Risk and Capital Management

2023

Nykredit

Contents

Disclosure requirements

This report has been prepared in accordance with the legal disclosure requirements laid down in the EU's Capital Requirements Regulation (CRR) and, combined with supplementary data material, it meets the requirements. The supplementary data material is available at nykredit.com.

The report covers the Nykredit Group, including the Nykredit Realkredit Group. Besides the Nykredit Realkredit Group, the Nykredit Group includes the company Nykredit A/S. The sole activity of Nykredit A/S is its ownership of Nykredit Realkredit A/S. The Nykredit Realkredit Group is referred to in the report as Nykredit.

Disclaimer

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.

1 2023 in brief

Nykredit's business activities involve certain risks that have an impact on society as well as on our business. Being a systemically important financial institution (SIFI), and a mutual company, Nykredit has a special responsibility. Our risk management therefore focuses on providing financial solutions that are sustainable for Nykredit, for our customers and for society in the short, medium and long term.

2023 was marked by uncertainty, but turned out more positive than expected
Danish households entered 2023 with a historical shock to their finances from declining real wages and rising interest rates, so the outlook for 2023 was gloomy. It was natural to expect that households would reduce consumption, leading to declining business revenue and growing unemployment. An economic downturn was looming, not least because central banks' scope for action was limited by the need to combat persistently high inflation, meaning that there was no help from lower interest rate levels.

But economic trends proved to exceed expectations. One reason was the strong correction in private consumption already in 2022; also, the Danish economy was supported by heavily increasing exports. In particular in the pharmaceutical industry. Economic growth continued even if Q2 and Q3, partly for technical reasons, showed a slight decline. Qualified labour shortages were so big that even where activity levels dropped, businesses continued hiring. So, employment was growing throughout 2023.

2023 was also a year when inflation dropped faster than expected. In October, inflation bottomed out at 0.1%. Since then it increased to 0.7% in December, but it is expected to exceed 2% in 2024. The main scenario is that inflation will remain at levels that will not seriously jeopardise Danish household finances. Not least because private-sector wages will rise by almost 5% according to new Q4/2023 statistics. Even though pay rises of that magnitude are not compatible with 2% inflation in the long term, the risk of a detrimental wage-price spiral is considered to be relatively low, mainly due to the development in inflation over the past year.

However, the economy is still marked by uncertainty. The level of bankruptcies is high, especially for small businesses, and the full impact of interest rate increases has not yet fed through the economy. At the same time, the slowdown in our neighbouring markets, Germany and Sweden in particular, appears to have taken hold. This will be strongly felt by some exporters. In addition to the continued war in Ukraine, another war has broken out. The direct economic impact of the war between Israel and Hamas is limited, from a Danish point of view, but if the war spreads to larger parts of the region, it may have severe implications, for instance for energy prices.

Credit quality remains satisfactory, and customers are resilient
Most of Nykredit's loan portfolio consists of personal customers with home loans. Their credit quality is generally good, supported by record-high employment, high savings levels, low LTV ratios and decent real wage growth. This has helped reduce the likelihood of customers defaulting. The monitoring of weak exposures has been strengthened, and regular stress test calculations are performed to assess portfolio risks. Nykredit has yet to see rising arrears, and the number of properties acquired by foreclosure is still historically low.

As regards the business loan portfolio, the lower consumption growth and higher interest rate levels in 2023 affected several industries. The economic slowdown has particularly hit Denmark's large export markets, with implications for manufacturing companies. These companies are also affected by a shift in demand from goods to services. However, Nykredit's main exposure is to less cyclical segments, such as the food, pharmaceutical and chemical industries. No deterioration in credit quality or risk of loss has been observed in relation to business customers.

Property rental has seen a decline in activity levels as a result of rising interest rates and yield requirements, leading to downward pressures on transaction numbers and prices. The segment represents a large proportion of the loan portfolio, and Nykredit has given the area high priority in terms of LTV monitoring and customer dialogue with customers showing initial signs of weakness. However, LTV ratios are still low, and customers are generally resilient following a long period of growth in this segment. Nykredit has carried out sensitivity calculations to ensure that risks have been adequately managed, and the necessary impairment provisions have been made.

Nykredit has maintained impairment provisions to prevent any losses resulting from, for instance, geopolitical tensions. However, write-offs are still at a very low level.

Nykredit's liquidity and funding remained robust, even during the financial turbulence in early 2023
Nykredit currently holds a strong liquidity and funding position. Throughout 2023, Nykredit maintained liquidity reserves adequate to counter the periods of market turmoil seen during the year and accommodate increased loan demand. Over a number of years, Nykredit has tightened its internal guidelines and requirements to secure robust liquidity reserves resilient to even severe liquidity stress.

Nykredit maintained the sale and issuance of mortgage covered bonds to fund its day-to-day lending, and all scheduled refinancing operations were completed in 2023. Market liquidity has largely normalised in the wake of last year's volatile markets.

Senior debt and subordinated debt markets are generally more cyclical and were affected by the general economic uncertainty in 2023. The banking turmoil in spring, which was isolated to a few US and European banks, led to increasing credit spreads and risk premiums across markets for a short while. Despite this market turmoil, Nykredit had no difficulties completing its 2023 funding schedule.

Sustainability
Risks related to sustainability, and particularly climate-related risks, were a key focus point in 2023. Concrete climate events during the year served to show that physical risks are real.

Nykredit has given particularly high priority to the development of calculation and determination methods and new data points. As part of our data strategy, these are a result of data sourced from external suppliers as well as data collected from Nykredit's customers. In this context, data are essential to comply with regulatory requirements and to obtain a comprehensive view of the many different climate-related risks.

The provision of data and establishment of new reporting structures will remain a key focus area in the near term, not least in light of upcoming regulatory requirements resulting from the EU Taxonomy Regulation, the CSRD and Pillar III.

At the end of 2022, Nykredit set climate targets for a number of customer segments that together account for the vast majority of Nykredit's total financed emissions. This helps set the direction for our efforts to mitigate climate risks. We are therefore pleased to note that the latest data show a decline in carbon intensity for all customer groups with climate targets and that the carbon intensity levels exceed expectations. Read more about our climate targets in Nykredit's Corporate Responsibility Report.

Increasingly robust management of non-financial risks

In 2023 Nykredit remained focused on strengthening the management of non-financial risks. The Group's main customer-facing processes were mapped using the same method across the Group for the purpose of optimising Nykredit's risk management and making it more robust. Also, we strengthened the day-to-day risk management framework by increasing the use of the Group's GRC (governance, risk & compliance) system, which ensures that fixed processes and standards will be applied.

In particular, IT risk management, and mainly second line monitoring, was improved in 2023, ensuring that the Group's business continuity is a constant focus point. This will also support Nykredit's preparations for compliance with the upcoming requirements under the Digital Operational Resilience Act (DORA).

The risk of being used for money laundering purposes is considered with great vigilance. In 2023, as a supplement to daily controls, we focused on optimising the Group's internal updating processes to comply with the Danish FSA's order concerning data updates by end-2023. Based on Nykredit's account of the measures taken to comply, the Danish FSA has closed the order.

New skills and organisation have improved personal data processing

2023 was also a year characterised by increasing use of artificial intelligence, which requires staff to know and apply the existing framework for use of the new tools in their day-to-day work in order to prevent confidential data from being shared inappropriately. The Group's Data Ethics Policy provides guidance on the data ethical dilemmas naturally resulting from increasing use of artificial intelligence.

Capital need

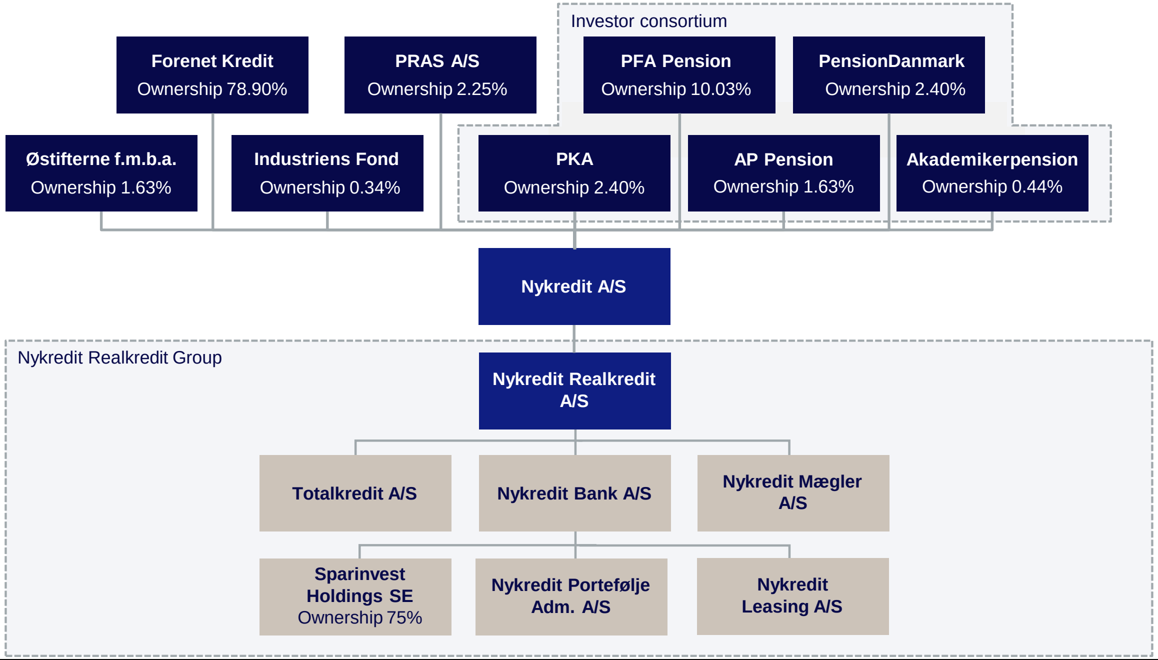
The Board of Directors has set a Common Equity Tier 1 (CET1) capital target of 15.0-16.0% of the risk exposure amount (REA), whereas the overall target for own funds has been set at 19.5-20.5%. With a total capital ratio and a CET1 capital ratio of 23.7% and 20.4%, Nykredit is comfortably above these capital targets. In addition, Nykredit may obtain new CET1 capital from its owners through Forenet Kredit's capital resources and investment commitments from a number of Danish pension companies. Consequently, Nykredit has the same access to capital as a listed SIFI. Also, Nykredit holds CET1 capital to meet the new Basel requirements when implemented in the EU.

1.1 Financial highlights

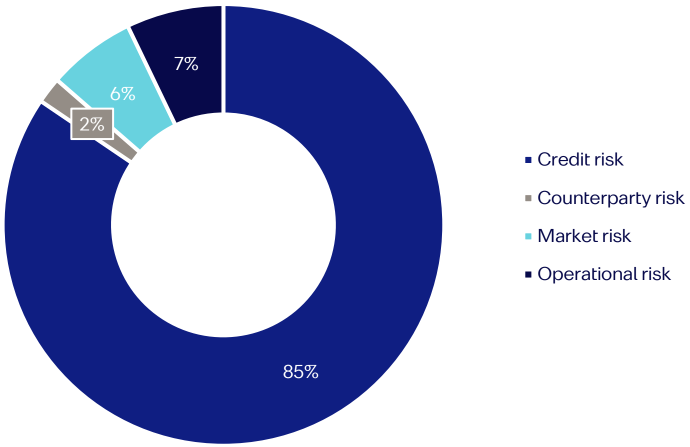
Nykredit Realkredit Group

Year-end DKK billion/%	2023	2022	2021
Capital adequacy and capital			
CET1 capital ratio, %	20.4	19.5	20.6
Total capital ratio, %	23.7	23.3	24.7
Leverage ratio, %	5.1	5.1	4.8
Internal capital adequacy requirement, %	10.6	11.6	11.2
Total risk exposure amount, DKK billion	433	438	402
Funding and liquidity			
Liquidity Coverage Ratio (LCR), %	310	283	591
Net Stable Funding Ratio (NSFR), %	147	149	157
S&P long-term Issuer Credit Rating/outlook	A+/stable	A+/stable	A+/stable
Fitch long-term Issuer Credit Rating/outlook	A/stable	A/stable	A/stable
Encumbered assets, %	80	80	82
Liquidity reserves, DKK billion	106	102	121
Credit ratios and key figures			
Credit exposures, DKK billion	1,727	1,668	1,692
Total provisions for loan impairment and guarantees, DKK billion	9.0	9.4	9.6
Impairment charges for the year, %	(0.01)	(0.01)	(0.01)
NPL, %	1.2	1.4	1.4
NPL, DKK billion	18.2	20.0	23.2
Loss ratio, %	0.02	0.02	0.02

Group chart, Nykredit



Breakdown of risk exposures



- It is the Boards' assessment that Nykredit has adequate and effective risk management arrangements and controls in place with regard to Nykredit's risk profile and strategy.
- It is furthermore the Boards' assessment that the description of Nykredit's risk profile and key figures and ratios gives a true and fair view of Nykredit, including Nykredit's overall risk appetite.

1.2 Board declaration and risk statement

The Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S have on 6 February 2024 approved this report.
The Boards' assessment is based on the continuous compliance and risk reporting and compliance and risk policies, the internal capital adequacy requirement (ICAAP), the liquidity position (ILAAP), Internal Audit's assessment of the control environment and the adopted strategy, Winning the Double 2.0, as approved by the Boards of Directors and the Executive Boards. The Executive Boards are responsible for the day-to-day risk management and compliance with the policies and guidelines adopted by the Boards of Directors. The Chief Risk Officer and the Chief Compliance Officer are responsible for the monitoring, control and reporting of risks.
Nykredit works consistently to further develop its risk management and control environment. For information and key figures and ratios concerning Nykredit's risk profile, please refer to the relevant sections of this report.

Risk assessment

- 86.4% of the Group's REA derives from credit risk, which mainly relates to mortgage and bank lending. Credit risk is managed in accordance with the credit policy, including requirements for credit risk concentrations on single names, industries and geographical regions. At end-2023, DKK 9.0 billion had been provided for loan losses. Loan impairment charges for the year were a negative DKK 0.2 billion, equivalent to a negative 0.01% of lending. The credit risk exposure falls within the Group's risk appetite.
- Market risk mainly relates to the activities of Nykredit Markets and the Group's investment function. 6.5% of the Group's REA derives from market risk. Market risk is managed in accordance with the market risk policy, including detailed limits and guidelines for various types of market risk prescribed by the Board of Directors. The market risk exposure falls within the Group's risk appetite.
- Liquidity risk is managed in accordance with the liquidity policy, including detailed limits and guidelines prescribed by the Board of Directors. At end-2023 the LCR was 310%, and the NSFR was 147%.
- Operational risk is managed in accordance with the non-financial risk policy and pertaining guidelines. 7.1% of the Group's REA derives from operational risk.
- Nykredit's total risk is reflected in the internal capital adequacy requirement, which represents 10.6% of REA.
- Based on the internal capital adequacy requirement, stress tests, guidelines and expectations for the capital position, the Board of Directors has set the CET1 capital requirement at 15.0-16.0% of REA. In addition to this, Nykredit has set aside capital to meet the upcoming Basel IV requirements. Nykredit's CET1 capital represented 20.4% of REA at end-2023, while the total capital ratio was 23.7%.

Board of Directors of Nykredit A/S

Merete Eldrup Chairman	Preben Sunke Deputy Chairman	Jørgen Høholt	Inge Sand	Olav Bredgaard Brusen	Michael Demsitz
Per W. Hallgren	Kristina Andersen Skiøld	Torsten Hagen Jørgensen	Vibeke Krag	Allan Kristiansen	Mie Krog
Ann-Mari Lundbæk Lauritsen	Lasse Nyby	John Christiansen			

Board of Directors of Nykredit Realkredit A/S

Merete Eldrup Chairman	Preben Sunke Deputy Chairman	Jørgen Høholt	Inge Sand	Olav Bredgaard Brusen	Michael Demsitz
Per W. Hallgren	Kristina Andersen Skiøld	Torsten Hagen Jørgensen	Vibeke Krag	Allan Kristiansen	Mie Krog

Executive Board of Nykredit A/S and Nykredit Realkredit A/S

Michael Rasmussen Group Chief Executive	Tonny Thierry Andersen Group Managing Director	Pernille Sindby Group Managing Director	David Hellemann Group Managing Director	Anders Jensen Group Managing Director

2 Governance and management

The Nykredit Realkredit Group is a Danish financial services group serving mainly personal customers, business customers and institutional customers in Denmark. The Group carries on banking and mortgage lending as well as activities within estate agency services, administration and management of investment funds, leasing and insurance mediation.

The Nykredit Realkredit Group's core business is match-funded mortgage lending secured by mortgages on real estate. Mortgage lending is carried out through Nykredit Realkredit A/S and its subsidiary Totalkredit A/S. Mortgage lending to personal customers is provided only through Totalkredit A/S, while mortgage lending to business customers is provided through both Totalkredit A/S and Nykredit Realkredit A/S.

Mortgage lending in Totalkredit is based on a strategic alliance comprising 41 Danish banks at end-2023. The partner banks are responsible for serving customers, and Totalkredit A/S undertakes the funding of the mortgage loans. Totalkredit A/S and the arranging partner bank share the risk of loss on the loans, and the partner banks receive regular payments. At end-2023 mortgage lending to personal customers in Totalkredit A/S made up around half of the Nykredit Realkredit Group's total mortgage lending. The Totalkredit alliance is described in more detail in *5 Credit risk*.

Nykredit Bank is in itself an important part of the Nykredit Realkredit Group, but it also widely underpins the Group's mortgage business. For example, Nykredit's customer centres provide customer and investment advisory and loan services for a large part of the mortgage business. Also, Nykredit Bank undertakes market making in Danish covered bonds and thereby contributes to market liquidity. Nykredit Bank's risk profile mainly relates to loans and credit facilities provided to personal and business customers. Other activities include administration and management of investment funds through Nykredit Bank's subsidiaries Sparinvest and Nykredit Portefølje Administration.

2.1 Risk profile

Nykredit's business activities, including management of the investment portfolio, involve exposure to credit risk, market risk, liquidity risk and non-financial risks. Risks related to climate change are a high-priority area under continued development, which is managed in the context of the traditional types of risk, primarily credit risk and non-financial risks.

As Nykredit's main business areas are based on lending, Nykredit's primary risk is credit risk. Mortgage lending and the underlying funding are regulated by the balance principle, which means that Nykredit incurs limited market and liquidity risk on its mortgage lending and the underlying funding. The mechanisms behind the balance principle are described in detail in *8.4 Balance principle and match funding*. Liquidity and market risks are further reduced by the Danish act regulating refinancing risk, which provides for the refinancing of mortgage loans under special circumstances.

Credit risk, market risk and non-financial risks are mitigated by holding adequate capital, while liquidity risk is mitigated through a sufficient stock of liquid assets. A few outstanding regulatory measures are addressed through capital targets, the Pillar II add-on to the internal capital adequacy requirement or capital add-ons held under Pillar I. The Board of Directors regularly assesses the current risk levels and risk appetite on the basis of internal risk reporting and policies.

Nykredit's overall risk policy reflects Nykredit's overall tolerance for assuming risk in the context of Nykredit's business model and strategy. Further, a policy has been laid down for each type of risk with specific limits and guidelines for risk taking.

2.2 Risk governance and culture

The Board of Directors is the supreme management body. They make strategic and policy decisions and lays down guidelines for the day-to-day management undertaken and implemented by the Group Executive Board. The Board of Directors oversees the establishment of risk management procedures and monitors risks through the Board Risk Committee and the Board Audit Committee. All policies are approved at least once a year by the Boards of Directors, which receive regular reports on compliance with limits and guidelines set out in the policies. The Executive Boards oversee that risks are managed and controlled as determined by the Boards of Directors. The Executive Boards monitor risks through various committees.

