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## Danish Mortgage Bonds (Realkreditobligationer): Highly Secure Financial Instruments

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### Rating Methodology

#### Summary Opinion

Danish mortgage bonds or *realkreditobligationer* are supported by Denmark's extremely strong legal framework and can only be issued by authorised Danish mortgage credit institutions. These mortgage credit institutions in turn benefit from a **strong position and solid fundamentals**, but operate in a **well-penetrated and low-margin market**, with product innovation and distribution capabilities the only way to compete. **Overall, Moody's believes that Danish mortgage bonds are very strong and very low-risk financial instruments.**

Denmark's rated mortgage credit institutions represent a well-established brand with a significant presence in the market. They have a strong domestic franchise in most of the mortgage lending segments – apart from Totalkredit, which solely targets residential lending. At the same time, the Danish mortgage market's low margins and high efficiency represent effective barriers to entry for new players. **In addition, the mortgage credit institutions are all very cost-efficient and benefit from a diversified distribution network. Moreover, they enjoy solid asset quality, and the maintenance of adequate capital levels is enshrined in Danish law.**

**However, Denmark's mortgage institutions operate in a well-penetrated market that offers limited growth.** Mortgage loans are very much a commoditised product in Denmark with relatively low margins. Mortgage credit institutions therefore compete by product innovation and distribution capabilities. In view of the low margins and growth opportunities, the mortgage institutions' focus is on cost reduction and efficiency.

**The Danish legal system contains very detailed and restrictive regulation in support of the mortgage bonds issued by the country's mortgage credit institutions.** The main principle of low risk for investors, as established in the 1850 law, is still the cornerstone of Danish law. The global balance principle ensures the closest possible match between mortgage loan payments and the bonds issued, thus keeping risks down. Moreover, the mortgage bonds are legally ring-fenced from the mortgage credit institutions' creditors and therefore bankruptcy-remote.

*continued on page 3*

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# Danish Mortgage Credit Institutions Are Efficient Specialised Lenders With An Almost Completely Commoditised Product

## STRENGTHS

- Operating within an extremely strong legal framework
- Well established brand with important presence in the market
- Strong domestic franchise in most of the mortgage lending segments – apart from Totalkredit who solely targets residential lending
- All are very cost efficient
- Diversified distribution network
- Solid asset quality
- Well capitalised
- The Danish mortgage market due to its low margins and high efficiency is difficult to access for new entrants

## CHALLENGES

- Limited growth in a well-penetrated market
- Mortgage loans are very much a commoditised product in Denmark with relatively low margins. Mortgage credit institutions compete by product innovation and distribution capabilities
- With low margins and growth opportunities, the focus is on cost reduction and efficiency

## MORTGAGE BONDS REPRESENT SIZEABLE PORTION OF THE DANISH AND EUROPEAN BOND MARKETS

In Denmark, only authorised mortgage credit institutions are allowed to issue bonds secured on real properties, *realkreditobligationer* (mortgage bonds), which represent approx. two third of the total outstanding bonds in Denmark. In addition, the rated mortgage bonds from the country's five largest institutions represent approximately 95% of the total mortgage bond market.

The Danish mortgage bond market is the second largest in Europe with a total size of €165 billion. Only the German *Pfandbriefe* market is larger with €1,053 billion of issuance, but this also includes 892 billion bonds backed by public sector loans. However, in per capita terms, the Danish mortgage market is by far the largest in the world at €31,208 per capita (German mortgage market equates to €3,012 per capita).

## RATED MORTGAGE BONDS ISSUED REPRESENT 95% OF THE TOTAL MARKET

Of Denmark's eight mortgage credit institutions, Moody's rates the mortgage bonds of the five largest. All five institutions have a fundamental rating, only two of which are public. The other three ratings are used internally in connection with the assignment of ratings to the secured bonds issued by the mortgage credit institutions.

Denmark has two main types of mortgage credit institution: the old mortgage credit institutions that are not attached to banks (Nykredit and BRFKredit) and the new mortgage credit institutions (Totalkredit, Nordea Kredit and Realkredit Danmark), which have a bank ownership structure. In 1989 the law was amended to allow banks to own mortgage credit institutions and many of the new mortgage credit institutions were established shortly thereafter.

