bonds and the swap curve widened by 1 percentage point.

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

Market value DKK million	2011	2010
Listed equities	1,804	3,040
Unlisted equities	1,265	1,202
Total	3,069	4,242

Equity price risk

Equity price risk is the risk of loss as a result of changes in equity prices, and it is calculated as the loss in case of an equity market decrease of 10%.

Foreign exchange risk

Foreign exchange risk is the risk of loss as a result of changes in exchange rates.

The Nykredit Realkredit Group hedges the foreign exchange risk of its investments and therefore had only minor foreign exchange positions in currencies other than EUR in 2011.

The Nykredit Realkredit Group

Market risk

2011 DKK million	Interest rate exposure (100 bp change)	Interest rate volatility exposure (Vega)	Equity price exposure (10% change)
Money market instruments	(414)	-	-
Government bonds	(141)	-	-
ROs	1,790	1	-
SDOs	717	2	-
Other bonds, loans and advances, etc	(197)	-	-
Equities	-	-	384
Derivative financial instruments	(1,389)	26	(15)
Securitisations	-	-	-
Total	367	30	369

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

The Nykredit Realkredit Group

Market risk

DKK million	2011				2010			
	Average	Min	Max	Year-end	Average	Min	Max	Year-end
Interest rate exposure (1 percentage point change)	163	(261)	455	367	623	205	940	434
– of which outside trading book	31	(43)	134	134	45	(32)	214	137
– of which from mortgage activities	43	(7)	108	50	56	(17)	175	62
Spread risk (OAS)	2,706	2,331	3,115	2,860	2,794	2,334	3,357	2,958
Equity price exposure (10% change)	414	320	514	369	462	387	533	503
Foreign exchange exposure:								
– Foreign exchange positions, EUR	199	11	1,222	187	399	35	825	547
– Foreign exchange positions, other currencies	157	8	377	271	315	60	773	120
Interest rate volatility exposure (Vega)	39	28	48	30	31	51	10	42

Note: Calculation of market risk covers both the trading and banking books. As some of the mortgage activities have been classified as belonging to the banking book, interest rate risk outside the trading book and interest rate risk from mortgage activities overlap.

Nykredit Bank og Nykredit Realkredit A/S

Losses in stress test scenarios

2011 DKK million	Min	Max	Average	Year-end
Nykredit Bank				
Scenario 1 (shock to short-term rates)	(8)	71	26	56
Scenario 2 (20bp rise in DKK rates and 5% devaluation)	(8)	97	32	48
Scenario 3 (20bp spread widening between govt and swap)	8	62	24	39
Scenario 4 (credit crunch similar to Lehman)	193	325	263	236
Nykredit Realkredit¹				
Total effect of interest rate rise and equity price fall	443	873	646	692
– isolated effect of interest rate rise	203	533	379	475
– isolated effect of equity price fall	203	351	267	217

¹ A scenario in which the impact on interest rates and equities is specified. The specific scenario is shown in the table at the bottom of page 47.

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

Volatility risk

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

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

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

Refinancing risk

Refinancing risk is the risk of having to refinance debt in a period of high interest rates or particularly unfavourable loan terms.

With a view to reducing its refinancing risk, Nykredit has spread its refinancing auctions more evenly over the year.

The mortgage loan types Tilpasningslån, BoligXlån (ARMs) and RenteMax (floating-rate with an interest rate cap shorter than the loan term) are refinanced by way of issuance of new bonds. At refinancing, borrowers obtain a loan rate that mirrors the yield-to-maturity of the bonds sold. Consequently, interest expenses are fully passed on to customers.

TRADING BOOK AND BANKING BOOK

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

Portfolios with positions held for trading are placed in the trading book. Positions forming part of Nykredit's lending business and strategic positions are placed in the banking book. Furthermore, portfolios not unambiguously classified under the trading book are placed in the banking book.

Interest rate risk on the banking book

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

- Prepaid funds and proceeds from borrowers with fixed-price agreements and borrowers prepaying their loans. Other funds relate to refinancing of the loan types Tilpasningslån, BoligXlån and RenteMax as well as accumulated interest and principal payments on certain types of ARMs.
- Subordinate loan capital hedged with interest rate swaps.
- Strategic bonds carrying mainly floating rates.

Equity price risk on the banking book

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

Exposures in the form of strategic equities available for sale in 2011 ranged between DKK 2.0bn and DKK 3.4bn, while private equity exposures ranged between DKK 0.5bn and DKK 0.7bn.