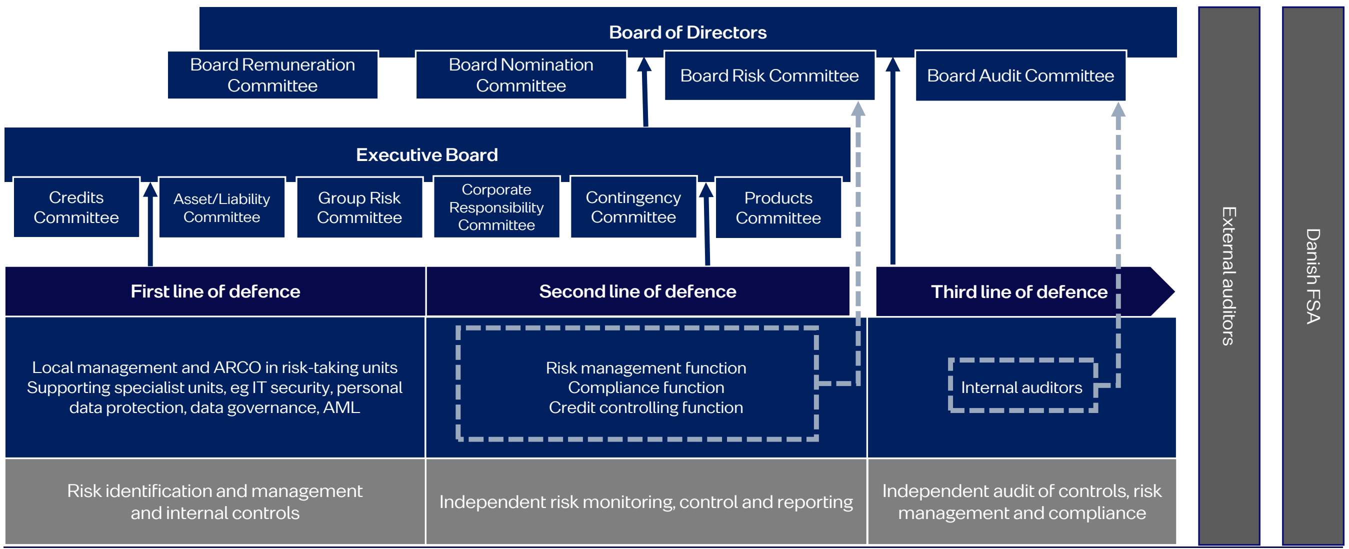
The day-to-day risk management, monitoring and reporting activities are based on the three lines of defence.

First line of defence: The operational business units, which basically take, and are responsible for managing, the risk. The management of each business division is responsible for identifying, assessing and managing the risks arising in connection with the performance of its duties and for ensuring that satisfactory internal controls are in place at all times in respect of the risks related to the handling of business operations and processes. Further, the first line of defence is to ensure that risk management is performed in compliance with current legislation and the Group's business model, policies, guidelines and business procedures.

The management of each business division documents its risk management activities according to the Executive Board's guidelines for internal documents, see below, and submits a statement annually to the Executive Board on compliance with applicable rules as prescribed by the Executive Order on Management and Control of Banks etc.

Second line of defence: The risk management function, the compliance function and the credit control function, which are responsible for the independent assessment, monitoring, controlling and reporting of risks. These functions regularly assess whether the first-line activities are sufficient according to Management's instructions and meet the risk profile.

Nykredit Group: Risk management and governance



Note: Assistant Risk and Compliance Officers have been appointed in all business divisions of Nykredit.

The risk management function and the compliance function report to the head of the CRO division. The duties in the second line of defence, including their performance and delegation, are specified in annual schedules and role descriptions for the Chief Risk Officer and the Chief Compliance Officer. The role descriptions explicitly set out how to handle conflicts of interest, as business units in the first line of defence also report to the head of the CRO division.

The credit control function undertakes control and monitoring activities in relation to the credit policy and processes.

To ensure more resilient IT risk management for the purpose of mitigating the risk of cyberattacks and breakdown of important systems, Nykredit enhanced monitoring in 2023 by increasing resources and upskilling.

To strengthen the organisation's efforts to address and mitigate risks, including operational and compliance risks, one or more Assistant Risk and Compliance Officers (ARCOs) have been appointed in the individual business divisions. Their primary duty is to assist the managements of the individual business divisions in executing compliance- and risk-related tasks and to strengthen awareness of Nykredit's risk culture. ARCOs serve as links between the first line of defence and the compliance and risk control functions. However, ARCOs are also found in functions in the second line of defence.

Third line of defence: Internal Audit, which provides independent assurance over the overall management of risks and internal controls in the Group and reports on its work to Boards of Directors and the Board Audit Committee. Internal Audit is responsible for testing and providing an opinion on whether Nykredit's overall risk management approach, risk management framework, business procedures and internal controls established in all material areas and risk areas have been organised and are working satisfactorily.

The three lines of defence are mutually independent; the functions in the second line of defence are independent of the first line of defence and do not take part in business operations. Similarly, Internal Audit is independent of both the first and second lines of defence, but may base its assurance on the work performed in the second line of defence.

Nykredit has established a framework for remuneration of material risk takers etc, with a focus on accountability and risk management and supporting Nykredit's aim of contributing to financial stability. The remuneration policy also factors in compliance with ESG-related targets. Details on remuneration in 2023 can be found in Nykredit's remuneration report available at nykredit.com.

2.3 Risk monitoring

The Board Risk Committee and the Board Audit Committee oversee the effectiveness of Nykredit's internal control systems, financial reporting, internal audit and risk management. Nykredit's Group committees perform the ongoing risk management and reporting on behalf of the Executive Boards. The committees ensure a continuous overview of relevant risks and oversee that the risk policies and guidelines defined by the Boards of Directors are implemented in the business units.

The second line of defence monitors, controls and reports on risks independently of the risk-taking units. The frequency of risk monitoring by the second line of defence is adapted to the type of risk concerned, which means that some risks are monitored daily, including through intraday controls, while others are monitored less frequently. Similarly, the monitoring approach is adapted to the type of risk; for example, the credit portfolio is monitored systematically by means of an overall credit portfolio overview and portfolio targets, whereas particularly material risks are monitored on the basis of specific limits or through scenario analyses on the basis of the probability of a given event occurring and its potential consequences.

Business procedures have been laid down and controls implemented for all material areas and risk areas according to the Executive Board's guidelines for internal documents. The controls comprise manual controls and physical valuations as well as general IT controls and automatic controls in the IT systems applied. Plans are prepared annually for risk management in the second line of defence, including specification of methods, approach and resource allocation, which are subject to approval by the Executive Boards.

2.4 Reporting and communication

The Board of Directors and the Executive Board receive a quarterly report describing and assessing all relevant risks. The risk reporting complies with current legislation and is aimed at describing the current risk outlook on the basis of quantitative data and analyses of relevant risk types and focus areas.

The risk reporting covers the areas of credit risk, market risk, liquidity risk, regulatory risk, strategic risk and non-financial risks, including operational risks, conduct risk, model risk, data quality risk as well as IT and compliance risks. Climate-related risks are a high-priority area under continued development, which is managed in the context of the traditional types of risk, currently credit risk and non-financial risks in particular.

2.5 Risk policy

The risk policy sets out the overall risk appetite as well as risk appetites for the individual types of risk. Nykredit's risk management is aimed at ensuring agreement between risk profile, risk appetite and current legislation in the context of a robust capital structure and stable earnings. Risk management should contribute to ensuring financial solutions that are viable in the short, medium and long term.

2.5.1 Risk appetite

The overall risk appetite is determined on the basis of Nykredit's strategy, regulatory and credit rating agency capital requirements and the internal capital targets. The risk appetite is determined by the Board of Directors following consideration of the risk policy and the underlying policies, and it reflects Nykredit's overall tolerance for assuming risks in the context of its business model and the Group strategy. In some areas, it is directly measurable, while in other areas the risk appetite is expressed through more qualitative objectives.

Risk management principles

Independent risk assessment

Assessment and measurement of material risks across Group companies and risk areas

- Independent assessment of policies and guidelines, policy and guideline adjustments, and risk appetite limits
- Reporting of risk appetite and limit breaches to relevant management levels
- Independent oversight of 1st line risk management through participation in risk meetings and projects
- Oversight of control effectiveness and internal control environment
- Independent observer on committees
- Ensuring an adequate basis for significant business decisions by Executive Boards and Boards of Directors

Monitoring, measurement and controls

Monitoring of risk appetite, limits and guidelines set out in risk policies

- Monitoring and validation of internal models, methods and calculations
- Assessment of risk-mitigating measures in case of internal model weaknesses
- Control and quality assurance of risk management processes
- Monitoring of market development and macroeconomic trends
- Ensuring system support and other risk management tools
- Assessment of internal capital adequacy requirement, ICAAP and ILAAP
- Monitoring of operational and IT incidents
- Consultee in relation to product approvals and evaluations

Risk reporting and communication

Regular risk reporting to relevant decision-makers, including committees as well as Executive Boards and Boards of Directors

- Quarterly risk reporting to Boards of Directors on the risk outlooks of the Group and the individual companies
- External risk reporting
- Regulatory reporting to the Danish FSA and the EBA
- Ongoing dialogue with stakeholders in the first line of defence
- Scenario and cross-functional analyses

Ongoing support of a sound risk culture

The tolerance limits for the individual risks vary according to risk type, customer exposure, product type, strategy, targets etc. These factors are described and incorporated in relevant risk policies and guidelines according to Executive Board guidelines. The specific risks related to business unit activities are assessed in the context of the financial importance of the individual unit.

Nykredit manages its capital usage on an ongoing basis and prepares a capital budget annually. The budget should be seen in the context of the overall capital and strategy plan. Capital is allocated and prioritised among the business divisions according to risk profile, business returns and strategic considerations.

2.6 Management

Board of Directors

The Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S must be composed so that they possess the mix of skills required to undertake the overall and strategic management of the business and to take any measures to ensure prudent business management. Furthermore, Board members must possess the knowledge and experience required to be able to critically assess and challenge the work and proposals of the Executive Board.

The Board of Directors of Nykredit A/S counts 15 members, of whom 10 are elected by the Annual General Meeting for a term of one year and five are elected by and among the staff for a term of four years.

The Board of Directors of Nykredit Realkredit A/S counts 12 members, of whom eight are elected by the Annual General Meeting for a term of one year and four are elected by and among the staff for a term of four years.

Further details on the composition, size and diversity of the Boards of Directors as well as the CVs of the individual Board members are available at nykredit.com.

The Boards of Directors review their skills profiles on an ongoing basis and have decided in this respect that they should have special skills and knowledge as regards:

- Strategic matters
- Sector and real estate expertise
- Economics, finance and accounting
- Capital markets, securities and funding
- Politics, public administration and associations
- Financial regulation
- Corporate governance
- Digitisation, IT and processes
- Market conditions, customer relations and sales
- Organisation/HR and processes
- Risk management and credit matters

Sustainability is an increasingly important factor in society, including in the financial sector. Board members receive regular training in relevant issues through thematic programmes and regular reporting.

Executive Board

The Executive Board is composed of five members. The Executive Board implements the Group strategy and is responsible for the day-to-day management and for implementing policies and guidelines laid down by the Board of Directors. The Executive Board has set up a number of committees at Group level, which support and assist with compliance with and implementation of risk policies, guidelines etc. The Executive Board has issued committee governance guidelines, which ensure, among other things, that decisions of importance to a Group company can only be made if explicitly endorsed by the company's Executive Board representative, as well as guidelines for internal documents, which ensure a uniform approach to the preparation, maintenance and use of internal documents in Nykredit, including policies, guidelines, mandates, role descriptions and business procedures.

Chief Risk Officer

The duties of the Chief Risk Officer are laid down in the Danish Executive Order on Management and Control of Banks, etc. A separate role description has been prepared for the Chief Risk Officer, approved by the Board of Directors. The Chief Risk Officer must have a general overview of the company's activities, operations and risks in order to assess whether risk management operations are satisfactory. The Chief Risk Officer also assesses whether the decision-making basis of the Executive Board and the Board of Directors is sufficient in risk-related matters.

The head of Nykredit's risk management function is designated as Chief Risk Officer. Nykredit's organisational structure ensures that the risk management function is segregated from all risk-taking units and thus independent in relation to risk-related decisions. Nykredit's central risk management function performs Group-wide controls, monitors Group risks and prepares risk reports for the Boards of Directors on all risk areas. In the organisational structure, the risk management function falls within the CRO division, but with separate and independent reporting to, for instance, all relevant Executive Boards and Boards of Directors of Group companies.

Chief Compliance Officer

The duties of the Chief Compliance Officer are laid down in the Danish Executive Order on Management and Control of Banks, etc. A separate role description has been prepared for the Chief Compliance Officer, approved by the Board of Directors. The Chief Compliance Officer assists Nykredit's Management in identifying, assessing, advising on, controlling, monitoring and reporting on Nykredit's compliance risks.

The head of Nykredit's compliance function is designated as Chief Compliance Officer. The compliance function assesses whether Nykredit meets the compliance rules applicable to the individual risk areas and oversees and determines whether the methods, procedures and controls implemented by Nykredit in the risk areas are adequate and effective in terms of identifying and mitigating compliance risks. In the organisational structure, the compliance function falls within the CRO division, but with separate and independent reporting to, for instance, all relevant Executive Boards and Boards of Directors of Group companies.

Responsible for anti-money laundering

The Group Executive Board and the Executive Boards of the Group companies have each appointed a Chief Anti-Money Laundering (AML) Officer at the executive level charged with delegating and ensuring managerial responsibility and focus on measures to prevent financial crime throughout the Group.

Moreover, an AML Responsible Officer has been appointed who is tasked with approving Nykredit's anti-money laundering policies, procedures and controls and approving business relationships with politically exposed persons and correspondent relationships.

Data Protection Officer (DPO)
The Group Executive Board and the Executive Boards of the Group companies have appointed a Data Protection Officer, who assists Management in ensuring that Nykredit complies with applicable data protection legislation at all times.

The Data Protection Officer's primary responsibilities are to monitor, assess, control and report on Nykredit's compliance risks relating to personal data processing. In the organisational structure, the Data Protection Officer falls under the compliance function, but with separate and independent reporting to, for instance, all relevant Executive Boards and Boards of Directors of Group companies.

Chief Outsourcing Officer
The Executive Boards of the Group companies have appointed a Chief Outsourcing Officer, who assists the Executive Boards and the Boards of Directors in ensuring Nykredit's compliance with the Danish Executive Order on Outsourcing for Credit Institutions, etc. in force from time to time. The overall responsibility is vested in the Boards of Directors, however. In the organisational structure, the Chief Outsourcing Officer falls within Procurement, but reports directly to the Executive Board.

2.6.1 Committees

Board committees
The Board of Directors of Nykredit Realkredit A/S has appointed a Board Risk Committee, a Board Audit Committee, a Board Remuneration Committee and a Board Nomination Committee. These Board committees advise the Board of Directors on particular matters and prepare cases for review by the entire Board of Directors, each within their field of responsibility. The committees are described below.

Group committees
The Group Executive Board has set up committees in Nykredit, to which it has delegated specific responsibilities. Each committee must report to the Group Executive Board, and the individual members may at any time resolve to have the relevant Executive Board of a Group company decide on a case.

As the committees are all part of the first line of defence, the Chief Risk Officer and the Chief Compliance Officer may attend committee meetings as observers. The Chief Risk Officer is a permanent observer at meetings of the Group Risk Committee, the Products Committee and the Asset/Liability Committee, and attends Credits Committee meetings when and as required. The Chief Compliance Officer is also a permanent observer at meetings of the Group Risk Committee and the Products Committee, and attends Asset/Liability Committee meetings when and as required. The Chief Risk Officer and the Chief Compliance Officer may always request that a matter be resolved by the relevant Executive Board or Board of Directors, if deemed relevant. The committees are described below.

Nykredit's Board committees

Board Risk Committee *At least six meetings a year*	The function of the Board Risk Committee is to oversee Nykredit's overall risk profile and strategy, including to assess the long-term capital requirement and the capital policy. It also assesses risks related to products, business model, remuneration structure and incentives as well as risk models and methodological basis. The Board Risk Committee also assists the Board of Directors in overseeing that the risk appetite defined by the Board of Directors is implemented correctly in the organisation.
Board Audit Committee *At least six meetings a year*	The principal tasks of the Board Audit Committee are to inform the Board of Directors of the results of the statutory audit, to oversee the financial reporting process and the effectiveness of Nykredit's internal control systems, internal audit and risk management, to oversee the statutory audit of the financial statements etc, to monitor and verify the independence of the auditors, and to be responsible for the procedure for selecting and submitting a recommendation for the appointment of auditors.
Board Remuneration Committee *At least three meetings a year*	The principal tasks of the Board Remuneration Committee are to qualify proposals for remuneration prior to consideration by the Board of Directors and to make recommendations in respect of Nykredit's Remuneration Policy, including guidelines on incentive pay, for the approval of the Board of Directors, as well as to assist in ensuring that these are observed. Moreover, the Board Remuneration Committee reviews and considers the criteria for and process of designating risk takers, and it assesses whether the Group's processes and systems relative to remuneration are sufficient, including whether they take into consideration the Group's risks and ensure that remuneration policy and practices are in alignment with and promote sound and effective risk management in accordance with the Group's business strategy, objectives, values and long-term interests. Finally, the Board Remuneration Committee ensures that the information in the Annual Report about remuneration of the Board of Directors and the Group Executive Board is correct, fair and satisfactory. Details on bonuses to risk takers and on remuneration policy and practices can be found in Nykredit's Remuneration Policy.
Board Nomination Committee *At least three meetings a year*	The Board Nomination Committee is tasked with making recommendations to the Board of Directors on the nomination of candidates for the Board of Directors and the Executive Board. The Committee also advises the Board of Directors with respect to targets for the under-represented gender on the Board of Directors and laying down a diversity policy applying to the same. In addition, the Board Nomination Committee, reporting to the Board of Directors, is ultimately responsible for defining the skills profiles of the Board of Directors and the Executive Board and for the continuous evaluation of their performance and achievements.

Nykredit's Group committees

Group Risk Committee *At least six meetings a year*	The Group Risk Committee is charged with overseeing the Nykredit Group's overall risk outlook, assisting the managements of the respective companies in ensuring compliance with current legislation and risk management practices as well as supporting responsible business practices. The Group Risk Committee further oversees that the risk policies and guidelines defined by the Board of Directors are implemented correctly in the organisation. The Committee is also responsible for monitoring and assessing the required own funds and internal capital adequacy requirement.
Credits Committee *At least two meetings a week*	The Credits Committee is charged with ensuring adequate credit risk management and approving and/or deciding credit applications and loan impairments as well as overseeing the management of risks in Nykredit's credits area. The Committee manages the Group's loan portfolio and submits recommendations on credit policies to the individual Executive Boards and Boards of Directors. The Committee lays down business procedures for the granting of credits within the limits of the guidelines laid down by the Group Executive Board and the Board of Directors.
Asset/Liability Committee *At least 11 meetings a year*	The Asset/Liability Committee undertakes the day-to-day responsibilities and tasks of the Executive Boards in the areas of capital, funding, liquidity and market risk according to guidelines approved by the Boards of Directors. The Committee has a governance mandate in these areas at Group as well as at company level.The Asset/Liability Committee has delegated responsibility to the Green Bond Committee for ensuring that the types of assets used to back green bonds comply with Nykredit's Green Bond Framework. The Green Bond Committee is composed, at a minimum, of the members of the Asset/Liability Committee, which is represented at meetings.
Products Committee *At least eight meetings a year*	The Products Committee's objective is to ensure that the Nykredit Group's products and services meet applicable business and regulatory requirements and are provided to the right target groups. The Committee must ensure that any development and launch of new or changes to existing products and services involving material risks for customers, the Group, the individual companies and/or counter-parties are in alignment with the business models of the individual companies and comply with the current product policy and the Executive Boards' guidelines for development and approval of new products and services.
Contingency Committee *At least one meeting a year*	The Contingency Committee has the overall responsibility for compliance with IT security policy rules in relation to contingencies (major accidents or catastrophes) and the Group's entire spectrum of contingency plans covering IT as well as business aspects.
Corporate Responsibility Committee *At least two meetings a year*	The Corporate Responsibility Committee implements the Group strategy as laid down by the Board of Directors and is responsible for the corporate responsibility strategy, including Group-wide targets and the progress of such targets. The Committee prioritises corporate responsibility themes and initiatives based on analyses of materiality, impact and sustainability-related risks, delegates responsibility for prioritised initiatives and is responsible for the implementation of the UN Principles for Responsible Banking. The Committee receives regular reports from a number of committees to which powers have been delegated and approves the annual corporate responsibility reporting.