Realkredit Danmark used to be one of the old-type mortgage credit institutions but has since 1. January 2001 been part of Danske Bank Group. Danske Bank A/S is rated Aa2/B+/P-1. At the same time Danske Realkreditaktieselskab and BG Kredit A/S was merged into Realkredit Danmark.

Name of institution	Fundamental Rating	Secured debt issued by	Secured rating
Nykredit	Short-term debt rating P-1	Capital Centre D	Aa1
Nykredit	Short-term debt rating P-1	General Capital Centre and Capital Centre C	Aa2
Realkredit Danmark	Not public	General Capital Centre and Capital Centre C	Aaa
Totalkredit	Long-term subordinated debt rating A1	Capital Centre C	Aaa
BRFKredit	Not public	General Capital Centre	Aa2
Nordea Realkredit	Not public	General Capital Centre	Aa1

## STRONG DOMESTIC FRANCHISE WITH A WELL-ESTABLISHED BRAND

All the mortgage credit institutions that have rated mortgage bonds also have high and defensible market shares. **The total mortgage bond market has been stable over recent years, the main increases being due to property value increases and it is difficult to see major pockets of growth in the various segments.** Consequently, Moody's expects competition to continue to be fierce.

Market shares, Gross lending	1992	1995	1998	2001
BRFkredit	17.7	10.8	12.7	9.6
Others	4.7	2.7	7.6	4.1
Nordea Kredit		9.2	9.2	11.9
Nykredit	47.1	40.9	32.3	29.2
Realkredit Danmark (incl Danske Kredit)	26.0	30.9	30.4	32.9
Totalkredit	4.5	5.5	7.8	12.3

Source: Realkreditrådet

## CONVERSIONS HAVE PLAYED A MAJOR ROLE

**Until 2001, the majority of all Danish mortgage loans had been fixed-rate annuity loans.** However, this picture has been changing and in 2001 the figures for new lending through floating-rate mortgage loans exceeded the fixed-rate loans for the first time. **Irrespective of the interest rate type, a customer can prepay a mortgage loan at any time by purchasing the bonds in the market, or prepay a mortgage loan by paying the par value in cash if a callable bond has been used to finance the mortgage loan.** The mortgage credit institution will receive a pre-payment fee to cover administrative cost in relation to the prepayment. A sale of property will not necessarily trigger prepayments as the new owner can take over the outstanding mortgage loan.

For the last two hundred years, almost all property in Denmark has been financed through mortgage loans issued by mortgage credit institutions. Due to the property owner's option to prepay the mortgage at any time, conversions (i.e. remortgagings) play a big role when interest rates are going down.

Mortgage credit institutions attached to banks have historically had a market advantage in this situation: this is because the bank typically has closer and more regular contact with the customer and it is therefore easier for a bank to suggest the conversion of mortgage loans.

## MULTI-DISTRIBUTION CHANNELS ARE IMPORTANT

All of the mortgage credit institutions offer their products through as many **distribution channels as possible, including telephone, Internet banking and real estate agents.** The bank-owned mortgage credit institutions, such as Realkredit Danmark and Nordea Kredit, also use the **branch network of the parent bank** and Nykredit uses its own bank network as distribution channels. In addition to this Realkredit Danmark has its own branches. The main distribution channels of BRFkredit are the government-authorized real-estate agents in Denmark's largest real estate agent chain, EDC. Nykredit and Realkredit Danmark also use real estate agents to distribute the loans – the real estate members of Nybolig for Nykredit and Home for Realkredit Danmark. Totalkredit relies on its shareholders – 102 regional Danish banks – to originate mortgage loans.

After the legal changes in 1989 started allowing banks to own mortgage credit institutions, the old mortgage companies Nykredit, Realkredit Danmark and BRFkredit lost market share to the new bank-owned companies. Nykredit suffered most as its distribution agreement with BG bank – Denmark's third largest bank, which is now merged with Danske Bank – was terminated in the middle of the fierce struggle for market share. Nevertheless, Nykredit's market share was extremely high at the time when BRF and Realkredit Danmark were experiencing difficulties in the early 1990s. Nykredit has enhanced and improved its distribution capability and has managed to retain a market share of around 23% of total new lending. With the announced co-operation between Nykredit and Jyske Bank, Denmark's third largest financial institution (rated A1) in February 2002 Nykredit has further strengthened its distribution capacity.