Strategic equities comprise equities in a number of regional banks with which Nykredit cooperates, equities in certain property companies and equities in Værdipapircentralen A/S. They are classified as available for sale in accordance with IAS 39 and are therefore value-adjusted directly against equity. Nykredit's portfolio of strategic equities amounted to DKK 2.1bn at end-2011.

LIQUIDITY AND FUNDING

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

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

The Group's equity and capital market funding, excluding ROs/SDOs, are placed in liquid Danish and European government and covered bonds. These securities are eligible as collateral with Danmarks Nationalbank or other European central banks and thus directly ex-

changeable into cash. To this should be added a small portfolio of money market deposits, equities, corporate bonds and similar.

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

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

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

The graphs below show the development in liquidity reserves for the mortgage banks and Nykredit Bank determined in a stress scenario as defined by Moody's Investors Services in "Bank Financial Strength Ratings: Global Methodology". The figures show that the group companies are highly liquid for at least 12 months ahead.

Recent and future initiatives

Nykredit Bank has adjusted its liquidity risk management according to its business development and the Danish Executive Order on the governance and management of credit institutions. The legislation lays down detailed liquidity policy requirements, including requirements for liquidity stress testing and a liquidity buffer.

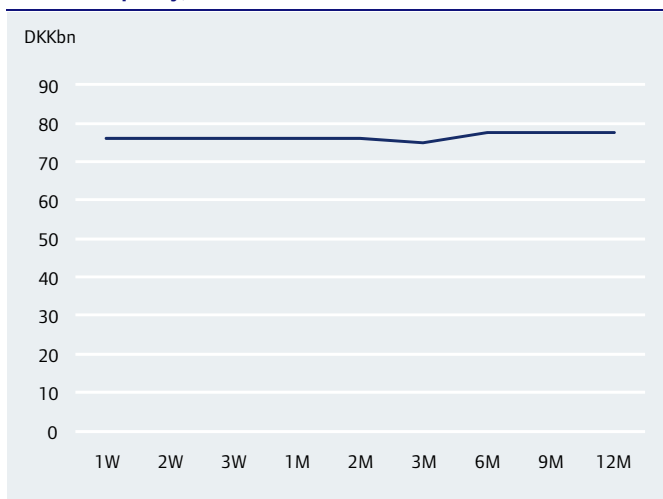
The regulatory requirements of the stock of liquid assets will change further in connection with the implementation of CRD 4.

A number of issues still need to be clarified relative to the current proposal for CRD 4, including the treatment of ROs/SDOs. On this point, Nykredit expects that the draft rules will be changed to the effect that credit institutions may continue to include ROs/SDOs in their stocks of highly liquid assets.

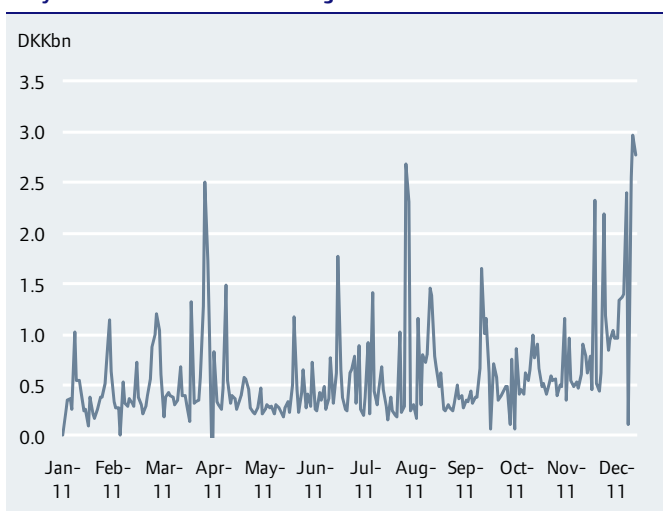
The *Liquidity Coverage Ratio* (LCR) requirement may be complied with merely through restructuring of the securities portfolio and through operational measures such as changes to the schedule of refinancing auctions which will be implemented already in April 2012 and onwards.

Implementation of the *Net Stable Funding Ratio* (NSFR) in its present form, however, will require a broader adjustment of the product range, including the popular adjustable-rate mortgage loans funded by 1Y bullets. But as the final wording of the NSFR rules has yet to be laid down, Nykredit will await the final draft of CRD 4 before initiating any major operational adaptations.