Risk reporting to the Board of Directors

Reporting	Description	Frequency	Recipient
Internal risk reporting	Complete review of the Group's risk outlook covering both financial and non-financial risks as well as capital structure. Also includes reporting on compliance with risk policies and pertaining guidelines.	Quarterly	Group Risk Committee, Board Risk Committee, Boards of Directors
External risk reporting	Description of the Group's risk profile, capital management, risk management, organisation, risk limits and policies. The report is published on Nykredit's website together with a number of Pillar III spreadsheets with detailed data.	Annually	Group Risk Committee, Board Risk Committee, Boards of Directors, general public
ICAAP	Assessment of the Group's required own funds and internal capital adequacy requirement. The Group's capital targets are assessed against the risk profile and business strategy. The assessment includes stress testing of REA, impairment charges etc.	Annually	Group Risk Committee, Board Risk Committee, Boards of Directors, Danish FSA
ILAAP	Assessment of the Group's liquidity position and liquidity management, including its funding profile. Reporting includes assessment of the liquidity risk exposure through stress testing and similar analyses and describes internal limits for liquidity reserves.	Annually	Asset/Liability Committee, Board Risk Committee, Boards of Directors, Danish FSA
Market and liquidity risk	Review of internal limits for market and liquidity risk.	Monthly	Asset/Liability Committee, Board Risk Committee, Boards of Directors
Compliance reporting	Overall assessment of the Group's compliance and control environment. The risk assessment is based on the compliance function's regular reviews and status updates on agreed measures.	Quarterly	Group Risk Committee, Board Risk Committee, Boards of Directors
Credit portfolio reports	Detailed review of credit risk exposures by segment, including industries, geographic areas and sub-industries, and evaluation of the credit policy. The reports cover segments such as personal customers, industry, trade, agriculture, transportation, property rental, cooperative housing, public housing etc.	Annually	Credits Committee, Board Risk Committee, Boards of Directors
Thematic analyses	Ad-hoc analyses selected according to risk, for example related to types of risk in individual segments or current topics such as covid-19, economic trends etc.	Ad hoc	Varies
Impairment reporting	Review of impairment basis and methodology.	Quarterly	Credits Committee, Board Risk Committee, Boards of Directors
Recovery plans	Determination of trigger levels, scenarios and possible scope for action as well as a description of the organisation for the purpose of capital and/or liquidity recovery of the Nykredit Realkredit Group and the Nykredit Bank Group.	Annually	Group Risk Committee, Board Risk Committee, Boards of Directors

3 Climate risks

Climate change and the green transition will play a greater role in Nykredit's risk landscape in the coming years and will expose us to a host of new risks. This is due in part to the challenges arising from climate change and in part to the increased focus on sustainability in society in general, among politicians and, not least, among regulators.

Nykredit's climate footprint from its own operations are limited, and therefore, the climate-related risks primarily comprise risks relating to existing or future impacts on customers and counterparties as well as on invested assets. For Nykredit, one example could be the risk of flooding of low-lying properties, and, with that, the risk that the value of the security behind our mortgage housing loans is reduced. Or the risk of whether the customers we provide loans to and invest in are able and willing to prepare for a situation where their business models may be challenged by the transition to a more sustainable economy.

Risk appetite

The risks relating to climate affect traditional risk types, including credit risk, market risk, liquidity risk, funding risk as well as non-financial risks. This means that the risk appetite in this area follows from the underlying policies.

3.1 Climate policies

For a number of years, Nykredit has been supporting our customers' and society's green transition. To this end, Nykredit contributes to the shared objectives of reducing greenhouse gas emissions and adapting to the new climate conditions. To this end, Nykredit has defined and published a number of specific climate targets that guide our green transition efforts. Nykredit has committed to net zero greenhouse gas emissions from lending, investments and own operations by 2050, and the emission reduction should as a minimum follow a path matching the targets of the Paris Climate Agreement.

Emissions from Nykredit's own operations are limited. Instead, the main part of emissions come from the customer activities that Nykredit helps finance with loans or investments. The customer-facing efforts in this area are structured according to five prioritised initiatives:

- Greener owner-occupied dwellings
- Greener real estate
- Greener businesses
- Greener agriculture
- Sustainable investments

Climate-related risks affect traditional types of risk, including primarily credit risk and non-financial risk. These risks affect Nykredit's customers and counterparties as well as invested assets and the securities provided for Nykredit's lending. The prioritised initiatives will help preserve the value of customers' finances, assets and businesses, reducing Nykredit's risk. The climate targets and our efforts to achieve them are described in more detail in Nykredit's Corporate Responsibility Report, including progress against the targets.

As climate-related risks affect a wide range of risks in Nykredit, there is no single policy covering the area. Instead, climate-related risks are incorporated into relevant risk policies. For example, climate-related risks and sustainability considerations are incorporated into Nykredit's credit and valuation policies, while Nykredit's investments and investment solutions are subject to Nykredit's Sustainable Investment Policy. At the same time, both areas are governed by Nykredit's Fossil Fuels Policy. The policies are laid down by the Boards of Directors and are based on the Nykredit Group's strategy and targets, including our climate targets.

The credit policy describes a number of specific ESG factors to be considered as part of the assessment of the individual business customer. The assessment includes, in particular, physical risks and transition risks, but also other elements of a customer's individual ESG factors will be considered where relevant. The aim is to identify relevant risks and opportunities, which will then form part of the overall credit assessment and customer advisory services. Nykredit's ESG assessment is based on recognised concepts laid down in the EU Taxonomy Regulation ("Taxonomy Regulation"). Assessments at both single-name level and portfolio level are developed as concepts and data mature. The data basis covering customers' transition plans in the area is continually being improved, just as we cooperate with business and industry organisations as well as system and data suppliers.

The Fossil Fuels Policy has a bearing on our attitude and approach towards investment in and financing of companies involved in the exploration, extraction or production of fossil fuels and companies that produce energy from fossil fuels. Whilst exclusion criteria already exist and are now to be tightened in the area of investment, Nykredit has just recently adopted a policy covering our lending. The policy came into force in September 2023, and can be found at nykredit.com.

3.2 Control and reporting

As climate-related risks affect the traditional risk types, ongoing control and reporting in this area are generally performed subject to already established governance arrangements in Nykredit.

The integration of climate-related risks into Nykredit's risk management and reporting practices is an ongoing process, and they are included in our regular risk reporting, which is supplemented by thematic analyses and reports. Training of Nykredit's specialists is a high priority; also, a structured approach is applied to the collection and capturing of relevant data in this area.

Climate governance

Board of Directors and Board Risk Committee:
Provide relevant policies and guidelines for lending, non-financial risks and other areas where climate-related risks and sustainability play a role.

Receive quarterly information on all risk areas with climate and sustainability elements.

Executive Board, Asset/Liability Committee and Credits Committee:
Approve and implement the relevant policies and oversee compliance based on quarterly reports.

Control functions (second line of defence):
Perform controlling and monitoring independently of the risk-taking units. Prepare independent reports for the Board of Directors and the Executive Board.

On the lending side, climate-related risks are monitored in connection with industry- and segment-specific portfolio reports, in sector and thematic analyses, and in connection with the ongoing reporting to the Boards of Directors. This enables the Boards of Directors to evaluate the credit policy and make the required adjustments in relation to lending at single-name level (guidelines) and portfolio level (portfolio limits and size requirements).

On the investment side, climate risks are monitored as part of the ongoing measurement of transition risks and other sustainability risks, which are included in the ongoing statutory reporting under the EU's Disclosure Regulation. In addition, the investment universe is subjected to continuous screening for companies that do not comply with Nykredit's sustainable investment policy, which also sets out requirements for climate-related risks. The Boards of Directors regularly receive information about specific sustainability themes as well as a general account in connection with the presentation of the annual report.

3.3 Current risk profile and development

In relation to climate-related risks, a distinction is made between physical risks and transition risks. Physical risks pertain to the costs and losses relating to extreme weather conditions or long-term changes brought about by climate change. For Nykredit, one example could be the risk of flooding of low-lying homes and buildings or problems with a high groundwater level, and, with that, the risk that the value of the security behind our mortgage loans in particular is impaired. Transition risks pertain in particular to business customers' risk of incurring costs and losses as a result of new regulation, technological advances and changes in consumer behaviour arising in the wake of the transition to a more sustainable economy.

EU taxonomy
The EU taxonomy classification system establishes a list of environmentally sustainable economic activities based on six overarching environmental objectives:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

According to the taxonomy specifications, economic activities qualify as environmentally sustainable if they:

- contribute substantially to the achievement of one or more of the six environmental objectives mentioned above ("substantial contribution");
- do not significantly harm the achievement of the five other EU environmental objectives ("do no significant harm" (DNSH));
- comply with minimum social safeguards.

Nykredit's exposure is assessed based on the Taxonomy Regulation, resulting in the determining of the green asset ratio (GAR), which shows the proportion of total assets that can be classified as sustainable activities.

At the end of 2023, Nykredit had a GAR of 5.74%.

Green asset ratio
5.74%
(2022: N/A)

The GAR should be interpreted with caution. For example, the business model and the distribution of the loan portfolio play a significant role in calculating the GAR, as small and medium-sized enterprises and agricultural customers, among others, cannot be assessed against the Taxonomy Regulation, but are still included in the basis of comparison. High exposure to these segments will therefore reduce the GAR, even despite initiatives to mitigate risks among these customer groups.

The taxonomy assessment of Nykredit's business customers is based on our customers' own reporting. There is a general tendency for the determination of GAR to be conservative, and this is reflected in Nykredit's GAR. The GAR is also included in Nykredit's Corporate Responsibility Report, including detailed descriptions.

3.3.1 Climate-related credit risks

Climate change and the green transition will have a broad impact on Nykredit's customers in the coming years. New consumer behaviour and new regulation will mean that business customers with high emissions of CO_2e (carbon dioxide equivalents) may experience increased taxes or declining earnings or be exposed to reputational risks if they fail to reduce their emissions. Furthermore, climate change may cause customers' assets to be more exposed to climate-related events such as storm surges and sea level rises.

Physical risks

For exposures secured by mortgages on real estate, Nykredit determines the proportion of lending exposed to physical risks. Due to Denmark's long coastline, geographical location and generally high groundwater level, damage by water is the key physical risk to Danish properties. Nykredit's assessment of physical risks is therefore based on climate events related to groundwater rises, coastal erosion and flooding from the sea and from rainfall.

The assessment of physical risks is based on publicly available data points. This is combined with a number of event scenarios, which leads to uncertainty about the results. The method partially allows for these uncertainties by adopting a conservative view. New data points are continuously being applied to further clarify the risk assessments.

Nykredit Realkredit Group

Physical risks

Loans secured by mortgages on real estate	Lending (DKK billion)	Acute	Chronic
Residential real estate	1,068.0	7.3 %	0.2 %
Commercial property	225.2	3.7 %	0.3 %
Total	**1,293.2**	**6.7 %**	**0.2 %**

Note: Danish properties only

At this point, the assessment of physical risks does not take into account the impact on the value of a property, but only addresses whether the property is at risk of being impacted by an event, nor does it generally take into account any mitigating measures, such as dikes, drains etc, or that the borrower's costs of damage control will be fully or partially reimbursed by insurance companies and, in some cases, by the Danish Natural Hazards Council.

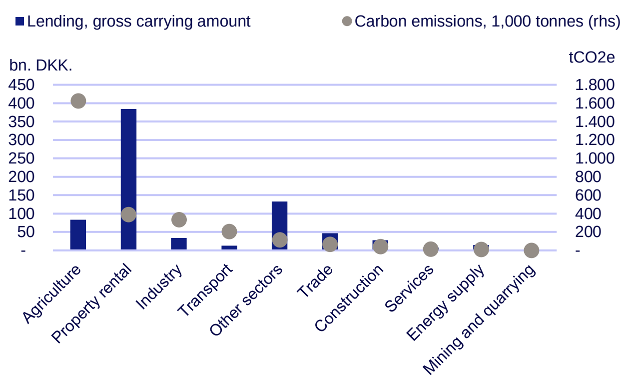
Transition risks

Transition risks arise in the transition to a greener economy, brought about by large-scale political, legal and technological changes as well as preference and market changes, such as carbon taxes or changes in consumption patterns. Transition risks are therefore closely linked to the level of carbon emissions, as high-emission customers are more exposed to future regulation (eg carbon taxes). For this reason, high-emission industries must be assumed to be the most vulnerable.

The sectors of agriculture, forestry, fishing, industry and transport all account for high estimated carbon emissions relative to total lending. These are also the sectors to be highly affected by new regulation in the form of the upcoming carbon tax on agriculture, the road charges for lorries and the green tax reform. These regulatory measures underline the transition risks faced by these sectors. In this context, Nykredit is particularly vigilant as to the agricultural sector.

Physical and transition risks related to ESG will be a challenge to Nykredit's business models in certain industries and areas. At the same time, legislative measures may have a large impact on Nykredit's loan portfolio. On balance, the value of certain assets is expected to decrease.

Lending and carbon emissions by industry relative to lending



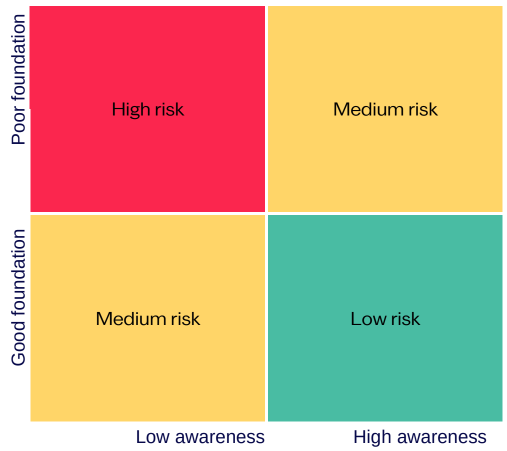
Note: Only determined for lending secured by mortgages on real estate.

Government efforts towards the green transition of heavy transport, new carbon taxes and new energy efficiency directives have been intensified, and new bills have been tabled. Conditions will challenge customers' business models and increase expected credit losses. "Total impairment provision related to ESG totalled DKK 0.7 billion at end-2023 (DKK 0.2 billion at end-2022). Of this amount, DKK 0.3 billion relates to carbon taxes imposed on industry, and DKK 0.4 billion relates to agriculture.

Assessment of business customers' climate risks

The green transition entails increased credit risk for a large part of our business and agricultural customers, which should be an attention point in connection with credit assessments and the ongoing monitoring of customers. To this end, Nykredit has launched a tool in which advisers can classify customers' ESG risk by climate-related risks (E) and integrity, the latter comprising both social and governance factors (S and G). In the tool, the company is assigned a score for each of the two areas and is classified with low, medium or high risk. If the company is classified with high ESG risk, advisers are required to further explain why a customer is creditworthy, as we assume that a customer's profitability in the long term will be negatively affected by ESG risk, for example, in the form of a decrease in revenue due to stricter sustainability requirements made by consumers and businesses as takers of goods or services.

Assessment of business customers' climate position



The ESG tool is used to position business customers in the above matrix.

The climate-related risks are determined in the tool based on a customer's current foundation and awareness of climate-related risks. The assessment of a customer's current foundation is made on the basis of, for example, the specific industry and stakeholder focus on the customer, while awareness is based on the customer's targets and initiatives to reduce its climate impact.

Increasing focus on specific transition plans

Focusing on transition plans in the credit assessment of business customers helps to reduce the risk of Nykredit financing "stranded assets", ie assets losing their value prematurely as a result of, for example, new taxes or legislation. In addition, transition plans help ensure that Nykredit's business customers address the risks resulting from climate change and the green transition, thereby future-proofing their own business model.

In the future, Nykredit expects the largest farmers to be able to show specific plans for how they will be working with green initiatives. It is also expected that business customers will strive to become more sustainable, and especially that the largest customers in particularly vulnerable industries are able to provide transition plans. The expected speed and scale of the transition depends on the industry and the size of the customer, with particular regard being had to the capacity of the individual business.

As we obtain a deeper insight into customers' transition plans, gain more credit management experience in the area and get political clarification in crucial areas, such as carbon tax imposed on agriculture, Nykredit's approach and expectations of customers will be further developed.

To support our customers, Nykredit will continue the dialogue and provide relevant tools to facilitate the development of transition plans.

3.3.2 Climate risks related to investment

Nykredit has set climate targets for investments to be aligned with the transition required to meet the objective of the Paris Climate Agreement. In 2021, Nykredit joined the Net Zero Asset Managers initiative and committed to making the Group's investment portfolio climate-neutral by 2050. At the same time, Nykredit has set a target of reducing total emission intensity by 60% from 2020 to 2030.

All our investments – both in own portfolio and on behalf of customers – are subject to Nykredit's Fossil Fuels Policy and Sustainable Investment Policy. This means that investments are screened beforehand against a number of criteria, including in the area of extraction and use of fossil fuels.

Nykredit always makes sustainability assessments of our actively managed investment products to understand the risks and opportunities related to ESG factors. The sustainability assessments give us an indication of whether a company is developing in a more sustainable direction. Therefore, companies with low exposure to climate-related risks, and companies with higher exposure, may be considered, as long as they have a credible transition plan. For passively managed investment products, product guidelines are formulated to ensure the management of sustainability risks. For both types of investment, compliance with guidelines and policies is continuously being monitored, and sustainability characteristics, financial sustainability risks and negative impacts on sustainability are continuously being monitored and reported on.

Nykredit has integrated sustainability analyses in our investment processes since 2012 and continually improved processes across funds and asset classes. Already in 2014, internal analyses indicated that returns and sustainability may be correlated, and these insights have continually been further substantiated. Therefore, ESG aspects have become part of all phases of the investment processes – from idea generation to our active ownership. These measures contribute to mitigating climate change while at the same time helping to reduce the transition risk in Nykredit's investment portfolios.

3.3.3 Non-financial climate risks

The green transition entails a number of non-financial risks. Every day, Nykredit has a strong focus on mitigating these risks.

Nykredit has a wide range of sustainable products and works every day to ensure that the products meet all internal and external sustainability standards, so that both customers and investors can rest assured that greenwashing does not occur in our products, investments or practices.
The sustainable transition also entails new reporting requirements, and Nykredit has a continuous focus on ensuring that Nykredit, alone and in concert with other financial sector participants, is able to deliver timely reporting based on the right data quality. This way, through our reporting, Nykredit can provide assurance to customers and investors about the sustainable elements.

Risks arising from climate change, where more extreme weather conditions may affect Nykredit's buildings or IT equipment and result in operating losses, are assessed to be relatively low.

In Nykredit's current, ongoing risk management efforts, we have a constant focus on identifying, assessing and managing the new risks that naturally arise from new products, standards and new behaviour on the back of the accelerating transition of society and of Nykredit.

4 Capital

The objective of Nykredit's capital management is to support the Group's business model, strategy and objectives. Nykredit aims to have stable earnings, a strong capital structure and competitive credit ratings.

Based on a structured capital management framework, the Group aims to be able to maintain its business activities throughout Denmark regardless of fluctuations in economic trends. At the same time, Nykredit wants to ensure sufficient own funds to generate dividend for its owners and to meet regulatory requirements and the expectations of the Danish FSA.

The Board of Directors has set a Common Equity Tier 1 (CET1) capital target of 15.0-16.0% of the risk exposure amount (REA), whereas the overall target for own funds has been set at 19.5-20.5%.

The headroom against the targets is due in part to Nykredit already having set aside CET1 capital to meet new, upcoming EU capital requirements (CRD6/CRR3). A political agreement has been reached in the EU, implementing the Basel standards (Basel IV). The current amount of CET1 capital set aside is based on full implementation of the original recommendations of the Basel Committee. For now, the EU political agreement does not give rise to adjustment of this amount.