## FOCUS ON PRODUCT DEVELOPMENT IS PART OF A DEFENSIVE STRATEGY TO RETAIN CUSTOMERS

Since the overall size of the Danish mortgage market has remained relatively stable, most of the mortgage credit institutions have been working on **developing new mortgage products** to attract and retain their customers. The Danish mortgage market has therefore been moving from offering only a couple of loan types towards a wider range of mortgage loan products, such as euro-loans, loans with variable rates, reverse mortgages, to mention a few.

Due to the strict balance principle enshrined in the Danish mortgage law, these instruments **do not represent a large funding or liquidity risk for the mortgage credit institution**. Some of them may prove to be more risky for the borrowers, as they will bear the brunt of the exposure to currency risks and interest rate risk going forward. In case of a slowdown in the economy, this may further strain the repayment ability of the residential as well as the corporate borrowers and thus **potentially lead to an increase in non-performing loans**.

## DESPITE LOW PROFITS, FINANCIAL FUNDAMENTALS ARE SATISFACTORY

All of the Danish mortgage credit institutions display satisfactory financial fundamentals, although **profits are low due to the low fees involved** in the high-volume business. Due to the balance principle, the mortgage credit institutions are not affected by the changing interest environment, and the fees are agreed at a fixed basis at the start of the mortgage and continue throughout the life of the mortgage. The mortgage credit institutions could increase these administrative fees if necessary, but due to the strong competition the fee differences among mortgage credit institutions are minimal – fees are currently at around 0.5%.

The institutions' recurring albeit low earning power has improved slightly over the past year. After several years of investments in technology, most mortgage credit institutions have managed to **improve their cost efficiency** – with the exception of Totalkredit, which has a very low cost efficiency ratio at 18% due to its set-up as a service provider to the regional banks. This is not the case with other branches or other types of distribution networks.

## SOUND ASSET QUALITY BASED ON HISTORICALLY LOW LEVELS OF ARREARS AND LOSSES

**Non-performing loans are currently at a historic low of between 0.02% and 0.12% of total loans**, which include residential mortgages as well as loans to industry and agriculture.<sup>1</sup> Due to the benign economic climate, these levels have steadily improved over recent years.

**Totalkredit is only exposed to residential investors and therefore shows the lowest levels of non-performing loans**. In addition, Totalkredit also has a range of protections against non-performing loans. Each of its 102 originating banks is liable for any loan loss on mortgages for the first eight years of the loan-to-value over 60%. Moreover, all of the banks cross-guarantee for all of Totalkredit's other loan losses up to 1% of total loan portfolio. Totalkredit even has a third-party guarantee of 0.5% of the total loan portfolio which kicks in if the above-mentioned support mechanisms are not sufficient.

Guarantees from parent banks are widespread for loans originated by the parent bank. The parent bank will typically cover losses incurred within the 20% of the outermost 20% of the maximum loan-to-value on residential mortgages.

The other mortgage credit institutions have a mixture of residential lending (from 40 to 80% of the total portfolio), social housing, agriculture, offices and industry. The levels of non-performing loans are therefore higher than for Totalkredit.

The mortgage credit institutions now also benefit from much tighter credit assessment procedures compared with the 1980s when the non-performing loans were at relatively high levels. **Provisioning is ample, as is widely the case in Denmark**.

## INVESTMENT RISK IS LIMITED AND UNDERPINNED BY LEGAL RESTRICTIONS

Danish mortgage credit institutions are restricted to investing minimum 60% at most of their liable capital and cash flows in relation to payments under the mortgage bonds in listed bonds. Although this opens up the possibility of investments in equity, which may be more volatile than the bond investments, this risk is mitigated by the legal limits for allowed risk levels for mortgage credit institutions (see below).

## GOOD CAPITAL LEVELS ENSHRINED BY LAW

Mortgage credit institutions have **general reserves as well as additional reserves that are specially targeted at the individual mortgage bonds series**. These funds are built up from the administrative fees that are paid by the borrowers to the mortgage credit institutions.

Due to the strict mortgage credit institution regulation, all Danish mortgage credit institutions have good capital levels and, apart from a few subordinated loans, the institutions have not raised hybrid capital. **By law the capital of a mortgage institution has to amount to at least 8% of its risk-weighted assets and off-balance sheet items**. Capital levels are controlled several times a year by the supervisory authority.