Nykredit Realkredit A/S and Totalkredit A/S 12-month liquidity, end-2011



The Nykredit Realkredit Group Daily issuance of fixed and floating-rate bonds



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

Danmarks Nationalbank introduced new liquidity measures for credit institutions in H2/2011, expanding the collateral basis to include lending of good quality. Nykredit is positive towards this initiative, but has no plans to make use of the facility due to Nykredit's robust liquidity position.

MORTGAGE LENDING

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

Despite the persisting difficult conditions in financial markets, Nykredit was able to issue bonds on a daily basis throughout 2011. The order-based market worked satisfactorily throughout the year.

At the refinancing auctions in December 2011, Nykredit issued bonds worth DKK 126bn.

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

SDOS (COVERED BONDS)

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

The Nykredit Realkredit Group Need for supplementary collateral (Capital Centres E and H)

DKKbn	2011
Present need for supplementary collateral	34.0
Total need for supplementary collateral in case of housing price drop of another 10%	68.6
Capital provided as supplementary collateral	51.6
- of which funded by way of junior covered bonds	32.9

The Nykredit Realkredit Group Issued junior covered bonds

DKKm	Maturity date	Nominal outstanding amount
JCB 11 dec (DKK)	30/12/2011	1,490
JCB 12 Apr (DKK)	01/04/2012	2,500
JCB 12 dec (DKK)	28/12/2012	1,490
JCB 13 Apr (DKK)	01/04/2013	2,000
JCB 13 Oct (DKK)	01/10/2013	5,825
JCB 14 Jan (DKK)	15/01/2014	2,000
JCB 14 Apr (EUR)	01/04/2014	3,725
JCB 14 Oct (DKK)	01/10/2014	4,500
JCB 15 Jan (DKK)	01/01/2015	2,325
JCB 16 Jan (DKK)	01/04/2016	7,000
Total		32,855

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

SDOs must satisfy certain requirements under the special SDO legislation. Among other requirements, SDOs may only be issued against security by way of one or more of the following three types of assets:

- Loans secured by mortgages on property within 80% of the value of private residential property or 60% of the value of commercial properties
- Government bonds or other claims against EU/EEA member states, etc.
- Claims on credit institutions, including guarantees for registration of mortgages free from any adverse endorsements and guarantees for interim loans in connection with new building.

At the time of granting, a mortgage loan must not exceed a certain proportion of the value of the mortgaged property pursuant to Danish legislation. Subsequently, the relationship between the mortgage debt outstanding and the value of the property will change with the amortisation of the loan and/or as a result of changes in the market value of the property or the mortgage loan.

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

Nykredit Realkredit A/S and Totalkredit A/S may raise supplementary collateral by investing part of their own portfolios or any borrowed funds in government bonds, SDOs etc, which are placed as cover assets in the SDO Capital Centres E and H. In addition, Nykredit Realkredit A/S and Totalkredit A/S may provide supplementary security by using guarantees, including intercompany guarantees.

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

The requirement for supplementary collateral was DKK 34bn at end-2011. The total requirement for supplementary collateral may potentially increase to DKK 68.6bn if housing prices drop by an additional 10%. The requirement for supplementary security should be seen in relation to Nykredit's capital base in excess of DKK 59bn and issued junior covered bonds (JCBs) of nearly DKK 33bn. To this should be added the option provided by law to use guarantees, including intercompany guarantees. Nykredit has currently not availed itself of this option.

To reduce the requirement for supplementary security on a decrease in housing prices, Nykredit will introduce combined mortgaging for retail customers in H1/2012. Part of total mortgaging – probably up to 60% – is still subject to the rules for SDOs, while the top part up to 80% is subject to the rules governing traditional mortgage bonds.

The funds satisfying the requirement for supplementary security are generally placed in government bonds and SDOs that are directly eligible as cover assets.

SUSTAINABLE MORTGAGE LENDING

In the summer of 2011, Nykredit resolved to introduce various operational changes to ensure Nykredit's financial sustainability and thereby the access to credit for the Group's customers.