Nykredit may obtain new CET1 capital from its owners through Forenet Kredit's capital resources and investment commitments from a number of Danish pension companies. Given its access to funding, Nykredit ranks on a par with a listed SIFI in terms of capitalisation.

Risk appetite

In accordance with its business model, Nykredit aims to have stable earnings, a strong capital structure and competitive credit ratings. The capital requirement determined by Nykredit must therefore be significantly above the minimum regulatory level, ensuring that Nykredit can withstand an economic downturn and any consequent losses and meet new regulatory requirements. Lower capital thresholds are set for purposes of the ongoing capital management. Leverage limits and requirements for eligible liabilities (MREL) and debt buffer have been laid down.

4.1 Capital policy and guidelines

Nykredit's capital policy is laid down by the Board of Directors and defines the Nykredit Realkredit Group's consolidated capital needs, maximum leverage and targets for eligible liabilities (MREL), debt buffer etc.

Nykredit's capital targets are determined on the basis of the Danish FSA stress testing approach and are comprised of regulatory capital requirements and buffers, and a stress buffer reflecting the impact on Nykredit's capital position of a severe recession. Nykredit furthermore applies internal capital buffers. Consequently, Nykredit's capital targets are considerably higher than the regulatory minimum requirement. The Board of Directors may reassess the Group's capital targets in case of major unexpected events.

In addition to the capital policy, Nykredit's Board of Directors has issued guidelines on day-to-day capital management to the Executive Board, which may in turn delegate guidelines and limits to Nykredit's Asset/Liability Committee.

The guidelines set out the scope for Nykredit's capital ratios, leverage ratio, eligible liabilities and debt buffer, and specify the governance structure, delegation scope, escalation procedures etc.

The need for capital is assessed regularly as part of our capital planning which is based on balance sheet, earnings and risk exposure projections. Nykredit's capital planning allows for factors such as maturity profiles of existing issues, adopted upcoming regulation and stress tests.

The capital policies of Group companies are determined by the individual Boards of Directors on the basis of the Group's capital policy and recommendations from the Asset/Liability Committee.

4.2 Control and reporting

The Group continuously reports on the capital positions of the Group and the Group companies to the Board of Directors, the Board Risk Committee, the Executive Boards, the Asset/Liability Committee and the Group Risk Committee.

The Asset/Liability Committee receives monthly reports on REA, own funds and capital plans. Nykredit's Executive Boards and Boards of Directors as well as the Asset/Liability Committee monitor and evaluate the current capital positions at least quarterly. The risk outlook is described in the quarterly reports to the Board of Directors, the Board Risk Committee and the Group Risk Committee. In case of breaches of the capital policies or guidelines, the Board of Directors, the Executive Board and the Asset/Liability Committee receive separate reports, including an action plan.
Nykredit's risk control function performs continuous, independent control and monitoring of capital policy compliance at company and Group levels.

The capital policies and the Board of Directors' capital management guidelines are adjusted and approved annually.

Capital ratios of Nykredit's companies

% of REA End-2023	Capital ratio	Total regulatory requirement[1]
Nykredit Realkredit Group		
CET1 capital	20.4	13.0
Tier 1 capital	21.2	14.9
Own funds	23.7	17.6
Nykredit Realkredit A/S		
CET1 capital	15.7	11.9
Tier 1 capital	16.4	13.5
Own funds	18.2	15.7
Nykredit Bank Group		
CET1 capital	27.4	13.1
Tier 1 capital	27.4	15.1
Own funds	27.4	17.8
Totalkredit A/S		
CET1 capital	24.1	13.1
Tier 1 capital	26.7	15.1
Own funds	28.1	17.8

[1] The regulatory requirement includes requirements under Pillar I and Pillar II and the combined capital buffer requirement.

Capital management governance

Board of Directors and Board Risk Committee:
Lay down the capital policy and capital management guidelines, including capital targets, maximum leverage and targets for eligible liabilities (MREL) and debt buffer.

Receive quarterly reports on capital policy compliance.

Receive separate reports in case of breaches of the policy or guidelines, including an action plan for approval.

Executive Board and Asset/Liability Committee:
Approve and implement the capital policy and oversee compliance based on quarterly reports.

Receive separate reports in case of breaches of the policy, including an action plan for approval. In addition, the Asset/Liability Committee receives monthly reports on REA, own funds and capital planning.

Control functions (second line of defence):
Perform independent controlling and monitoring of capital policy compliance at company and Group levels. Prepare independent reports for the Board of Directors and the Executive Board.

ICAAP
Nykredit prepares an annual Internal Capital Adequacy Assessment Process (ICAAP) report identifying, measuring, assessing and monitoring all relevant risks to ensure that Nykredit has the required level of own funds. Via the Group Risk Committee and the Board Risk Committee, the report is submitted to the Board of Directors for approval and to the Danish FSA for review.

4.3 Current own funds and development

The Nykredit Realkredit Group's own funds totalled DKK 103.0 billion at end-2023, against DKK 102.3 billion at end-2022. With a risk exposure amount (REA) of DKK 433.4 billion, this corresponds to a total capital ratio of 23.7% at end-2023 against 23.3% at end-2022. The table below shows Nykredit's own funds and REA.

CET1 capital came to DKK 88.6 billion at end-2023, corresponding to a CET1 capital ratio of 20.4% against 19.5% at end-2022. The Nykredit Realkredit Group's CET1 capital increased by a total of DKK 2.8 billion in 2023, mainly driven by net profit for 2023.

In 2023, Nykredit distributed ordinary dividend of DKK 4.65 billion, corresponding to 50% of profit after tax for 2022, and extraordinary dividend of DKK 1.85 billion.

Nykredit's Tier 1 capital of DKK 92.3 billion consists mainly of Common Equity Tier 1 (CET1) capital, which is the key capital measure, as this is the type of capital required to comply with most of the regulatory capital requirements. Additional Tier 1 (AT1) capital totalled DKK 3.6 billion (EUR 500 million) at end-2023 and was issued by Nykredit Realkredit A/S in October 2020.

The Nykredit Realkredit Group's Tier 2 capital including regulatory adjustments totalled DKK 10.7 billion at end-2023. Nykredit Realkredit A/S did not redeem or issue Tier 2 capital in 2023.

At end-2023, Nykredit Realkredit A/S had furthermore issued about DKK 47.0 billion-worth of senior non-preferred debt. This does not count towards own funds, but is eligible for meeting the Danish minimum requirement for own funds and eligible liabilities (MREL) applying to the Group, the debt buffer requirement for mortgage banks as well as S&P's Additional Loss-Absorbing Capacity (ALAC) criterion for credit rating purposes. Senior non-preferred debt serves to protect unsecured creditors in case of the issuer's resolution or bankruptcy.

CET1 capital ratio

20.4%

(2022: 19.5%)

Tier 1 capital ratio

21.2%

(2022: 20.4%)

Total capital ratio

23.7%

(2022: 23.3%)

4.3.1 Capital adequacy differences between the Groups

Although the sole activity of Nykredit A/S is its ownership of Nykredit Realkredit A/S, the determination of own funds and total REA is not entirely identical for the Nykredit Group and the Nykredit Realkredit Group. The differences are due to four factors:

1. Common Equity Tier 1 (CET1) capital
   CET1 capital totalled DKK 88.4 billion in the Nykredit Group and DKK 88.6 billion in the Nykredit Realkredit Group at end-2023. The difference is caused by a deduction from the CET1 capital of the Nykredit Group for intercompany balances with PRAS A/S and the ownership interest of PRAS A/S in Nykredit A/S.

2. Additional Tier 1 (AT1) capital in subsidiaries
   AT1 capital was issued by Nykredit Realkredit A/S and therefore cannot be included 100% in the Nykredit Group according to the rules on minority interests in the Capital Requirements Regulation (CRR), which stipulate that AT1 capital may only be included at an amount corresponding to the regulatory requirement for the group concerned, in this case the Nykredit Group.

3. Tier 2 capital in subsidiaries
   Tier 2 capital was also issued by Nykredit Realkredit A/S and is subject to the rules on minority interests described above for AT1 capital.

4. Risk exposure amount (REA) – credit risk
   As mentioned in 1 above for CET1 capital, intercompany balances and indirect ownership interests are eliminated in the Nykredit Group. This reduces total REA for credit risk in the Nykredit Group.

Nykredit Realkredit Group

Loan capital, end-2023

	Interest rate	Call date	Maturity	Capital
AT1 capital	4.125%	15 April 2026	Perpetual	EUR 500 million
Tier 2 capital	0.875%	28 April 2026 to 28 July 2026 inclusive	28 July 2031	EUR 500 million
Tier 2 capital	3M Stibor + 1.25%	31 March 2026	31 March 2031	SEK 1,000 million
Tier 2 capital	6M Euribor + 1.71%	-	28 October 2030	EUR 50 million
Tier 2 capital	5.50%	29 September 2027 and 29 December 2027	29 December 2032	EUR 500 million
Tier 2 capital	6.88%	18 October 2027	18 October 2032	SEK 280 million
Tier 2 capital	3M Nibor + 3.65%	18 October 2027	18 October 2032	NOK 1,550 million
Tier 2 capital	3M Cibor + 3.9%	26 October 2027	26 October 2032	DKK 950 million

Capital

DKK billion	Nykredit Realkredit Group		Nykredit Group
Year-end	2023	2022	2023
Equity for accounting purposes	**101.0**	**96.8**	**101.0**
AT1 capital etc	(3.8)	(3.8)	(3.8)
Proposed dividend	(5.4)	(4.7)	(5.4)
Other CET1 regulatory adjustments	(3.2)	(2.5)	(3.5)
CET1 capital	**88.6**	**85.8**	**88.4**
AT1 capital	3.7	3.7	2.7
AT1 regulatory deductions	0.0	0.0	0.0
Total Tier 1 capital	**92.3**	**89.5**	**91.1**
Tier 2 capital	10.7	10.7	8.4
Other Tier 2 regulatory adjustments	0.0	2.1	0.0
Own funds	**103.0**	**102.3**	**99.4**
REA			
Credit risk	374.4	366.1	373.4
Market risk	28.0	42.4	28.0
Operational risk	30.9	29.7	30.9
Total REA	**433.4**	**438.3**	**432.4**
Capital ratios (%)			
CET1 capital ratio	20.4	19.5	20.4
Tier 1 capital ratio	21.2	20.4	21.0
Total capital ratio	23.7	23.3	23.0

4.4 Risk exposure amount

Nykredit's risk exposure amount (REA) forms the basis of the calculation of the capital requirement. The Nykredit Realkredit Group's total REA decreased by DKK 4.9 billion during 2023 to DKK 433.4 billion at year-end, equal to a decline of 1.1%.

REA for credit risk increased by DKK 8.3 billion in 2023. Looking at credit risk excluding counterparty risk, REA increased by DKK 6.5 billion from end-2022 to DKK 366.1 billion at end-2023, representing a 1.8% increase. This rise is mainly driven by lending growth, an increase in value-adjusted debt outstanding of mortgage lending due to interest rate developments, and the development in credit quality. However, risk weights are low due to a long period of largely rising property prices and favourable macroeconomic conditions.

Nykredit holds a capital add-on under Pillar I to handle the effect of new legislation and regulation, which is implemented as part of IRB model development. For example, credit risk models must be developed and approved according to the new EBA guidelines on model estimation as well as the guidelines on default definition. In this process, by doing this, Nykredit sets aside capital to cover the expected effect on REA of the model changes. Once the models have been approved and implemented, the capital add-on will be released. At end-2023, the Nykredit Realkredit Group held capital add-ons under Pillar I in the amount of DKK 64.1 billion.

REA for counterparty risk rose by DKK 1.8 billion to DKK 8.3 billion at end-2023.

REA for market risk decreased by DKK 14.5 billion, or 34.1%, during 2023. The development is mainly attributable to calm markets throughout 2023 and reductions in equity and callable covered bond portfolios. For details on changes in REA for market risk, see *7.6.3.*

Operational risks caused a REA increase of DKK 1.2 billion, or 4.0%, to DKK 30.9 billion. REA for operational risk is calculated using the standardised approach, which means that the capital requirement is calculated as 15% of average gross earnings of the past three years. The capital requirement corresponds to 8% of REA for operational risk.

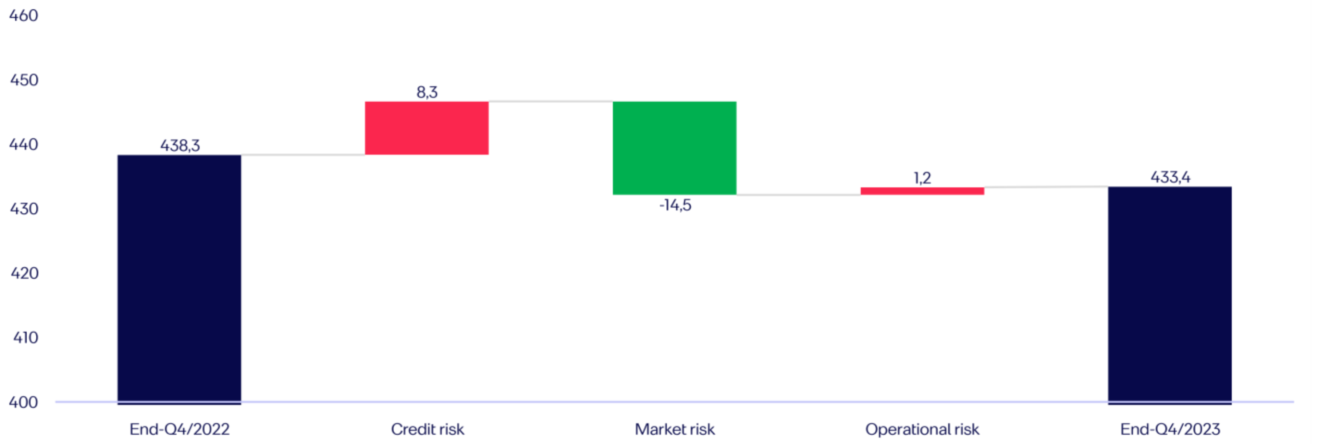
Going forward, Nykredit expects macroeconomic conditions to cause an increase in REA for credit risk as the effects of interest rate rises begin to materialise. This is integrated into Nykredit's capital planning process for the coming years.

Total REA

DKK **433.4** billion

(2022: DKK 438.3 billion)

Nykredit Realkredit Group
Development in REA over the past year (DKK billion)



Nykredit Realkredit Group

REA summary

DKK million	Risk exposure amount Q4/2023	Risk exposure amount Q4/2022	Minimum capital requirement (8%) Q4/2023
Credit risk (excluding counterparty risk)	**366,106**	**359,595**	**29,288**
Of which the standardised approach	14,899	13,768	1,192
Of which the advanced IRB (AIRB) approach	272,407	253,700	21,793
Of which equities under the simple risk weighted approach	11,730	9,669	938
Of which the foundation IRB approach (FIRB)[1]	67,070	82,457	5,366
Counterparty risk	**8,323**	**6,488**	**666**
Of which the standardised approach	7,216	5,084	577
Of which exposures to a CCP	169	265	14
Of which CVA	695	467	56
Of which other counterparty credit risk	242	672	19
Settlement risk	0	0	0
Market risk	**27,980**	**42,443**	**2,238**
Of which the standardised approach	8,630	8,276	690
Of which the internal model approach (IMA)	19,350	34,167	1,548
Operational risk	**30,944**	**29,738**	**2,476**
Of which the basic indicator approach	30,944	29,738	2,476
Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
Total	**433,354**	**438,263**	**34,668**

[1] Includes Nykredit's capital add-ons held under Pillar I

4.5 Capital requirements

Nykredit's total regulatory capital requirement is composed of required own funds (internal capital adequacy requirement) and the combined capital buffer requirement.

4.5.1 Required own funds

Pursuant to the Danish Financial Business Act, it is the responsibility of the Board of Directors and the Executive Board to determine the required own funds. The required own funds are the minimum capital deemed to be required to cover all material risks. The determination takes into account the business objectives and capital policy targets by allocating capital for all relevant risks, including calculation uncertainties.

Required own funds are determined as the sum of Pillar I and Pillar II capital. Required own funds totalled DKK 45.7 billion at end-2023, equal to an internal capital adequacy requirement of 10.6%.

Pillar I

Under the Pillar I requirement, financial institutions must hold capital corresponding to 8% of total REA. See 4.4 for the determination of REA for credit risk, market risk, counterparty risk and operational risk.

Pillar II

Pillar II comprises Nykredit's assessment of various risks not covered by the Pillar I capital requirement. The calculation of Pillar II capital thus supports the aim of maintaining a stable capital level even if the economic climate deteriorates.

Pillar II capital includes a buffer that factors in a weaker economic climate with changes in customer credit quality, falling property prices, etc.

In addition to the buffer to meet cyclical changes, various other assessments are made of other risks that may lead to a Pillar II add-on. Other risks include, for example, effects of model updates, model risk, operational risks, validation and backtest results, data quality, concentration risk and interest rate risk.

Nykredit applies an additional management buffer to allow for the fact that the capital determination depends on statistical methods, choice of model, model properties, unforeseen events, etc.

Our risk management procedures include the identification and assessment of ESG risks through, for instance, analysis of the impact of transition and physical risks. The risks are currently deemed to be identified in the process of assessing elements of traditional risks, such as stability of property values, impairments and rating considerations in relation to customers. The area is monitored closely to ensure alignment with upcoming regulation and stress tests.

Minimum capital requirement

DKK **34.7** billion

(2022: DKK 35.1 billion)

Internal capital adequacy requirement

10.6%

(2022: 11.6%)

Required own funds

DKK **45.7** billion

(2022: DKK 50.5 billion)

4.5.2 Capital buffers

Nykredit is subject to a number of capital buffer requirements in addition to the capital requirements under Pillar I and Pillar II. The combined capital buffer requirement is currently 7.0% of Nykredit's REA and must be met with CET1 capital.

As a systemically important financial institution (SIFI), Nykredit is subject to a special and institution-specific SIFI buffer requirement of 2%. Nykredit is also subject to a capital conservation buffer of 2.5%, which is applicable to all financial institutions.

After the covid-19 outbreak, the countercyclical buffer rate was reduced to 0% by the Danish Minister for Industry, Business and Financial Affairs upon the recommendation of the Danish Systemic Risk Council. Given the subsequent favourable economic conditions in Denmark, the countercyclical buffer has been phased in again and is currently, as at 31 December 2023, 2.5%.

In October 2023, the Systemic Risk Council recommended to the Danish Minister for Industry, Business and Financial Affairs that a sector-specific systemic risk buffer for exposures to property companies be introduced at a rate of 7%, effective from 30 June 2024.

Nykredit Realkredit Group

Regulatory capital requirements

% of REA	2023	2022
Minimum CET1 capital ratio		
Pillar I	4.5	4.5
Pillar II	1.5	2.1
Combined buffer requirement	7.0	7.0
- Capital conservation buffer	2.5	2.5
- Countercyclical buffer	2.5	2.0
- SIFI buffer	2.0	2.0
- Systemic risk buffer	0.0	0.0
Total requirement	**13.0**	**13.1**
Minimum total capital ratio		
Pillar I	8.0	8.0
Pillar II	2.6	3.6
Internal capital adequacy requirement	**10.6**	**11.6**
Combined buffer requirement	7.0	6.5
Total requirement	**17.6**	**18.1**
Capital ratios		
CET1 capital ratio	20.6	19.5
Total capital ratio	23.7	23.3

Also, a bill on Pillar II Guidance (P2G) aiming to ensure greater P2G alignment with the other EU countries has been in public consultation. The ultimate impact on Nykredit's capital targets will be assessed once the measures have been adopted.

Besides the Danish capital buffer requirements, Nykredit must hold CET1 capital for lending in countries where the countercyclical buffer has been implemented and where Nykredit has activities. However, lending in such countries is very limited.