1. Please note that these percentages measure actual payments missed and are not based on the underlying balance of the loan.

# In View Of The Strong Legal Framework, Moody's Uses A Credit Enhancement Of Up To Three Notches For Realkreditobligationer

## STRENGTHS

- Extremely strong, very detailed and restrictive legal framework
- The main principle of low risk for investors that was established in the 1850 law is still the cornerstone behind the law
- The global “balance principle”
- The mortgage bonds are bankruptcy remote from the mortgage credit institutions’ creditors

## CHALLENGES

- A mortgage institution can enter into accessory activities to the mortgage business.

## ACTIVITIES OF MORTGAGE CREDIT INSTITUTIONS ARE LEGALLY SPECIFIED

According to Danish law, **only mortgage credit institutions are allowed to finance loans against mortgages on real property by issuing mortgage bonds**. A mortgage company may also issue bonds that are not covered by mortgages – for instance, subordinated debt – as it has been the case with some of the Danish mortgage credit institutions.

**A mortgage credit institution may enter into other activities**, but only if they are considered supplementary to the mortgage activities. The supervisory authority may decide that these activities have to take place in a subsidiary. For instance, owning a bank, an insurance company or a real estate agent chain.

## LOAN-TO-VALUE HAS VARYING UPPER LIMITS DEPENDING ON THE TYPE OF PROPERTY

**A mortgage credit institution can issue loans backed by any type of property, but there are different loan-to-value criteria in place depending on property type.** A limit of 80% loan-to value is in place for residential mortgages, subsidised social housing and private rental. The limit is lower for weekend homes, offices and industrial premises at 60% and loan-to-value on land is 40%. The supervisory authority have issued detailed regulations for the assessment of the market cash value of properties.

## REALKREDITOBLIGATIONER MIRROR THE TERMS OF THE UNDERLYING MORTGAGE LOANS

**Mortgage bonds generally mirror the terms of the underlying mortgage loans as regards the nominal amount, coupon and other terms.** The mortgage bonds are issued in series, each of which is based on a group of mortgage deeds. These mortgage deeds have to be registered on the real estate in the Land registry. Some of the old mortgage credit institutions have gathered several mortgage series in so-called capital centres. **Regulations for asset-liability management and capital have to be met both on a capital centre basis as well as for the whole mortgage credit institution.**

## JOINT AND SEVERAL LIABILITY BY THE BORROWERS IS BECOMING LESS PREVALENT

**All borrowers have to provide a security on their properties.** For mortgage bonds issued before 1981, the **borrowers would in addition be severally and jointly liable** for the liabilities of the series. This was enhanced in 1981 to apply across series as well. The borrowers’ liability would not be for the total amount of mortgage bonds, but would at most be equivalent to the value of the borrowers’ property. The several and joint liability was only in relation to mortgage bond investors. The change in regulations for calculating capital in mortgage companies changed with effect from January 2001, so several and joint liabilities will not be counted towards the capital base. **More and more bonds have therefore been issued without the several and joint liability of the borrowers.**

## NON-PAYMENT BY BORROWERS TRIGGERS RECOVERY PROCESS AND COULD RESULT IN FORECLOSURE

Non-payment on the part of the borrower triggers a regulated process, which may end with a foreclosure on the property. In such a case, any losses for the asset pool will be written down in the reserves or capital of the individual capital centre.

## ASSET LIABILITY MANAGEMENT IS FACILITATED BY THE BALANCE PRINCIPLE

Until 1989 the mortgage credit institutions had to follow a strict balance principle – i.e. there should be a perfect matching between the issued bonds and the mortgage loans with respect to maturity and interest rates. Due to practical reasons the strict balance principle was changed to **the new global balance principle, where it is possible to deviate by up to 1% of the mortgage credit institutions' capital base.**

- **The balance principle (interest management).** Interest risk due to cash flow differences may amount to a maximum of 1% of the equity capital. Interest risk has to be calculated as the worst-case scenario of six calculations as specified in the executive order issued by the supervisory authority. These regulations are the most detailed and restrictive Moody's has seen so far and therefore provide significant support for the Danish mortgage system.
- **Currency risk.** The currency risk is calculated on the basis of total on- and off-balance sheet items and may not exceed 0.1% of equity capital.
- **The balance principle (liquidity management).** Net present value of in- and outgoing payments connected with issued bonds, future payments, other securities and financial instruments shall be calculated on a daily accumulated and discounted basis for different periods into the future. Future liquidity deficits may not exceed 25% of the mortgage credit institutions' equity capital in year one to three. For years 4-10 it is 50% of the mortgage credit institutions equity capital and 100% from year 11.