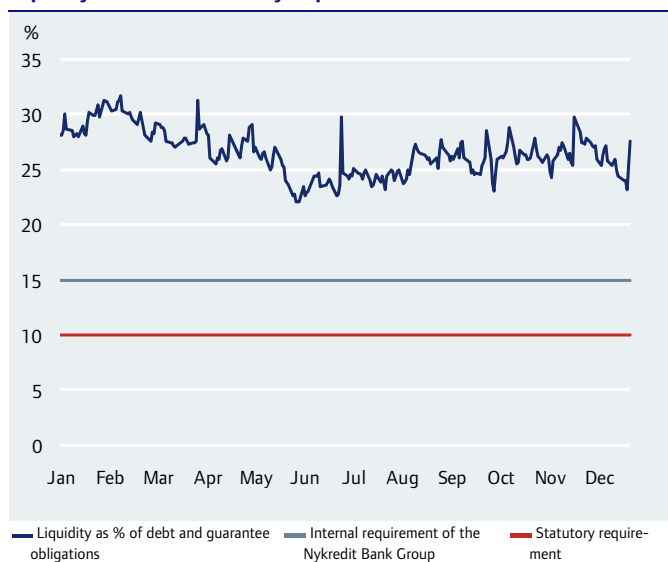
The changes were triggered by several factors:

- Firstly, the international rules on liquidity and capital are changing.
- Secondly, in summer 2011 Moody's changed its assessment of the risks involved in the refinancing of adjustable-rate mortgages, resulting in significantly higher requirements for supplementary collateral to maintain current ratings.
- Thirdly, the requirement of supplementary collateral for SDOs upon falling property prices in times of financial market turmoil may, according to Danmarks Nationalbank, render it difficult to sell junior covered bonds, which fund the supplementary collateral.

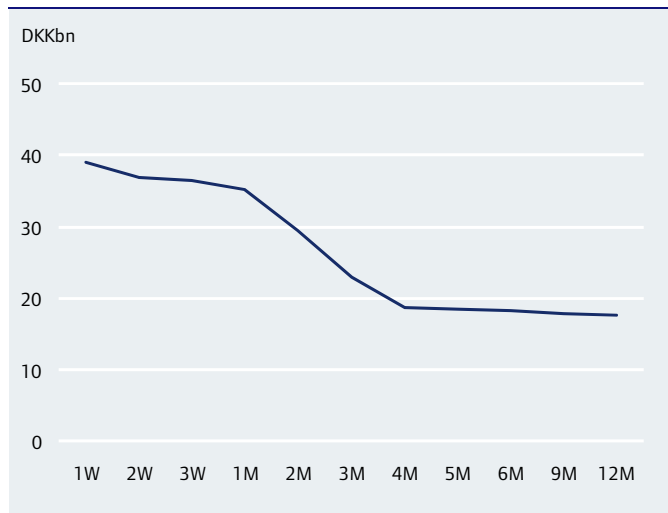
The funding and liquidity measures are:

- Establishment of Capital Centre H for the funding of ARMs and other loans subject to refinancing. Capital Centre H was rated AAA

**The Nykredit Bank Group
Liquidity relative to statutory requirement 2011**



**Banking operations
Liquidity stress testing (Moody's Global Methodology)**



by Standard & Poor's and Aa1 by Moody's in consequence of its changed assessment method.

- Combined mortgaging will be introduced for Retail Customers in H1/2012 so that the part of a mortgage – probably up to 60% – will still be subject to SDO rules, while the top part up to 80% will be subject to the rules governing traditional mortgage bonds, ROs. This will mitigate the supplementary collateral requirements in case of declining property prices. Nykredit introduced combined mortgaging for Commercial Customers already in 2009.

BANKING

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

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

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

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

At end-2011, the excess cover was 176% against 251% at end-2010, corresponding to a liquidity buffer of DKK 41.2bn compared with DKK 54.7bn at end-2010. In 2011 the liquidity buffer averaged DKK 31.3bn compared with DKK 49.8bn for 2010.

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

The Bank's long-term funding activities progressed as planned, with EMTN issues totalling DKK 13.9bn at 31 December 2011.

Further, the Bank continued its current refinancing of short-term ECP issues, which totalled DKK 11.9bn at 31 December 2011.

The aggregate amount issued under the ECP and EMTN programmes was DKK 25.8bn at 31 December 2011 against DKK 32.4bn at end-2010.

OPERATIONAL RISK

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

Nykredit's capital requirement for operational risk is determined using the basic indicator approach. This means that the capital charge is calculated as 15% of average gross earnings of the past three years. The capital charge for operational risk was DKK 1.5bn throughout 2011.