4.5.3 Total regulatory capital requirement

The total capital requirement including combined capital buffers was 17.6% at end-2023, of which the minimum CET1 capital requirement represented 13.0%, including Pillar II. With a total capital ratio and a CET1 capital ratio of 23.7% and 20.4%, respectively, the capital levels are well above the capital requirements applicable to Nykredit.

Besides the specific capital requirements, the results of Nykredit's own stress tests as well as stress tests conducted by the European Banking Authority (EBA) and the Danish FSA must be incorporated in Nykredit's capital planning.

Nykredit's capital targets, which are described in detail in *4.1 Capital policy and guidelines*, allow for the capital requirements combined with a deteriorating economic climate corresponding to the severe recession scenario in the Danish FSA stress test or a similar scenario.

4.6 Stress tests and capital projections

In addition to the regulatory capital requirements, Nykredit holds additional capital to be applied in particularly stressed economic circumstances. Accordingly, a stress buffer is determined in connection with the annual adoption of Nykredit's capital targets, which is based on a cross-section of adverse impacts on capital in both internal and external stress test exercises over a number of years. Model-based stress tests and capital projections are permanent elements of Nykredit's capital management.
The stress tests are used to assess the impacts of different macroeconomic scenarios. The results are applied at both Group and company levels and are included in the annual assessments by the individual Boards of Directors of the internal capital adequacy requirement as well as in the determination of capital targets.

The stress test calculations include the macroeconomic factors of greatest importance historically to Nykredit's customers.
The capital requirement for credit risk builds primarily on correlations between the macroeconomic factors, the Probability of Default (PD) and Loss Given Default (LGD). These correlations are an essential element of the capital projection model. Operating losses in a stress scenario increase the capital requirement, while operating profits are not included. The impacts of both rising and falling interest rates are tested in the projection scenarios to determine the greatest stress impacts.

The most important macroeconomic factors identified:

Property prices
Interest rates
Unemployment
GDP growth

Nykredit applies a wide range of macroeconomic scenarios taken from its catalogue of scenarios, including a baseline scenario, which is a neutral projection of the Danish economy based on Nykredit's assessment of the current economic climate. The baseline scenario is supplemented with stress scenarios of varying severity, ranging from a weaker economic climate to a severe recession. Other relevant scenarios from external parties such as the Danish FSA, current risk scenarios or company-specific scenarios for Nykredit Bank and Totalkredit are also considered.

Stress scenario: Weaker economic climate
This stress scenario is designed to illustrate a weaker economic climate. The stress scenario is applied to determine a Pillar II add-on that reflects how much Nykredit's capital requirement would increase if this scenario were to occur. The results are included in the determination of Nykredit's internal capital adequacy requirement.

Nykredit regularly assesses which scenario to apply to determine the Pillar II add-on. As the scenario must reflect a weaker economic climate, it may coincide with the baseline scenario if the current macroeconomic projection is deemed to reflect exactly that. Alternatively, the scenario applied may be a specially designed recession scenario or a current risk scenario, for instance an inflation scenario.

Stress scenario: Severe recession
Nykredit's capital policy aims at ensuring a robust capital level, also in the long term and in a severe recession. Therefore, Nykredit regularly evaluates the impact of severe recession. This stress scenario reflects an exceptional, but plausible macroeconomic stress scenario. The calculations are factored into the annual determination of the stress buffer included in the capital targets.

The results of the stress scenario reflect how much Nykredit's capital requirement would increase in case of plunging housing prices, falling or rising interest rate levels and high unemployment.

Other stress scenarios
As part of the Group's capital policy, in addition to calculating its own stress scenarios, Nykredit also assesses the stress scenarios prepared by the Danish FSA. The results are compared regularly.

In 2023 Nykredit participated in the stress test exercises of the European Banking Authority (EBA). The stress test showed that Nykredit can withstand a very severe macroeconomic downturn where large property price declines have a significant adverse impact on both personal and business lending.

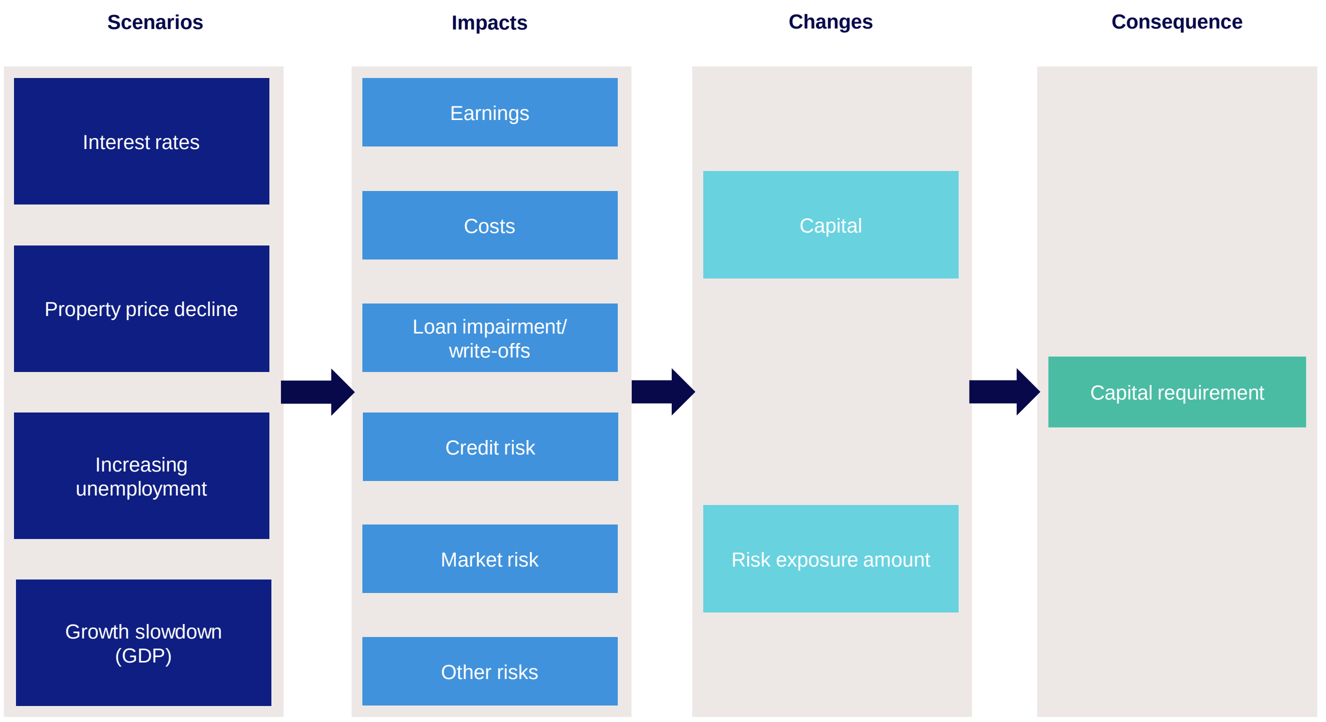
The results of the stress tests conducted in recent years have shown that Nykredit's CET1 capital ratio will drop by approximately 4 percentage points in a severe recession. The decrease is within the scope set out in Nykredit's capital policy, thus indicating that Nykredit is sufficiently resilient to withstand a severe macroeconomic stress.

Internal Capital Adequacy Assessment Process (ICAAP)
Through the ICAAP process, the Board of Directors annually assesses Nykredit's required own funds and internal capital adequacy requirement, reflecting the capital requirements under Pillar I and Pillar II. The internal capital adequacy requirement is determined to reflect a cautious and forward-looking approach that supports the overall risk tolerance according to Nykredit's risk policy.

Despite continued macroeconomic uncertainties, the conclusion of the ICAAP process is that Nykredit has sufficient capital to withstand these risks, as well as far more severe downturns, and takes these risks into consideration in both its risk management practices and the capital policy.

Based on the ICAAP and other aspects, Nykredit's Board of Directors determines at least annually the company's capital policy and the pertaining capital requirements, capital targets and capital plan.

Nykredit Realkredit Group
Structure of stress tests and capital projections



Nykredit Realkredit Group
Stress scenarios to determine the capital need

	2024	2025	2026
Baseline scenario			
Interest rates[1]	2.9%	2.1%	2.0%
Property price growth	2.6%	2.0%	0.6%
GDP growth	1.2%	1.3%	1.6%
Unemployment	5.0%	5.1%	5.1%
Weaker economic climate (applied under Pillar II)			
Interest rates[1]	2.2%	2.2%	2.2%
Property price growth	(1.6)%	(2.2)%	0.4%
GDP growth	(0.5)%	(0.4)%	0.7%
Unemployment	5.1%	5.3%	5.3%
Severe recession			
Interest rates[1]	2.2%	1.7%	1.7%
Property price growth	(10.0)%	(8.0)%	(4.0)%
GDP growth	(3.0)%	(2.0)%	0.0%
Unemployment	7.0%	8.7%	9.3%

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

4.7 Consolidation methods

REA is determined according to the rules of the Danish Financial Business Act and the Capital Requirements Regulation. The determination comprises Nykredit Realkredit A/S (the Parent) and the enterprises in which Nykredit Realkredit A/S exercises direct or indirect control of the enterprises' financial and operational management.

As at end-2023, the consolidated risk exposures concerned:

- Nykredit Realkredit A/S
- Totalkredit A/S
- Nykredit Bank A/S
- Nykredit Leasing A/S
- Sparinvest Group
- Nykredit Portefølje Administration A/S
- Nykredit Mægler A/S
- Kirstinehøj 17 A/S
- Kalvebod Ejendomme I A/S

Together with other enterprises, Nykredit controls an enterprise, JN Data, which is not included in the Consolidated Financial Statements. This enterprise is recognised according to the equity method.

4.7.1 Differences compared with Financial Statements

There are differences between the Financial Statements and determinations under the CRR. This means that the figures in this report are not directly comparable with the determination of exposures in the Annual Report. This report has been prepared in accordance with Part 8 of the CRR, which defines the disclosure requirements.

Unexercised loan offers and undrawn credit and loan commitments, as well as potential future credit exposures to financial instruments are included in exposures used for the determination of REA. The same applies to guarantees. REA for securities is calculated at ISIN level. Detailed disclosures are available at nykredit.com..

4.7.2 Credit risk

Nykredit has obtained the approval of the Danish FSA to use the advanced IRB approach to determine REA for credit risk in relation to:

- Retail and business exposures of Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S

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

- Sovereign and credit institution exposures
- A few minor portfolios and remaining companies

4.7.3 Market risk

For the determination of REA for market risk, Nykredit Realkredit A/S has obtained FSA approval to apply a Value-at-Risk (VaR) model to calculate the general risk related to:

- Equities
- Debt instruments
- Foreign exchange

Nykredit Bank A/S has obtained FSA approval to apply a VaR model to calculate the general risk related to:

- Debt instruments
- Foreign exchange

For market risk in the remaining companies and the parts of the portfolio for which REA is not determined using VaR, the standardised approach is applied.

Nykredit has a number of procedures in place ensuring that the tradability of positions in the trading book is satisfactory, see *7 Market risk*. All positions in the trading and banking books are tested regularly for uncertainty related to applied prices against observed prices. These tests are applied in the prudent valuation calculations. A deduction is made from Nykredit's CET1 capital for prudent valuation.

The upcoming capital requirement, FRTB, and resulting reporting requirements are described in more detail in *7.6.3 Regulatory capital requirements*.

4.7.4 Operational risk

For all Group companies, the capital requirement for operational risk is determined using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings of the past three years.

4.8 Leverage ratio

The leverage ratio is defined as the relationship between Tier 1 capital and the balance sheet total (including off-balance sheet items). The lower the leverage ratio, the higher the leverage level. Under the applicable rules, the ratio does not factor in any collateral. The minimum regulatory leverage ratio is 3.0%. The leverage ratio is calculated separately for each company and included in their capital management.

In the capital policy, the Board of Directors of Nykredit Realkredit and the Boards of Directors of the individual subsidiaries have set targets for their respective leverage levels. The target is reviewed annually and determined based on a stressed scenario, factoring in other impacts on earnings and own funds as well as balance sheet movements, which may ultimately affect the leverage ratio.

Nykredit's balance sheet mainly consists of match-funded mortgage loans. Match funding ensures a match between the interest and principal payments of a loan and the underlying funding. Because of the structure of Nykredit's balance sheet with stable a development in mortgage lending, the risk of excessive leverage is limited. Moreover, stress tests show that the leverage ratio remains largely unaffected in stressed scenarios, which mainly affect Nykredit's REA.

Nykredit continuously monitors leverage ratio movements. The leverage ratio is determined on a quarterly basis and projected based on the expected balance sheet and Tier 1 capital development. The results are submitted to the Asset/Liability Committee, which considers any required action. If the leverage ratio becomes too low, the Asset/Liability Committee will reassess the capital planning and, if required, recommend an increase in Tier 1 capital to the Board of Directors.

The Boards of Directors receive regular reports on the leverage ratio measured against the internal leverage targets. Leverage ratios are also included in recovery plans and the ICAAP documentation, which are also submitted to the Boards of Directors and the Danish FSA.

At end-2023 the Nykredit' Realkredit Group's leverage ratio was 5.1%, which was unchanged since end-2022, see the table below. In 2023 Nykredit recorded business growth, which has increased leverage ratio exposures. Tier 1 capital increased as a result of profit for the year and other factors.

Nykredit Realkredit Group

Leverage ratio

DKK billion Year-end	Regulatory requirement	2023	2022
Tier 1 capital		92	89
Leverage ratio exposures		1,791	1,740
Leverage ratio, %	**Min 3.0**	**5.1%**	**5.1%**

4.9 Debt buffer and MREL requirements

Nykredit Bank must comply with the Danish minimum requirement for own funds and eligible liabilities (MREL). The purpose of the MREL requirement is to ensure that Nykredit Bank can be recapitalised and restructured through a principal write-down or conversion of capital and debt instruments in the event of a situation where the Bank meets the conditions for resolution.

At end-2023, Nykredit Bank had own funds and eligible liabilities corresponding to 42.2% of REA. The MREL requirement for 2023 set by the Danish FSA was 33.3%; this includes the combined capital buffer requirement of 7.0% of REA.

As Danish mortgage banks, Nykredit Realkredit and Totalkredit are exempt from the MREL requirement, but must meet the regulatory debt buffer requirements. The debt buffer serves to bolster the loss-absorbing capacity of a failing mortgage bank without impairing its lending capacity. The debt buffer must be at least 2% of total mortgage lending (2% requirement) and may consist of excess capital or senior non-preferred debt. The debt buffer requirement applies to Nykredit Realkredit and Totalkredit taken together.

In addition, Nykredit Realkredit and Totalkredit must comply with the revised debt buffer requirement, specifying that the Group's own funds, eligible liabilities and debt buffer together must amount to at least 8% of the consolidated balance sheet total (8% requirement). At end-2023, Nykredit's debt buffer was 4.7%, while the 8% requirement was determined at 9.5%, see the table below.

Liabilities applied to meet the debt buffer requirement are determined after liabilities have been reserved to meet the Bank's MREL requirement, as the same liabilities cannot be applied to meet both requirements at the same time. Accordingly, by observing the debt buffer requirement, the resolution group will have sufficient MREL funds to meet the MREL requirement. The capital structure and capital planning must ensure that the MREL and debt buffer requirements can be met across economic cycles.

Nykredit Realkredit Group

Debt buffer and MREL requirements

% Year-end	Regulatory requirement	2023	2022
MREL funds	33.3	42.2	39.6
Debt buffer	2.0	4.7	4.4
Revised debt buffer	8.0	9.5	9.8

Note: MREL funds were calculated at the level of Nykredit Bank A/S. The debt buffer and the revised debt buffer were calculated at the aggregate level of Nykredit Realkredit A/S and Totalkredit A/S.

Leverage ratio

5.1%

(2022: 5.1%)

Debt buffer

4.7%

(2022: 4.4%)

MREL funds

42.2%

(2022: 39.6%)

4.10 FSA Supervisory Diamonds

4.10.1 Banks

The Supervisory Diamond for banks applies to all Danish banks. It is a strictly Danish initiative and does not stem from EU legislation.

The Supervisory Diamond model sets out the following benchmarks for four key ratios that indicate when a bank is operating at an elevated risk:

- The sum of large exposures should be less than 175% of own funds.
- Lending growth should be less than 20% year-on-year. The limit value is determined exclusive of reverse repurchase lending and after impairments.
- Total exposure to the property segment should be less than 25% of total lending.
- The liquidity benchmark should be more than 100%. The liquidity benchmark indicates a bank's ability to withstand a liquidity stress for a period of at least three months.

The current benchmark values of the Supervisory Diamond model are shown in the table below. Nykredit Bank A/S operates within all benchmark limits.

Nykredit Bank A/S

Supervisory Diamond for banks

Benchmark	2023	2022
Large exposures (limit value <175%)	108.3%	115.7%
Lending growth (limit value <20%)	9.0%	13.7%
Property exposure (limit value <25%)	11.2%	12.1%
Liquidity benchmark (limit value >100%)	223.3%	272.0%

4.10.2 Mortgage lenders

The Supervisory Diamond for mortgage lenders is a strictly Danish initiative and does not stem from EU legislation. In parallel to the Supervisory Diamond, bank loans resembling mortgage loans will be subject to special supervision.

The current benchmark values of the Supervisory Diamond model are shown in the table below. No limits were exceeded.

The Supervisory Diamond model sets out the following benchmarks for five key ratios that indicate when a mortgage bank is operating at an elevated risk:

- Annual lending growth may not exceed 15% in each of the segments personal customers, commercial residential property, agriculture and other business.
- The sum of the 20 largest exposures must not exceed Nykredit's CET1 capital.
- Borrower's interest rate risk relating to residential properties: The proportion of lending where the LTV ratio exceeds 75% of the LTV limit and where the loan rate is fixed for up to 2 years only may not exceed 25% of the total loan portfolio.
- Interest-only (IO) loans to personal customers: The proportion of IO loans for owner-occupied and holiday homes with an LTV ratio above 75% of the statutory LTV limit may not exceed 10% of total lending.
- Limitation of short-term funding: The proportion of loans to be refinanced must be below 12.5% per quarter and 25% per year.

Supervisory Diamond for mortgage lenders

Benchmark	Nykredit Realkredit Group	Nykredit Realkredit A/S	Totalkredit A/S
Lending growth in segment			
Personal customers (limit value <15%)	0.5%	(13.4)%	1.0%
Commercial residential property (limit value <15%)	8.0%	8.1%	5.5%
Agriculture (limit value <15%)	0.0%	0.0%	0.0%
Other business (limit value <15%)	3.1%	2.8%	11.5%
Borrower's interest rate risk			
Loans to private individuals and for residential rental (limit value <25%)	14.0%	19.0%	12.9%
Interest-only loans			
Personal customers (limit value <10%)	5.1%	2.6%	5.2%
Loans with short-term funding			
Refinancing (annually) (limit value <25%)	13.5%	22.1%	8.4%
Refinancing (quarterly) (limit value <12.5%)	2.7%	3.1%	2.5%
Large exposures			
Loans and advances:equity (limit value <100%)	50.6%	49.4%	6.7%

5 Credit risk

Credit risk reflects the risk of loss resulting from customers and counterparties defaulting on their obligations.

It is Nykredit's policy to always offer responsible, sustainable and transparent financial solutions that match customers' financial position and needs. This approach serves to contain Nykredit's overall credit risk.

Nykredit's credit risk stems from mortgage and bank lending, but also from financial products. Most of the credit exposure derives from mortgage loans secured by real estate, which also serves to keep credit risk low.

In 2023 the financial strength of Nykredit's customers was supported by the strong performance of the Danish economy despite high inflation, rising interest rates and geopolitical challenges. High interest rates and high inflation especially impacted the housing market. Average LTV ratios are still relatively low, and combined with the low level of unemployment, this helps to contain expected credit losses, even in a severe stress scenario.

Impairment provisions have been made to cover losses in the personal and business loan portfolios resulting from a weaker economic climate. Write-offs are still low.