## MORTGAGE BOND SERIES ARE RING-FENCED FROM THE ISSUING CREDIT INSTITUTION'S OTHER ACTIVITIES

The mortgage bonds are secured on mortgages and ring-fenced by law from the general business of the mortgage credit institution. **This means that if a mortgage credit institution has problems paying its general liabilities, this will only in exceptional cases affect the mortgage bonds as they are segregated from the mortgage credit institution's other business.**

**The Danish supervisory authorities have wide-ranging powers** in relation to mortgage credit institutions given their importance for the Danish financial market. As mentioned above, the supervisory authority controls that the capital levels follow the rules – this happens at least four times a year. If the capital is inadequate, the supervisory authority can request the situation to be mended within a given deadline, either in the form of the company obtaining additional capital, or by ceasing lending activities or finding a suitable partner.

The mortgage credit institutions' creditors are not entitled to any security attached to mortgage bonds nor do they have the right to accelerate the mortgage bonds.

As the bonds issued are secured by collateral, **a mortgage bond series would only face difficulties in the event of major asset quality problems.** Such problems would have to be addressed by using up all the reserves in the series and the 8% required capital before affecting the mortgage bonds.

The Danish market has a long and very well-documented history and no bankruptcy or liquidation – either at the series level or at the mortgage credit institution level – has ever taken place.

## Appendix

### One of the oldest mortgage financing systems in the world

The Danish mortgage finance system, among the oldest in the world, has been **in existence since 1797** when the first mortgage credit institution was set up to provide finance to homeowners who had lost their homes in the Great Fire in Copenhagen two years earlier.

The idea behind the establishment of mortgage finance associations was that borrowers could obtain more favourable financing if they grouped together and formed credit associations. The mortgage institution would issue mortgage bonds secured by property and the several and joint liability by the homeowners. **The cornerstone for the first mortgage law, as established in 1850, was to protect investors against risk and thereby create cheap funding for the homeowners.** Throughout Denmark's history, the **balance principle** (which stipulates the closest possible match between mortgage loan payments and the bonds issued) has been an important aspect of Danish mortgage law to protect investors from financial risks.

There has only ever been one late payment on a mortgage bond in the system's more than 200-year history: it occurred in 1933 and involved a specialised mortgage lender to agriculture in a specific region in Denmark. Investors ultimately did receive full payment.

This system is still the basis for the activities of today's Danish mortgage institutions; however, modifications to the ownership structure as well as financing methods have occurred since the system's inception almost 200 years ago. Mortgage institutions cannot take deposits and are regulated by the financial supervisory authority. **Since the first law was established in 1850, there have been a few amendments to the legal system, most recently in 1970 and in 1989.** In addition, there have been a few smaller corrections in 1998 and 2000.

The law change in 1970 triggered market consolidation among four residential mortgage lenders; Kreditforening Danmark (now Realkredit Danmark), Byggeriets Realkreditfond (now BRF), Jyllands Kreditforening and Forenede Kreditforeninger (merged in 1985 to form Nykredit). **A further change in 1989 allowed banks to establish mortgage credit institutions – which most of the banks promptly did.**

There are currently discussions in Denmark about collecting all laws concerning financial institutions, mortgages and insurance into one single set of laws. This would, however, not change the balance principle, which is firmly rooted in the Danish system, or the way mortgage credit institutions are allowed to operate.