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

The business areas are responsible for the day-to-day management of operational risk. Operational risk management activities are coordinated centrally to ensure consistency and optimisation across the Group. The Group strives always to limit operational risk taking into consideration the costs involved.

Nykredit systematically records and categorises operational loss events to create an overview of loss sources and gain experience for sharing across the organisation. In respect of all loss events over a certain amount depending on the business area, information is recorded about the event, product, process and risk type, as well as information on any insurance cover and time consumption relating to the event. Furthermore, the experience database with operational events is applied in the product development phase of new products.

Business contingency plans ensure constant and secure operations in case of a shutdown of the IT supply or other emergencies.

As a consequence of the legislative framework for mortgage banking, which accounts for the majority of the Group's activities, and the highly standardised mortgage products, the operational risk relating to this area is inherently limited.

This document is an English translation of the original Danish text. In the event of discrepancies between the original Danish text and the English translation, the Danish text shall prevail.

Appendix: comparative tables

The Nykredit Realkredit Group

Credit exposures and capital charge

2010 DKK million	Mortgage lending	Bank lending	Guarantees issued	Other	Total exposures	Of which undrawn commitments	Exposure- weighted avg risk weight %	Capital charge for credit risk
Retail exposures	656,462	22,446	5,608	-	684,516	9,193	13.4	7,327
Of which								
- mortgages on property	656,462	15,107	380	-	671,948	6,477	12.9	6,922
- revolving exposures, etc	-	4,369	0	-	4,369	1,951	17.6	62
- other retail exposures	-	2,970	5,228	-	8,198	764	52.4	343
Commercial exposures	332,485	77,604	9,412	-	419,501	16,997	38.4	12,883
Credit institution exposures	28,773	-	584	49,135	78,493	944	19.9	1,247
Sovereign exposures	25,290	-	-	15,240	40,530	23	0.0	0
Equity exposures	-	-	-	4,747	4,747	-	293.7	1,115
Securitisations	-	-	-	350	350	-	1,325.0	371
Assets with no counterparty	-	-	-	4,075	4,075	-	100.0	326
Total 2010	1,043,011	100,050	15,603	73,546	1,232,211	27,158	23.6	23,269
Total 2009	997,596	88,061	23,354	78,779	1,187,791	27,814	25.0	23,728

The Nykredit Realkredit Group

Credit exposures by maturity

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

The Nykredit Realkredit Group

Credit exposures by maturity

2010 DKK million	Retail customers	Non-profit housing	Private resi- dential rental	Office and retail	Agriculture	Industry and trades	Other	Total exposures
Retail exposures	639,952	957	12,328	6,731	22,883	1,665	0	684,516
Of which								
- mortgages on property	628,114	955	12,167	6,573	22,799	1,340	-	671,948
- revolving exposures, etc	4,260	0	23	16	19	52	-	4,369
- other retail exposures	7,578	2	138	142	65	274	-	8,198
Commercial exposures	-	47,763	114,270	121,676	85,125	50,667	-	419,501
Credit institution exposures	-	-	-	-	-	-	78,493	78,493
Sovereign exposures	-	-	-	-	-	-	40,530	40,530
Equity exposures	-	-	-	-	-	-	4,747	4,747
Securitisations	-	-	-	-	-	-	350	350
Assets with no counterparty	-	-	-	-	-	-	4,075	4,075
Total 2010	639,952	48,720	126,597	128,407	108,008	52,333	128,194	1,232,211
Total 2009	577,996	35,851	161,741	69,398	89,086	91,340	162,378	1,187,791

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

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

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

¹ Pursuant to section 70(5) of the Executive Order on Capital Adequacy, the exposure-weighted average LGD for retail exposures secured by mortgages on property must be at least 10% in the calculation of the capital charge. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the 10% requirement, cf section 70(5) of the Executive Order.

² The calculation of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions.

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

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

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

¹ Pursuant to section 70(5) of the Executive Order on Capital Adequacy, the exposure-weighted average LGD for retail exposures secured by mortgages on property must be at least 10% in the calculation of the capital charge. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the 10% requirement, cf section 70(5) of the Executive Order.

² The calculation of the capital charge for exposures in default is based on the difference between LGDs and individual impairment provisions.

The Nykredit Realkredit Group Types of security and credit exposures

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

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

¹ The collateral value of property has been determined at nominal value. The figures reflect the secured part of the exposure.