Risk appetite

Creditworthiness is the core element of credit granting. Credit granting must reflect Nykredit's strategy and factor in aspects such as sustainable transition and climate risks, and the credit portfolio is structured around guidelines and portfolio targets. Nykredit focuses on long-lasting and sound relationships with customers who have the ability and will to meet their obligations. The objective is that physical assets used in the Group's business and management activities be valued at long-term and robust values, thereby ensuring the necessary security for the Group's bond issues. Property valuation activities include addressing climate and environmental aspects such as physical risks and energy efficiency.

5.1 Credit policy

Nykredit has a nationwide presence across Denmark and a comprehensive distribution network. Customers are served by certified advisers at Nykredit's customer centres and advisers at local Totalkredit partner banks.

Nykredit's credit risk profile and risk appetite are laid down in the credit policy. The credit policy is laid down by the Boards of Directors. It is based on the Nykredit Group's strategy and the aim that customers should perceive Nykredit as a reliable, qualified and long-term financial partner. All credit applications are assessed against the credit policy by financially trained colleagues. The cornerstone of such assessment is a customer's creditworthiness, which reflects their ability and willingness to meet their obligations. An overall evaluation is made of the customer's financial circumstances and other risk elements, taking into account Nykredit's total exposure to the customer and any mortgage security provided. The credit policy includes guidelines and specifies compensatory measures in case of non-compliance with the guidelines.

The credit policy follows the guidelines of the Executive Order on Management and Control of Banks etc and ensures that credit is granted in accordance with the framework of the Totalkredit alliance, Danish mortgage legislation, the Danish Financial Business Act, good business practice, the guidelines on prudent credit assessment and any other relevant rules and regulations. The aggregate credit granting by the Group companies is undertaken within the credit policy limits for large exposures as well as limits for portfolio distribution by industry, geography and other risk types.

Nykredit wants to maintain close relationships with its customers to be able to prevent potential payment difficulties from arising. Prompt action benefits both the customer and Nykredit and limits arrears etc, making it more likely that the customer will recover. Alternatively, losses will be minimised to the advantage of both Nykredit and the customer, which will be liable for any unpaid debt.

Mortgage lending in Totalkredit is based on a strategic alliance comprising 41 Danish banks at end-2023. The Totalkredit partner banks undertake the distribution of loans, customer advisory services, creditworthiness assessments and case processing. Totalkredit loans are subject always to final approval by Totalkredit.

Reviews of credit policy compliance are undertaken by the credit control function, whose duties are segregated from those of the credit approving units and which reports to the Chief Risk Officer.

Credit risk governance

Board of Directors and Board Risk Committee:
Lay down the credit policy, including risk appetite and limits for portfolios, and credit guidelines. Receive quarterly reports on credit policy compliance.

The Board of Directors receives separate reports in case of breaches of the policy, including an action plan for approval.

Executive Board and Credits Committee:
Approve and implement the credit policy and oversee compliance based on quarterly reports.

The Executive Board receives separate reports in case of breaches of the policy, including an action plan for approval.

Control functions (second line of defence):
Perform controlling and monitoring independently of the risk-taking units. Prepare reports for the Board of Directors and the Executive Board. Particularly the risk control and credit control functions play an important role in this respect. The credit control function also regularly reviews credit policy compliance by spot checking credit approvals from all Group companies.

5.2 Lending guidelines and process

Nykredit's customer centres have been authorised to process most credit applications independently, The authority comes with a requirement of credit policy and business procedure certification every three years, in addition to the statutory certification. It is Nykredit's aim that most credit decisions should be made locally.

Which level of Nykredit's credit approval hierarchy determines a business customer's credit application generally depends on the size of the exposure. Nykredit has five regional credit units that process business customers' credit applications exceeding the authority assigned to the customer centres and Nykredit Direkte. Applications exceeding the authority of the regional credit units are processed centrally by Group Credits, unless they involve exposures requiring escalation to Nykredit's Credits Committee, the Executive Boards or the Boards of Directors.

Which level of the credit approval hierarchy determines credit applications of personal customers of Nykredit depends on a combination of exposure size and any credit circumstances requiring particular attention (credit approval rules). The level of the credit approval hierarchy determines whether credit applications are processed by customer centres or centrally by Group Credits.

Which level of the credit approval hierarchy determines mortgage loan applications of personal customers of Totalkredit depends on the value of the property serving as security combined with the size of the loan applied for. Consideration will be given to any credit circumstances requiring particular attention. As for credit applications of business customers of Totalkredit, the level is determined by exposure size, in the same way as for Nykredit customers.

The Groups' largest exposures are presented to the Boards of Directors of the Groups on an ongoing basis. They are also briefed quarterly about the largest write-offs and impairments.

Approvals are made in compliance with applicable rules and practices, including the Danish Executive Order on Management and Control of Banks, etc, the Danish Executive Order on good practice for residential mortgage agreements, guidelines on prudent credit assessment when granting housing loans in growth areas etc and guidelines on creditworthiness assessments.

5.2.1 Nykredit's credit approval process

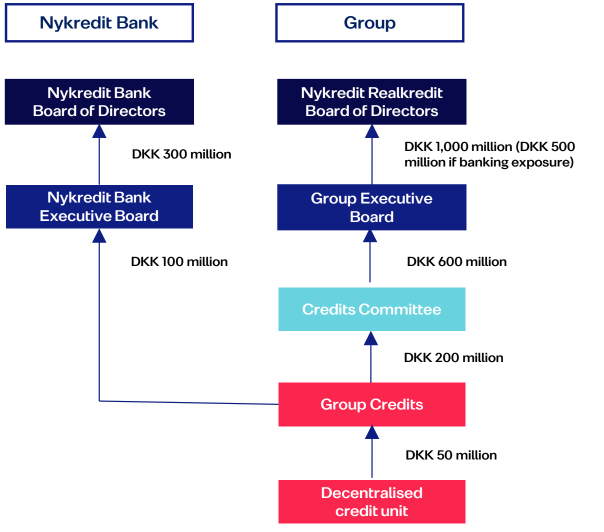
Nykredit's approval of loans is based on the customer rating together with an assessment of the customer's current financial position and resilience as well as other circumstances where relevant, such as, for businesses, their managerial strength and ESG factors. This assessment is based on credit approval rules and guidelines in the credit policy. The assessment also considers the quality of security provided. Security by way of mortgages on real estate is assessed by valuers.

Nykredit applies its own internally estimated ratings to the vast majority of its customers. Customer ratings are based on an estimation of the customer's Probability of Default (PD), which indicates the probability of the customer defaulting on its obligations within 12 months. Customer ratings are used for credit assessments and other purposes.

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

Nykredit Realkredit Group

Credit approval structure, Nykredit Bank and Nykredit Realkredit



Note: For the Group, Maximum applies to the total exposure, and for Nykredit Bank, it applies to the total banking exposure.

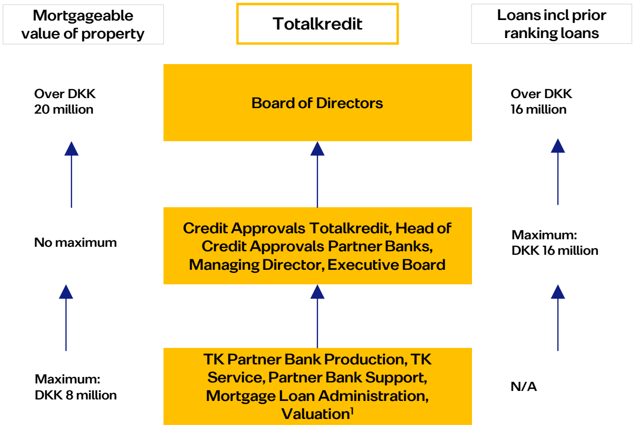
5.2.2 Totalkredit's credit approval process

As regards Totalkredit loans, assessments of personal customers are mostly carried out by the regional and local banks, while the final approval of credit applications is undertaken by Totalkredit. Assessments of business customers and approval of business credit applications are carried out centrally by Totalkredit on the basis of a credit assessment by the partner bank.

A model is used for Totalkredit personal mortgages where the loss risk relating to the loans is shared according to principles set out in the collaboration agreement with the partner banks. The partner banks provide security to Totalkredit by way of a right of set-off and/or guarantees for the loans distributed by them. In return, Totalkredit passes on part of the administration margin payments from customers to the partner banks. This motivates the partner banks to carry out a thorough and comprehensive assessment of customer creditworthiness to minimise expected losses on customers. In case of high-risk loans where the ordinary business procedures are derogated from, the partner banks must provide a guarantee exceeding the security provided for ordinary loans. The security model reduces Totalkredit's credit risk.

Totalkredit A/S

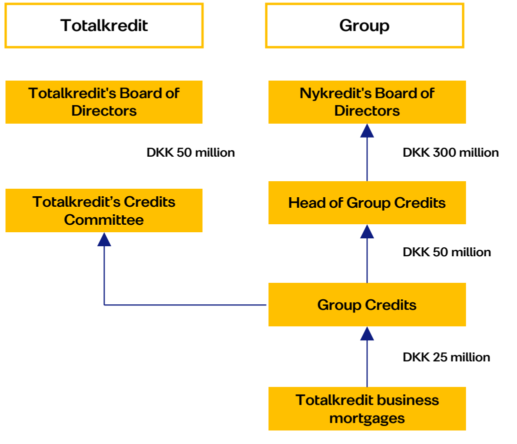
Credit approval structure, Totalkredit – personal mortgages



[1] Valuation can approve properties with values of up to and including DKK 12 million in selected municipalities and postcode areas.

Totalkredit A/S

Credit approval structure, Totalkredit – business mortgages



Note: Maximum applies to the total exposure.

5.3 Control and reporting

Group Credits is responsible for managing and monitoring credit risk in accordance with guidelines laid down by the Board of Directors and the Group Executive Board. The unit is also responsible for reviewing certain individual exposures as well as credit policy limits for large exposures and limits for portfolio distribution at Nykredit and Totalkredit.

Credit risk review is based on a portfolio management approach categorising customers according to industry and monitoring them against a number of credit parameters. Furthermore, the credit control function reviews individual exposures to assure the quality of lending. This includes reviews of credit approvals and weak exposures. The controls are organised to be independent of the approving units, and independent reports are prepared for the risk control function.

The risk control function oversees the ongoing control and review of credit quality, portfolio limits etc and monitors the quality of credit processes. In its reports to the Board of Directors, the risk control function also explains the credit risk outlook.

5.3.1 Portfolio management

The mix and trends of portfolios are monitored by means of portfolio reports, sector and thematic analyses as well as the regular risk exposure reporting to the Boards of Directors. This enables the Boards of Directors to evaluate the credit policy and make the required adjustments in relation to lending at single-name level (guidelines) and portfolio level (portfolio limits and size requirements). The aim is to avoid any single-name risk or concentration of risk which may have a material impact on the Group in the event of default.

In addition to the above, a number of other elements are part of day-to-day credit management based on, for instance, the limits for large exposures and for portfolio distribution. This is supplemented with central credit instructions with respect to individual portfolios and industries, which advisers should allow for in their customer assessments.

In addition to control of individual exposures, the credit control function performs portfolio controls in terms of data-driven monitoring of selected portfolio metrics for early detection of red flags.

5.3.2 Control of individual exposures

Individual exposures are controlled at decentralised and central levels in several areas. The controlling unit holds systematic meetings with the approving units to give them feedback on the relevant findings of the controls.

New approvals

With respect to decentralised reviews, the heads of Nykredit's customer centres are responsible for local day-to-day credit management, comprising spot checks as well as reviews. Controlling new approvals at individual exposure level is also part of the decentralised review procedure. The same applies to Totalkredit's business exposures. The individual banks are responsible for decentralised controlling of Totalkredit's personal exposures.

Centralised controlling is performed by the Group's credit control function, which is responsible for credit controlling in all the Group's companies. New approvals are controlled against the credit policy, including consideration of risk appetite, credit assessment and decision-making basis. As regards Nykredit Bank, Nykredit Realkredit and Totalkredit's business exposures, the credit control function carries out monthly spot checks for each approving unit. Totalkredit's personal exposures and Nykredit Leasing are subject to quarterly controls, and spot checks are carried out for each Totalkredit partner bank. The samples must be large enough to ensure that they are representative of the entire population or a specific risk group. It is a requirement that the results describe, at a high confidence level, the risk appetite of each approving unit and partner bank in relation to new approvals. The controls are risk-based, which means that higher-risk credit approvals are subject to more spot checks. The credit control function will check for, for example, any overrun of credit approvals, processing errors and derogations from the credit policy guidelines. It is assessed whether the overall level of approvals is within the credit risk appetite.

Renegotiations

Decentralised reviews of renegotiations are part of the monitoring of credit exposures, and large business exposures are reviewed by the account manager at least annually. The review is based on financial statements, ratings and customer data and is a key element of the control environment. In addition, the heads of the customer centres conduct regular spot checks of the frequency and quality of renegotiations as part of the decentralised review procedure. Central reviews and control of the frequency and quality of renegotiations are performed by the central credit control function on an ongoing basis.

Review of weak exposures

Nykredit identifies weak exposures based on the rating categories with the highest probability of default, with or without objective evidence of credit impairment. Objective evidence of credit impairment is determined on the basis of a number of statutory indicators of credit-impaired exposures. If Nykredit identifies objective evidence of credit impairment, the exposure will be assigned the lowest possible rating.

Weak exposures are reviewed by units that are specialised in handling weak exposures. Weak exposures are reviewed at least annually, except for personal customers with a rating of 2 (the highest possible rating in the category of weak exposures) where review is part of the daily customer relationship management. Business bank exposures are reviewed quarterly, with a few exceptions. The reviewing units are responsible for preparing a credit strategy including an action plan for the purpose of implementing loss control measures and restoring the customer's financial strength. The account manager is responsible for executing the credit strategy. Weak exposure reviews also include assessment of the customer's creditworthiness and consequently rating, data control and, in some cases, impairment calculations. Regular spot checks are made of the quality of weak exposure reviews conducted.

For Totalkredit mortgage loans, exposures are designated as weak if there is reasonable doubt as to whether the customers are able and/or willing to honour their obligations to Totalkredit. Totalkredit identifies weak personal exposures through Totalkredit's rating model, registrations made by partner banks in connection with loans, and Totalkredit's portfolio monitoring. Personal exposures where the PD is over 5%, where the customer is registered in RKI's bad debtor register and/or is subject to execution, or where other red flags indicate that the customer is in severe financial difficulties are assessed individually for objective evidence of credit impairment.

Central reviews and control of the frequency and quality of the weak exposure reviews conducted are performed by the central credit control function on an ongoing basis. The central credit control function controls Nykredit's reviews of weak exposures and Totalkredit's reviews of weak business exposures as well as the action plans implemented in relation to Totalkredit's personal exposures. The purpose of the spot checks is to ensure that the weak exposure reviews comply with relevant business procedures and process descriptions. This credit control serves to support the approving units' handling of weak exposures through ongoing dialogue about the results of controls performed.

The credit control function verifies that impairments and write-offs comply with the accounting rules, and the risk control function validates the models applied.

Controls in respect of impairments are performed as spot checks of Nykredit's impairment of stage 2 and stage 3 exposures including expert recalculation of impairments and comparison of the results with the level of current impairments.
Controls in respect of write-offs are performed as timeliness assessments of a sample of write-offs.

Finally, spot checks are made to verify the timely identification of objective evidence of credit impairment and the correct stage categorisation of weak exposures. This includes verification of timely identification of objective evidence of credit impairment by the case officer.

5.4 Current risk profile and development

5.4.1 Credit portfolio characteristics

Nykredit's loan portfolio mainly consists of mortgage lending, which represents 75% of the total credit exposure. The rest of the loan portfolio primarily consists of bank loans and a small amount of financial instruments.

At end-2023, 48.7% of the Group's lending and guarantees were to personal customers in Denmark. Lending to business customers in Denmark amounted to 32.5%. Lending to customers outside Denmark accounted for 3.9% and was mainly to business customers.

The customer portfolio is characterised by low LTV ratios and a low proportion of loans in default. At end-2023 the average LTV of mortgage loans was 53.4%, and the proportion of loans in default was 1.2%. Customers' internal ratings are predominantly at the high end of the scale and consequently considered good. The calculated ratings are based on customers' financial position and payment behaviour, see *5.6 Models for determination of credit risk*.

Mortgage portfolio's share of total credit exposure

75%

(2022: 73%)

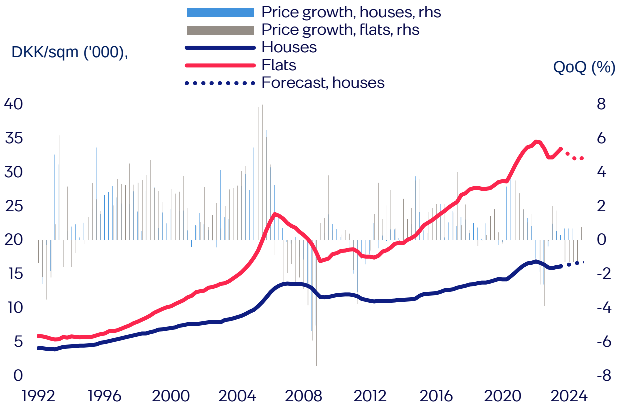
Economic developments and the real estate market

Despite geopolitical tensions and low growth in 2023, the Danish economy was characterised by strong economic indicators showing a continued rise in employment and decreasing inflation. However, growth was largely driven by the pharmaceutical industry, while other sectors, such as manufacturing and construction, saw a slowdown. The level of bankruptcies remains high, particularly in construction, reflecting lower demand due to high interest rates and considerable fluctuations in the prices of building materials. For the majority of homeowners, the consequences of interest rate increases are manageable and have not given rise to increasing arrears.

Housing prices fell in early 2023, but since then activity and prices have gone up throughout Denmark. Growth was seen for Copenhagen flats in particular, suggesting that many people wanted to buy before the turn of the year when new housing tax rules came into force. In recent years, the Copenhagen housing market has exhibited resilience to interest rate increases, but the housing cost burden (the percentage of a household's income allocated to housing-related expenses) is high, and the adjustable-rate loans of many homeowners are up for refinancing, which will result in higher interest payments.

The rental property market has been challenged by the rising interest rates, which has caused yield requirements to rise, putting pressure on property valuations.

House and flat prices

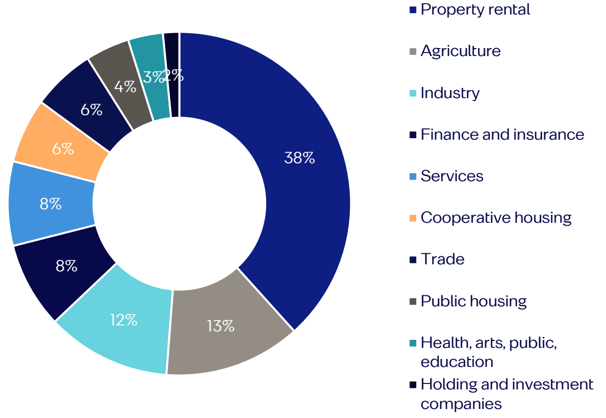


Personal loan portfolio

Nykredit's personal lending exposure accounted for 48.7% of the Group's total credit exposure at end-2023. The personal exposures of Nykredit's loan portfolio are generally of high credit quality, which should be seen in the light of factors such as the record-high level of employment and a high level of savings. During most of 2023, personal customers were facing high inflation and falling housing prices. At the same time, previous interest rate increases fed through to customers whose loans were refinanced. However, Nykredit's personal customers are mostly homeowners with low LTVs and high savings. Real wage growth in 2023 as a result of collective agreements also helped reduce the number of customers

Nykredit Realkredit Group

Breakdown of business lending



defaulting. Furthermore, the strong labour market has a positive impact on credit quality.

At the beginning of the year, rising interest rates increased borrowers' appetite for variable-rate loans, as the interest rates of these loans are generally lower than those of fixed-rate loans. About half of gross new lending in both Q2 and Q3 was variable-rate. As variable interest rates increased and the gap between fixed and variable rates reduced, borrowers' appetite for fixed-rate loans grew again. Almost 70% of total gross new lending in 2023 was fixed-rate. Looking at the entire loan portfolio, the share of fixed-rate loan exposures has increased from 49.1% to 50.2% of private residential lending since end-2022. The rising interest rates also led to high remortgaging activity in 2023.