## Peer Statistical Comparison

	Nordea Kredit 31/12/01	Realkredit 31/12/01	Nykredit 31/12/01	Totalkredit 31/12/01	BRFKredit 31/12/01
<b>Summary Balance Sheet (DKK million)</b>					
Cash & central bank	-	6	164	0	5
Due from banks	16,148	35,780	46,914	11,297	10,985
Securities	11,751	106,708	107,220	4,013	18,285
Gross loans	100,049	449,068	418,691	104,965	131,297
Loan loss reserves (LLR)	1	(521)	(1,550)	--	(500)
Insurance assets	-	-	-	-	-
Fixed assets	6	717	1,703	3	325
Other assets	826	6,885	6,370	111	1,358
Total assets	128,781	598,643	579,512	120,389	161,755
Total assets (USD million) [1]	15,267	70,969	68,701	14,272	19,176
Total assets (EUR million)	17,245	80,164	77,602	16,121	21,661
<b>Demand deposits</b>	-	-	8,651	-	-
Savings deposits [2]	-	-	-	-	626
Due to banks	4,752	22,222	47,944	-	334
Market funds	116,060	536,352	467,459	114,288	148,647
Insurance liabilities	-	-	-	-	-
Other liabilities	2,534	16,815	22,635	2,133	3,392
Total liabilities	123,346	575,389	546,689	116,421	152,999
Subordinated debt	-	-	-	1,364	919
Shareholders' equity	5,435	23,254	32,823	2,604	7,837
Total capital funds	5,435	23,254	32,823	3,968	8,756
Total liabilities & capital funds	128,781	598,643	579,512	120,389	161,755
Derivatives - notional amount	2,727	123,328	32,578	--	1,108
Derivatives - replacement value	--	--	--	--	--
Contingent liabilities	--	123	5,914	16	175
Risk weighted assets (RWA)	51,872	232,771	286,323	38,955	68,992
Assets under management (EUR million) [3]	-	--	--	--	--
Number of employees	117	954	2,564	50	578
<b>Summary Income Statement</b>					
+Interest income	6,812	28,621	28,581	6,197	8,377
-Interest expense	6,069	27,177	26,223	6,083	7,906
=Net interest income	743	1,444	2,358	115	471
+Trading income	31	194	(23)	66	(202)
+Fee & commission income	(234)	2,105	2,392	158	685
+Insurance income (net)	-	-	-	-	-
+Other operating income	-	183	220	2	51
=Operating income	540	3,926	4,947	341	1,005
-Personnel expenses	61	623	1,293	31	290
-Other operating expenses	78	790	916	64	310
= Operating funds flow	401	2,513	2,738	246	405
-Amortisation/depreciation	1	21	114	3	64
(Total operating expenses)	140	1,434	2,323	97	664
=Preprovision income (PPI)	400	2,492	2,624	244	341
-Loan loss provisions	1	(33)	84	(0)	35
+Other non operating adjustments [4]	-	23	(25)	1	2
+Extraordinary profit / loss	-	-	-	-	-
=Pretax income	399	2,548	2,515	245	308
-Taxes	-	621	688	66	59
=Net income	399	1,927	1,827	179	249
-Minority interests	-	-	-	-	-
=Net income (group share)	399	1,927	1,827	179	249