Share of private residential mortgage lending

62.2%

(2022: 62.6%)

The share of gross new lending with interest-only periods declined steadily during 2023. At end-2023 it was 32%, compared with about 50% at end-2022. This is an appropriate trend given an expected housing price decline.

Business loan portfolio

The lower growth and higher interest rates affected several industries in 2023, and businesses were facing an increasing lack of demand and, to a lesser extent, a lack of input. Manufacturing companies in particular were challenged by the economic slowdown observed in Denmark's large trading partners. However, Nykredit is mainly exposed to less cyclically sensitive manufacturers of food, medicine and chemicals, for instance. Moreover, there has been a shift in consumers' demand from goods to services, and this has put additional pressure on manufacturing companies.

So far, the business loan portfolio has proved resilient to the lower growth and the higher interest rates. No signs of deteriorating customer credit quality, reflected in PD (Probability of Default) or LGD (Loss Given Default), have been observed yet. Thus, the business loan portfolio generally remains of high credit quality and is well-diversified across sectors.

Nykredit maintains impairment provisions to prevent any losses resulting from, for instance, geopolitical tensions. However, the levels of arrears and overdrafts as well as write-offs are still historically low.

Property rental

In the business loan portfolio, the residential and commercial rental sectors represent the largest credit exposure. The segment is also sensitive to rising interest rates. About half the portfolio consists of unhedged variable-rate loans, and soaring interest rates push up yield requirements and drive down property values. However, sensitivity calculations show that Nykredit's customers are generally

Share of business lending

33%

(2022: 31%)

Nykredit Realkredit Group

Credit exposures, Exposure at Default (EAD)

DKK billion	2023	2022
Total business exposures in Denmark	**562.0**	**521.6**
Industry	65.8	55.2
Property rental	215.4	201.4
Trade	33.4	30.3
Cooperative housing	34.3	33.0
Holding and investment companies	8.6	9.4
Public housing	23.3	24.5
Agriculture	72.4	71.3
Finance and insurance	45.6	41.9
Services	44.6	37.2
Health, arts, public, education	18.5	17.3
Total personal exposures in Denmark	**841.7**	**801.6**
Property rental abroad	58.5	78.9
Personal exposures abroad	9.1	10.0
Other[1]	**255.7**	**256.2**
Total EAD	**1,727.0**	**1,668.3**

[1] "Other" includes exposures calculated according to the standardised approach (mainly non-distributable sovereign, institutional and business exposures).

resilient and that their financial ratios are affected to a limited extent by increased vacancy rates and rent increases. Customers are more challenged by higher yield requirements and interest expenses.

Nykredit also has exposures to property rental customers in Sweden and Germany. An increasing slowdown in the Swedish economy could be a challenge – especially for the commercial property sector. Nykredit has stress tested the largest Swedish real estate customers and found them to be resilient, with low LTV ratios. The market is monitored closely, however.

Construction

Higher interest rates and growing construction costs put a damper on new building in 2023. Renovation was still in demand, driven by a period of high housing market turnover, but construction activity has reduced. Further, the industry is challenged by growing costs of materials and wages. In 2023 impairment provisions were made for interim financing risks in relation to large construction loans.

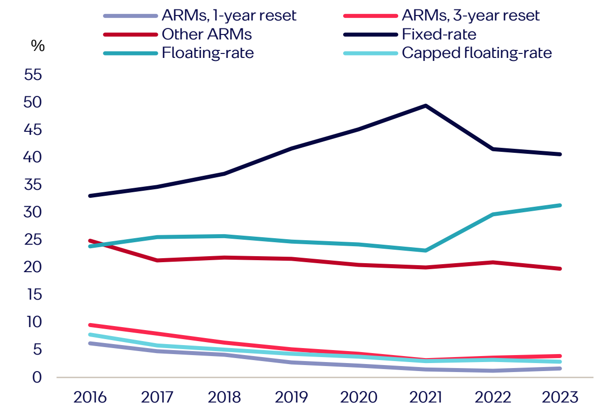
Agriculture

The agricultural sector recorded exceptionally high earnings in 2022, whereas 2023 was characterised by lower output prices and the delayed impact of higher interest expenses. The agricultural loan portfolio is generally characterised by high leverage levels and considerable interest rate sensitivity.

Another key theme for agriculture in 2023 was sustainability, as the agricultural sector is among the largest CO_2e emitters in Nykredit's portfolio. Agriculture is already feeling the increased focus on greenhouse gas emissions. An expected upcoming carbon tax on agriculture will likely lead to a decline in earnings that will affect

Nykredit Realkredit Group

Private residential mortgage lending by loan type, EAD-weighted



Note: Other ARMs includes capped floating-rate loans and adjustable-rate mortgages with interest periods longer than 5 years.

property and land prices, reducing the values of Nykredit's security interests in farms. However, initial stress tests show that Nykredit will be able to manage the related risks, and impairment provisions were made accordingly in 2023.

Energy and utilities

The energy and utilities sector is among the sectors that receive special attention in Nykredit. Focus is on growth areas such as wind and solar energy as well as biogas. Nykredit's existing exposure to the sector is mainly to electricity distribution, transmission and generation. The exposure is dominated by customers with high ratings and low LTV ratios. Customers are set to be favoured by higher output prices and a political focus on the green transition in the years to come. In the longer term, however, electricity prices are expected to drop as green energy output volumes grow. Electricity prices are a new risk factor for Nykredit. They affect the resilience of businesses and the collateral values of green assets. Nykredit will therefore monitor electricity prices closely going forward.

5.4.2 Distribution of customer ratings

In 2023 Nykredit's customers were still characterised by strong financial ratios and good ratings. The credit quality of 89.4% of Nykredit's exposures was in the range of ordinary to high (ratings 6-10) at end-2023. These customers typically have robust finances and savings, and meet their payment obligations.

This type of customer made up 90.2% of Nykredit's personal customers, and for business customers, excluding corporate and institutional clients, the percentage was 80.9%. For 95.0% of Nykredit's corporate and institutional clients, with which Nykredit maintains particularly close contact, the credit quality ranged between ordinary and high.

At end-2023 7.2% of Nykredit's customers were considered "ordinary exposures with minor signs of weakness" (ratings 3-5). These customers typically have less robust finances, but make timely payments. They made up 6.7% of personal customers, and for business customers, the percentage was 12.0%. The percentage for Nykredit's corporate and institutional clients was 4.4%.

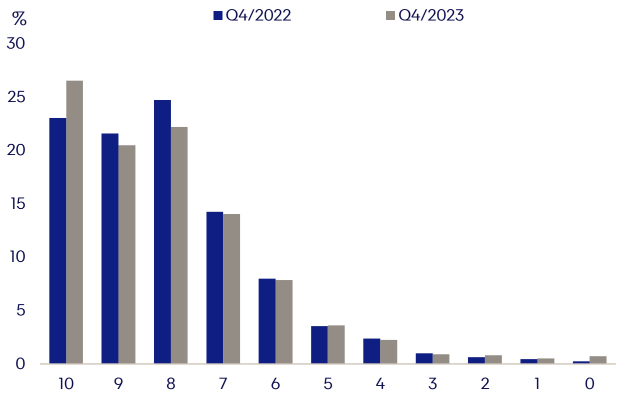
The remaining customers were weak exposures (ratings 0-2), accounting for 2.1%, and exposures in default, accounting for 1.2%. This category primarily consists of customers that have defaulted on their payments, customers with a negative net worth or negative equity, and customers with low or negative earnings.

5.4.3 Concentration risk

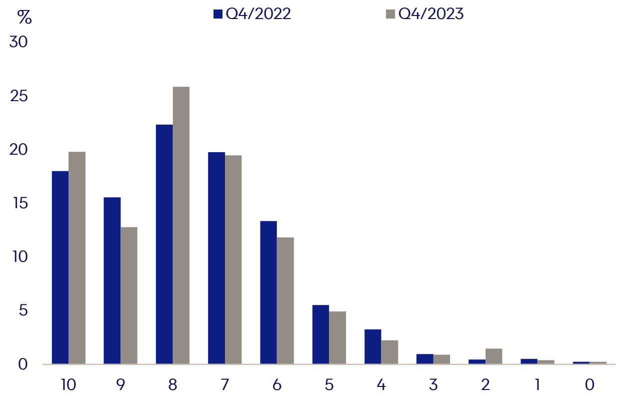
Concentration risk is the risk of being particularly exposed to credit events in groups of customers with identical or similar credit risks. Nykredit continuously strives to mitigate concentration risks. This is reflected in, for instance, internal targets for single exposures relative to own funds, which are constantly monitored and cannot be derogated from unless with the approval of the Board of Directors.

Nykredit's largest credit exposure consists of mortgage lending in Denmark. At end-2023, 95.4% of Nykredit's lending was to customers in Denmark, most of it being mortgage lending. Historically, the Danish mortgage market has proved robust and stable, involving limited risk. This was evident during the years of the financial crisis when Nykredit's mortgage lending grew by 5-9% a year, and loss ratios were consistently low at levels not exceeding 1.9%.

Nykredit Realkredit Group
Personal customers – rating distribution, EAD-weighted



Nykredit Realkredit Group
Business customers – rating distribution, EAD-weighted



48.7% of total credit exposures are loans granted to personal customers in Denmark, the vast majority of them homeowners, and 32.5% is loans to business customers. 3.9% of total credit exposures are mortgage loans financing properties abroad, most of them granted to customers with ties to Denmark. The remaining risk exposures are exposures to, for example, sovereigns and financial institutions.

Private residential lending is broadly diversified across loan type, age, region, maturity and size of debt outstanding. Most foreign exposures are mortgage loans to property companies in Sweden and Germany, and mortgage loans have also been granted to Scandinavian personal customers with homes in Spain and France.

The property rental segment represents by far the largest part of Nykredit's business mortgage lending, accounting for 38.3% of total business mortgage lending at end-2023. The loan portfolio is diversified across different property types, and property uses are diversified across industries. Agriculture represents the second-largest segment, at 12.9% of total business mortgage lending, while industrial lending accounted for 11.7%. Other segments all represented less than 10% of total mortgage lending.

Pursuant to the Capital Requirements Regulation (CRR), credit exposures to a single customer must not exceed 25% of Tier 1 capital in the three Nykredit Group companies Nykredit Bank A/S, Nykredit Realkredit A/S and Totalkredit A/S, see the rules on large exposures. Nykredit had no exposures exceeding this limit in 2023.

Nykredit Bank's largest single exposure to a non-financial counterparty amounted to 9.2% of the Bank's Tier 1 capital at end-2023. Nykredit Realkredit's largest exposure amounted to 11.2% of Tier 1 capital, and Totalkredit's largest exposure amounted to 1.3% of Tier 1 capital at end-2023.

About DKK 1.4 billion of risk exposures have been allocated under Pillar II to cover concentration risk in accordance with the Danish FSA's guidelines.

5.4.4 Impairments

Nykredit's impairment model calculations include forward-looking macroeconomic scenarios. The scenarios must reflect uncertainties relating to the economy as well as both improved and deteriorating outlooks. At end-2023 the scenarios had been updated to reflect the expected economic environment caused by geopolitical tensions and ESG-related risks and other resulting market conditions. In addition to these scenarios, stress tests are performed on specific industries and groups of customers with characteristics that cannot be captured by the models. The results of these tests may lead to a change of stage categorisation.

Total impairments

DKK **9.0** billion

(2022: DKK 9.4 billion)

Also according to IFRS 9, impairments are divided into three stages:

Stage 1 covers loans and advances etc without significant increase in credit risk since initial recognition. For this category, impairment provisions are generally made corresponding to the expected credit losses over a 1-year period.

Stage 2 covers loans and advances etc with significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the expected credit losses over the remaining life of the asset. Stage 2 is subdivided into the categories of "strong" and "weak", "weak" designating the highest-risk exposures where customers' ability to pay is characterised by significant signs of weakness.

Stage 3 covers credit impaired loans etc, which have been subject to individual provisioning based on a specific assessment that the customers will default on their loans.
All mortgage and banking exposures above a certain limit as well as all weak exposures are reviewed individually on a regular basis for the purpose of identifying any objective evidence of credit impairment.

If a customer is deemed to be in financial difficulties, impairment provisions will be made for the exposure in accordance with IFRS 9, and the exposure will be transferred to stage 3 or stage 2 (weak).

For the purposes of both financial reporting and capital determination, Nykredit applies IFRS 9 to calculate impairments. The calculations are divided into four parts, applicable to all Group companies:

- A statistical model is used for impairment of all exposures without objective evidence of credit impairment, irrespective of exposure size.
- A mechanical model is used for impairment of personal exposures with objective evidence of credit impairment and business exposures below DKK 5 million at Group level with objective evidence of credit impairment.
- Expert judgement is used for individual impairment of large business exposures, based on the customer's financial position in an improved, an adverse and a baseline scenario.
- Management judgement (post-model adjustments) is used for impairment of loan portfolios based on factors not reflected in the above impairment models. Underlying reasons may be, for instance, expected credit losses that are difficult to quantify due to a changeable global environment. These adjustments may generally affect credit risk beyond the outcome derived on the basis of model-based impairments.

Exposures in default

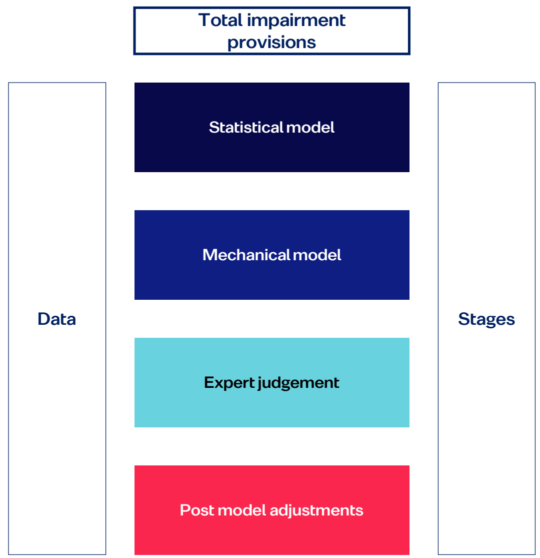
Nykredit's impairment provisions for potential future losses on mortgage and bank lending totalled DKK 9.0 billion at end-2023, equivalent to 0.6% of total lending. Provisions for mortgage loan impairment totalled DKK 5.5 billion (0.4% of mortgage lending). Provisions for bank loan impairment totalled DKK 3.2 billion (2.3% of bank lending).

The proportion of exposures provided for relative to exposures in default was lower for Nykredit Realkredit and Totalkredit than for Nykredit Bank, as mortgage exposures are secured by mortgages on real estate, which may be enforced in the event of default.

Total write-offs on the Group's exposures in 2023 were DKK 0.3 billion. Of this amount mortgage activities represented some DKK 0.2 billion and banking activities DKK 0.1 billion. About 74% of write-offs on mortgage loans concerned private residential lending, while 26% concerned business lending. The average 75-day arrears ratio is still low, at 0.18%.

The portfolio of properties acquired by foreclosure counted three properties at end-2023 and is consequently still at a very low level.

Nykredit Realkredit Group
Impairment components



The portfolio has reduced significantly since 2012 when it counted 246 properties.

The share of non-performing loans is subject to ongoing monitoring. For this purpose, the determination of non-performing loans is based on financial statement data, as provided by legislation.

The share of non-performing loans in the portfolio is relatively low, amounting to 1.2% of total lending at the end of the year.

Post-model adjustments (PMA)
Accounting estimates – also referred to as post-model adjustments – are used to determine credit risks. These estimates and assessments are made by Nykredit's Management in accordance with accounting policies and based on past experience and an assessment of future conditions. Post-model adjustments are used when credit models are unable to capture underlying risks.

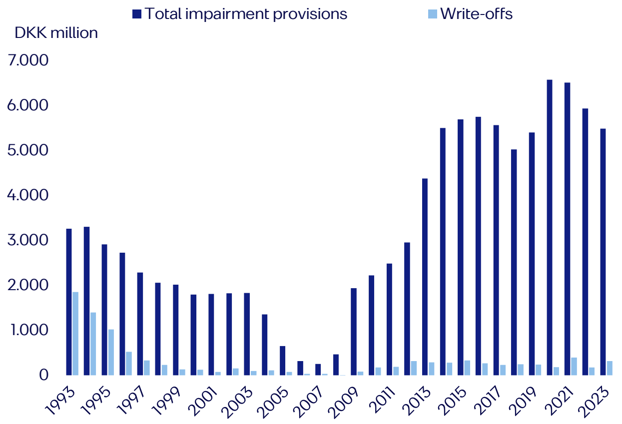
Geopolitical tensions are expected to impact customers through lower economic growth, rising energy prices, higher interest rates, property price developments, inflation and value chain disruption. Loan impairments relating to geopolitical tensions are made for personal as well as business exposures. Impairment provisions of DKK 665 million have been made for personal exposures, and provisions of DKK 1,018 million have been made for affected business sectors. Also, DKK 200 million has been provided to cover general uncertainty caused by geopolitical tensions. Impairment provisions relating to elevated risk as a result of geopolitical tensions total DKK 1,883 million, including DKK 16 million concerning Nykredit Leasing A/S.

Physical and transition risks related to ESG will also challenge Nykredit's business models in certain sectors and areas. At the same time, legislative measures may have a large impact on Nykredit's loan portfolio. On balance, the value of certain assets is expected to decrease. Provisions related to ESG totalled DKK 0.7 billion at end-2023 (DKK 0.2 billion at end-2022). Read more in *3 Climate risks*.

For further information about the general impact of impairments on loans and advances and lending mix, please refer to Nykredit's Fact Book Q4 2023, available at nykredit.com.

A detailed description of impairment rules is provided in the Nykredit Group's Annual Report, available at nykredit.com. For a more detailed description and definitions of model parameters relating to credit risk, including default, see *5.6 Models for determination of credit risk*.

Nykredit Realkredit Group
Impairment provisions and write-offs, mortgage lending



Share of exposures in default

1.2%

(2022: 1.4%)

Average arrears ratio

0.18%

(2022: 0.20%)

Share of high credit quality exposures

89.4%

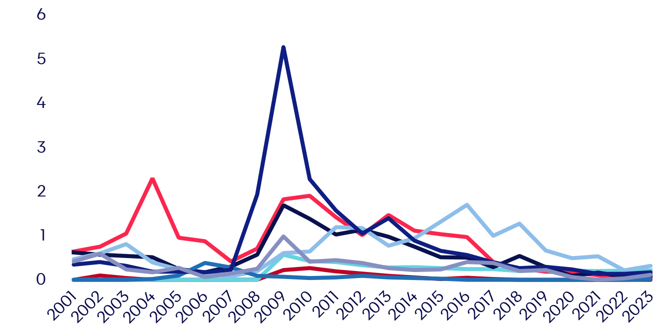
(2022: 89.2%)

5.4.5 Debt collection

Nykredit's lending business inevitably involves arrears. In a minor number of these cases, the customer's inability to pay becomes long-term, while at the same time the security provided for the loan is insufficient to cover Nykredit's risk of loss. In these cases, the debt is written off when all possibilities of collection or recovery have been exhausted.

Customers with debt that has been written off will remain personally liable for this debt, and Nykredit will continue to pursue its claims to ensure that the customers will settle their debt should their financial situation so permit at a later date. At end-2023 Nykredit had approximately 19,500 of such cases and a total amount outstanding of about DKK 5.5 billion.

Nykredit transfers such personal debts to an external debt collection agency immediately after they have been written off. The debt collection agency is specialised and experienced in this area and has in-depth knowledge of debt collection law, statutes of limitation, legal processing of cases etc. Nykredit is in close dialogue with the debt collection agency about the cases transferred.