## Peer Statistical Comparison

	Nordea Kredit 31/12/01	Realkredit 31/12/01	Nycredit 31/12/01	Totalkredit 31/12/01	BRFkredit 31/12/01
<b>Growth Rates (%)</b>					
Gross loans	14.83	31.07	4.91	23.44	5.89
Total assets	33.15	41.35	13.77	34.11	15.27
Customer deposits (demand and savings)	--	--	(8.77)	--	42.60
Net interest income	16.82	41.49	10.50	122.02	13.77
Fee and commission income	(5.26)	26.88	13.15	35.26	12.85
Operating expenses	18.64	3.74	4.17	20.57	(1.45)
Preprovision income	24.61	58.65	8.79	105.29	(50.45)
Net Income	24.30	69.39	4.16	113.73	(58.09)
<b>Income Statement in % Average Risk Weighted Assets</b>					
Net interest income	1.47	0.70	0.87	0.33	0.72
Trading income	0.06	0.09	(0.01)	0.19	(0.31)
Fee and commission income	(0.46)	1.01	0.88	0.45	1.04
Insurance income	-	-	-	-	-
Operating income	1.06	1.89	1.82	0.98	1.53
Operating expenses	0.28	0.69	0.85	0.28	1.01
Preprovision income	0.79	1.20	0.97	0.70	0.52
Loan loss provisions	0.00	(0.02)	0.03	(0.00)	0.05
Extraordinary profit	-	-	-	-	-
Net income	0.79	0.93	0.67	0.51	0.38
<b>Liquidity, Funding (including sub debt) &amp; Balance Sheet Composition</b>					
Avg. liquid assets % avg. total assets	16.53	21.63	23.78	9.51	15.01
Avg. gross loans % avg. total assets	83.00	77.45	75.10	90.41	84.51
Avg. customer deposits % avg. total funding	-	-	1.84	-	0.38
Avg. interbank funds % avg. total funding	2.58	2.98	8.85	-	0.13
Avg. market funds (excl. interbank) % avg. total funding	97.42	96.71	89.31	99.08	98.83
Avg. sub debt % avg. total funding	-	0.31	-	0.92	0.66
Avg. liquid assets % avg. customer deposits	--	--	--	--	4,256.90
Avg. gross loans % avg. customer deposits	--	--	--	--	23,971.36
Avg. market funds reliance [5]	89.86	88.96	75.83	94.76	90.92
Avg. RWA % avg. total assets	44.97	40.59	49.92	33.17	43.43
<b>Breakdown of Operating Income in %</b>					
Net interest income % operating income	137.59	36.78	47.67	33.59	46.87
Trading income % operating income	5.74	4.94	(0.46)	19.46	(20.10)
Fee & commission income % operating income	(43.33)	53.62	48.35	46.41	68.16
Insurance income % operating income	-	-	-	-	-
Other operating income % operating income	-	4.66	4.45	0.54	5.07
<b>Profitability</b>					
Yield on avg. earning assets (%)	6.07	5.65	5.31	5.90	5.59
Cost of interest bearing liabilities (%)	5.76	5.69	5.32	6.03	5.64
Net interest margin (%)	0.66	0.29	0.45	0.11	0.33
Recurring earning power (PPI % avg. assets)	0.35	0.49	0.48	0.23	0.23
Risk-weighted recurring earning power (PPI % avg. RWA)	0.79	1.20	0.97	0.70	0.52
Return on average assets (%)	0.35	0.38	0.34	0.17	0.16
Return on avg. RWA (%)	0.79	0.93	0.67	0.51	0.38
Return on equity (period end) (%)	7.34	8.29	5.57	6.88	3.18
Net interest income coverage of loan loss provisions	743.00	(43.76)	28.07	(437.36)	13.46
Loan loss provisions % preprovision income	0.25	(1.32)	3.20	(0.11)	10.26
Internal capital growth (%)	7.92	11.13	5.90	8.23	3.28
Dividend payout ratio (%)	-	-	-	-	-

## Peer Statistical Comparison

	Nordea Kredit 31/12/01	Realkredit 31/12/01	Nykredit 31/12/01	Totalkredit 31/12/01	BRFkredit 31/12/01
<b>Efficiency</b>					
Cost/income ratio (operating expenses % operating income)	25.93	36.53	46.96	28.57	66.07
Operating expenses % average assets	0.12	0.28	0.43	0.09	0.44
Operating income / employee (DKK thousand)	4,615.38	4,115.30	1,929.41	6,823.36	1,738.75
Operating expenses / employee (DKK thousand)	1,196.58	1,503.14	906.01	1,949.28	1,148.79
PPI / employee (DKK thousand)	3,418.80	2,612.16	1,023.40	4,874.08	589.97
Total assets / employee (DKK million)	1,100.69	627.51	226.02	2,407.77	279.85
<b>Asset Quality and Risk Measurement</b>					
Problem loans % gross loans	0.03	0.06	0.09	0.03	0.17
LLR % problem loans	(2.94)	186.74	395.41	--	223.21
LLR % gross loans	(0.00)	0.12	0.37	--	0.38
Loan loss provisions % gross loans	0.00	(0.01)	0.02	(0.00)	0.03
Problem loans % (shareholders' equity + LLR)	0.63	1.17	1.14	--	2.69
Replacement value % shareholder's equity	--	--	--	--	--
<b>Capital Adequacy (Period End)</b>					
Tier 1 ratio (%)	10.50	9.91	11.40	6.70	11.20
Total capital ratio (%)	10.50	10.06	11.10	10.20	12.50
Shareholders' equity % total assets	4.22	3.88	5.66	2.16	4.84
Equity participations % shareholders' equity	0.07	1.15	3.38	0.12	1.28

[1] USD figure uses historical exchange rate against the DKK.

[2] Full disclosure may not be available for all years. The amount is then included in "demand deposits".

[3] As reported by the bank

[4] This may include value adjustments of securities.

[5] Avg. [(market funds-liquid assets) % (earning assets-liquid assets)]

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