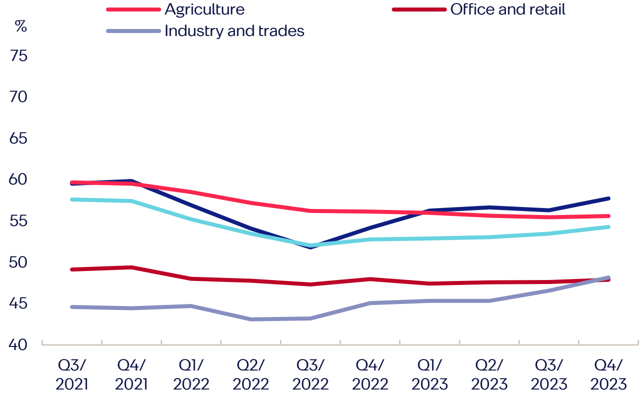
5.5 Security

The approval of loan applications is based on the customer's creditworthiness but supported by the security provided. The greater part of Nykredit and Totalkredit's lending is secured by mortgages on real estate. Other types of security are guarantees and financial collateral.

5.5.1 Real estate

Mortgages on real estate reduce credit risk substantially. The mortgageable value of a property is determined initially at the time of loan granting. Valuations are based on factors such as the marketability, price volatility and alternative use of the property, expected rental income as well as yield requirements in the real estate market. As a general rule, properties are valued by a valuer based on a physical inspection. In addition, a statistical model is used for the valuation of detached and terraced houses and owner-occupied flats where statistical valuation is particularly reliable and where the Danish FSA has approved the use of a property value model for the purpose of determining loan amounts. Such valuations are subject to approval by the valuer in the relevant geographical area and are monitored centrally.

In coming years Nykredit will be improving property valuations and training the Group's valuers in including any physical risks relating to individual properties.



Following the initial valuation, the market value of a property is monitored regularly. Nykredit's Group Risk Committee has set up a committee to monitor market trends and the quality of valuations, including valuations based on the Group's property value model. The committee is also responsible for identifying segments requiring special supervision.

The LTV ratio denotes the debt outstanding relative to the property value. LTV ratios play a significant role in several contexts and are used for:

- Determining maximum loan amounts for the purpose of loan approvals
- Monitoring Nykredit's mortgage lending
- Calculating customers' credit risk for the purpose of, for instance, credit assessment and capital calculations
- Calculating supplementary collateral for properties with SDO-funded loans
- Calculating IFRS impairments, stages 1 and 2
- Calculating returns on individual customer exposures.

At end-2023 the average LTV level of the Group's total loan portfolio was 53%, compared with 51% at end-2022. The average LTV level of the Group's private residential lending was 58% at end-2023, against 54% at end-2022. The LTV levels of sectors comprised in total business lending were in the range between 46% and 56% at end-2023, compared with a range between 45% and 56% in 2022.

LTVs have trended down over the past years as a result of rising property prices and favourable economic trends.

Elements of credit risk determination

PD	Probability of Default (PD) is the probability of a customer defaulting on an obligation to Nykredit within a year.
LGD	Loss Given Default (LGD) is the expected loss rate of an exposure in case of the customer's default.
EAD	Exposure at Default (EAD) is the total estimated exposure to a customer in DKK at the time of default, including any drawn part of a credit commitment.
REA	Risk Exposure Amount (REA) is credit risk exposures factoring in the risk relating to the individual customer. REA is calculated by risk-weighting credit exposures. The risk weighting is calculated on the basis of, for instance, PD and LGD levels.
Default	For both mortgage and bank customers, a number of events have been defined that make it unlikely that a customer will be able to pay its credit obligations without realisation of collateral. The main ones are: events leading to IFRS 9 stage 3, bankruptcy, distressed restructuring and significant arrears/overdrafts (90 days past due).

5.5.2 Guarantees and financial collateral

Nykredit mainly receives guarantees from public authorities and other banks. Guarantees issued by public authorities mitigate credit risk; for instance the Danish government guarantees mortgage lending for public housing, against payment of commission.

The bank guarantees include land registration guarantees, guarantees for interim loans and loss guarantees.
Guarantees are widely applied in the day-to-day management of Nykredit's credit risk, particularly in customer relationships where a parent company supports the capitalisation of group companies.

The Totalkredit partner banks provide security by way of a right of set-off and guarantees to Totalkredit for the loans distributed by them, see *5.2.2 Totalkredit's credit approval process*.

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

Nykredit assigns an internal value to the different types of financial collateral depending on the risk involved. For the purpose of calculating the risk exposure amount (REA), Nykredit assigns internal collateral values based on internal estimates of the reduction in the value of the collateral in case of enforcement.

5.6 Models for determination of credit risk

The determination of credit risk using the advanced IRB approach is based on three key parameters: Probability of Default (PD), expected Loss Given Default (LGD) and expected Exposure at Default (EAD). These three key parameters are referred to as risk parameters. Nykredit estimates risk parameters on the basis of Nykredit's default and loss history.

5.6.1 Modelling principles

According to the CRR, PDs must be estimated on the basis of historical 1-year default rates while at the same time reflecting a suitable weighting between the long-term average and the current level. For the purpose of determining capital requirements, LGD estimates must always reflect an economic downturn.
The above principles applied to estimate the risk parameters ensure that the Group's REA remains more stable throughout an economic cycle than if the calculations had exclusively reflected the current economic climate.

5.6.2 Probability of Default (PD)

PD expresses the probability of a customer defaulting on an obligation to Nykredit within a period of one year. Nykredit calculates a PD for each individual customer.

PDs are calculated using statistical models. These models are based on, for instance, data on the customer's financial position and payment behaviour as well as any impairment. Corporate and institutional clients and farming businesses are also required to submit financial statements regularly, which will be applied in the determination of their PDs.

5.6.3 Ratings

The PDs of individual customers are translated into ratings from 0 to 10, 10 being the highest rating. Exposures in default are placed in a category of their own, outside the rating scale, while exposures with objective evidence of credit impairment are assigned a rating of 0. The individual rating categories have been defined based on fixed PD ranges, which means that, during an economic upswing, a high rating will be assigned to relatively more customers, while the opposite will apply during an economic downturn.

A rating reflects the customer's financial position and creditworthiness, and besides being included in the determination of capital requirements, the customer rating is also a key element of any customer assessment.

If supported by additional objective data, an override of the customer's rating may be performed.

5.6.4 Loss Given Default (LGD)
For each customer exposure, Nykredit calculates an LGD, reflecting the percentage share of the exposure which is expected to be lost in case of customer default.

The LGD calculations factor in any security provided, including the type of security (typically mortgages on real estate), geography, the quality of the security etc.

Expected 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 real estate. Conversely, more and greater losses would be expected during an economic downturn.

For the determination of capital requirements, LGDs are calibrated to reflect losses during a severe economic downturn.

5.6.5 Exposure at Default (EAD)
Nykredit estimates an EAD for all exposures relating to a customer, reflecting the total expected exposure to the customer at the time of default, including any additional drawn parts of approved credit commitments. The latter is factored in using conversion factors (CF).

5.6.6 Other models
Besides rating, loss and credit exposure models, Nykredit has a variety of other credit-related models.

The property value model calculates the value of properties serving as security for the Group's lending. The results are used to determine the need for supplementary security, as inputs in rating and loss models and as a substitute for physical inspections of detached and terraced houses and owner-occupied flats that are subject to an exemption granted by the Danish FSA.

For the purpose of calculating impairments under the accounting standard IFRS 9, the Group uses internal models for determination of credit risk and methods developed particularly for impairment calculations.

5.6.7 Approval, validation and testing of credit risk models
Nykredit develops and improves its credit risk models on an ongoing basis. Focus is on achieving models that are accurate and yield consistent and stable parameters.

Nykredit's credit risk models are subject to Nykredit's general model risk management, implying limits and a division of responsibilities as well as a structure of governance with respect to models and model changes.

Nykredit's Group Risk Committee, set up by the Group Executive Board, monitors and manages Nykredit's model risks. The Group Risk Committee has established domain-specific model committees, which are in charge of the current monitoring and management of model risks and also responsible for governance in respect of model approval and model changes. The overall conclusions on model risks and validation are also reported to the Board of Directors and the Executive Board.

To ensure a good forecasting ability and consistent estimates, relevant credit risk models are validated annually. The credit risk models are validated independently of Nykredit's risk modelling and credit approval units. The validation results are used in the ongoing internal capital adequacy assessment process (ICAAP). If validation shows that a model contains significant inaccuracies, mitigating actions will be taken by way of a capital charge under Pillar II or by setting aside a capital add-on under Pillar I until the model has been adjusted to reflect the actual risk.

In addition to the annual validation, the models are monitored quarterly. Quarterly monitoring includes the models' customer ranking, the accuracy of model estimates compared with actual observations, rating distributions, migration, segmentation etc.

Annual validation includes more in-depth analysis of the functioning of a model, including its accuracy, the data applied, follow-up on observations from the quarterly monitoring and a qualitative review of the model and its elements, documentation, implementation, use etc.

Monitoring and validation of rating models include model-based PDs as well as PDs adjusted by overrides. In addition, the use of overrides for manual ratings adjustment is subject to an annual general validation.

5.6.8 Implementation of upcoming regulation
Nykredit remains focused on adjusting and developing new models, ensuring that Nykredit's credit models are always in compliance with relevant regulatory requirements and performing as intended. By way of example, Nykredit's updated default definition was implemented in 2021. Also, new models are under development to ensure that, in the long term, all models comply with the European guidelines on PD and LGD estimation. In 2023 personal customer rating models were implemented to comply with the new legislation.

Nykredit operates under a precautionary principle and holds capital add-ons under Pillar I to cover the impact of new models that have not yet been finally implemented. Therefore, the final implementation of new models and adjustments to existing models are not expected to have a notable impact on risk exposures, as such Pillar I capital add-ons and other capital charges may be released.

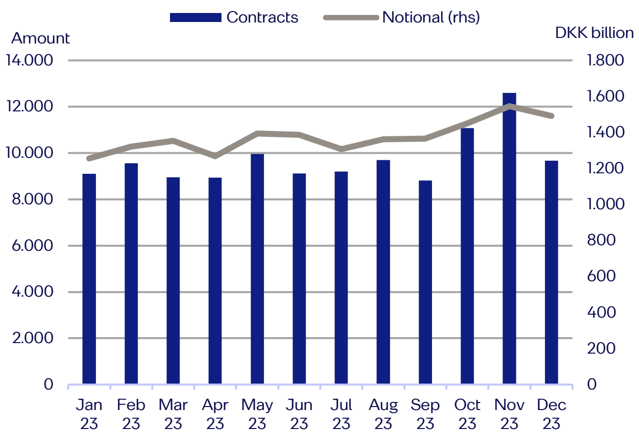
5.7 Counterparty risk

Nykredit applies financial instruments, such as interest rate derivatives and repurchase agreements (repo transactions), for serving customers. Liquidity and market risks are also managed internally by Nykredit using financial instruments.

The market value of a derivative changes according to the underlying market parameters, such as interest rates and exchange rates. This may lead to market values in favour of both Nykredit and its counterparties.

In some cases, a counterparty is unable or unwilling to meet its payment obligations (default). This gives rise to counterparty risk. The counterparty risk exposure is affected by the market value of the financial instruments and the probability of customer default. Thus, counterparty risk involves both market and credit risk. Nykredit mitigates its counterparty risk through financial netting agreements as well as agreements on financial collateral. The contractual framework is based on market standards, such as ISDA or GMRA agreements. Nykredit uses central counterparties (CCPs) for professional derivatives clearing. Swaps and repo transactions are cleared.

Nykredit Realkredit Group
Development in number of trades

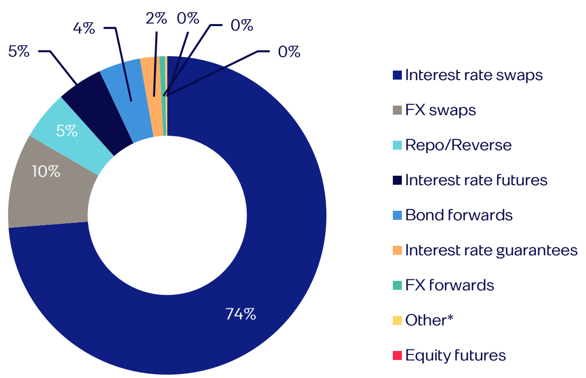


Derivatives are subject to value adjustment (xVA) in financial statements. Value adjustments are affected by several factors, including the level of long-term interest rates, credit spreads, funding spreads, the maturities of contracts as well as customers' creditworthiness.

At end-2023 the Nykredit Realkredit Group had 9,665 derivatives contracts with counterparty risk. Derivatives traded by Nykredit Bank account for 9,380 (97%), thus representing the vast majority of the contracts. The aggregate principal of the customer derivatives is DKK 1,492 billion.

Interest rate swaps and interest rate futures together account for almost 80% of the business volume in terms of principal amount. This group also includes the pool of legacy derivatives.

Nykredit Realkredit Group
Principal by product type



5.7.1 Risk management

Monitoring and reporting

Nykredit monitors counterparty risk on a daily basis by means of capital market systems (market data, calculation of market values etc). This task is performed by Nykredit's risk control function together with the credit control function and the individual risk-taking unit. More specifically, it is checked whether counterparty risk relating to the individual counterparties is within the approved limits. Any breach of limits must be reported to the unit that granted the authority to approve limits. Breaches exceeding the approval level of the Executive Board will consequently be reported directly to the Board of Directors.

Nykredit monitors xVA on a daily basis and reports on xVA sensitivity to interest rate movements, ie market risk. Furthermore, credit spreads and credit spread sensitivity are reported on in order to reflect market-implied credit risk, and funding spreads and funding spread sensitivity are reported on as well. Weekly reports are submitted to the Executive Board of Nykredit Bank, and monthly reports are submitted to the Board of Directors of Nykredit Bank. In addition, the Nykredit Realkredit Group, including the Board Risk Committee, receives quarterly counterparty risk reports.

Approval of credit lines

The use of derivatives is governed by the general credit approval rules and credit policies, supplemented with a number of restrictions and guidelines. For instance, counterparties must be specifically approved to trade derivatives. Which level of the credit approval hierarchy determines an application depends on the amount of the credit line. In addition to limits to amounts and maturities, the approval of lines is subject to requirements relating to the type, exposure and creditworthiness of the customer.

Collateral management

Nykredit is subject to the requirements relating to risk-mitigation techniques, see the Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EMIR). Nykredit prevents any inconsistencies with non-cleared OTC derivatives transactions by daily monitoring and the implemented controls.

5.7.2 Methods

Determination of capital requirements

For the purpose of determining capital requirements for financial instruments, counterparty risk exposures are calculated according to the standardised approach (SA-CCR), and risk-weighted assets are determined using both the IRB approach and the standardised approach. The IRB approach is used for business counterparties, while the standardised approach is used for institutions and sovereigns.

According to Articles 111 to 134 of the CRR, counterparties whose capital requirements for default risk are determined using the standardised approach must be risk-weighted based on their credit quality step. For this purpose, S&P Global Ratings and Moody's provide information to Nykredit about the credit ratings of sovereigns, counterparties and issues. These external credit ratings are used as an integrated part of Nykredit's capital requirement calculations and are updated daily. If the external providers assign different ratings to a counterparty, Nykredit will use the lower rating. Mapping of credit ratings to credit quality steps is based on the EBA's mapping table, see below.

Besides determining the capital requirement for counterparty risk using the standardised approach (SA-CCR), Nykredit also determines the capital requirement for credit valuation adjustment (CVA) risk using the standardised approach according to the CRR.

Approved credit lines

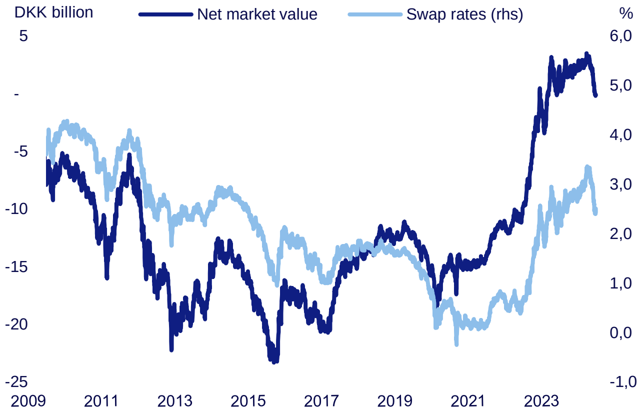
For the purpose of monitoring approved credit lines, Nykredit determines exposures using other internal methods. These methods basically use the same components as the determination of capital requirements, estimating exposures on the basis of their current market values plus a charge for potential future exposure.

Value adjustment of derivatives in financial statements

Nykredit makes fair value adjustment of derivatives in accordance with the International Financial Reporting Standards (IFRS), which provide for CVA and FVA for accounting purposes. This includes individual value adjustments of customers showing objective evidence of credit impairment, CVA based on customers' current credit quality as well as management judgement.

The Danish FSA has encouraged the adoption of a prudent approach to the assessment of customers with swap contracts. This means that swap contracts with customers showing objective evidence of credit impairment (rating 0 and exposures in default) are value adjusted in full, whether or not these customers still make timely payments to Nykredit.

Nykredit Realkredit Group
Net market value of derivatives contracts with business customers



5.7.3 Current risk profile and development

Market value

A large part of Nykredit's swap portfolio was established in the period 2005-2008 when business customers hedged the risk of rising interest rates on their variable-rate mortgage loans using swap contracts. From the perspective of the customers, the interest rate declines in the ensuing years caused the market values of the individual swap contracts to become negative.

In March 2015 the negative market value was DKK 23.3 billion, but since then the development in market values has generally been positive.

At end-2023 the market value of derivatives relating to customer exposures was some DKK 0.1 billion. During the year, credit value adjustments were affected by interest rate changes and widening credit spreads as well as portfolio run-offs. At end-2023 Nykredit's total provisions amounted to DKK 0.5 billion, of which credit value adjustments represented DKK 0.3 billion.

Part of Nykredit's swap portfolio is designated as legacy swaps. An example of legacy swaps is long-term interest rate swaps. The portfolio of legacy swaps is in run-off, and its market value will therefore approach zero over time. The market value of legacy swaps has been value adjusted by 58%.

DKK million	CVA							
29.12.2023	Customers without objective evidence of credit impairment	Customers with objective evidence of credit impairment	Management judgement	**Total CVA**	**FVA**	**Other**	**Total value adjustment**	**Market value**
Derivatives offered	9	9	1	19	(46)	55	28	846
Legacy derivatives	51	155	98	304	78	46	429	(734)
Total	**60**	**164**	**99**	**323**	**32**	**101**	**456**	**112**

6 Non-financial risks

Nykredit is exposed to a number of non-financial risks related to factors that may affect the core tasks, processes and regulatory obligations of the business. Nykredit's non-financial risks comprise operational risk, IT risk, conduct risk, model risk, data quality risk and compliance risk.

Nykredit monitors and manages non-financial risks as part of its day-to-day operations. Specific policies have been prepared for the individual types of risk. Each policy sets risk appetite limits and defines the responsibility for management of the relevant risk. Nykredit's Boards of Directors and Executive Boards receive quarterly reports on non-financial risks and any changes to the risk outlook.

In 2023 Nykredit allocated substantial efforts to strengthen the risk management framework and the robustness of risk management.

Risk appetite

Non-financial risks must be low relative to financial risks so as to ensure that they cannot compromise the financial stability of Nykredit and/or the individual subsidiaries. Tolerance thresholds have been determined for annual accumulated losses resulting from operational risk events, which supplement and specify the risk appetite of the individual companies.

Nykredit has established a framework for risk management to ensure effective management of non-financial risks according to the objectives of the Boards of Directors and the risk appetite defined.

6.1 Policy and guidelines

Nykredit's non-financial risk policy is adopted by the Board of Directors. The policy sets out the overall framework for non-financial risk management to ensure that non-financial risks are managed according to the objectives of the Board of Directors and the risk appetite defined. The policy should be read in conjunction with underlying guidelines and policies.

Nykredit's objective is to support and develop an organisation where non-financial risk management is an integral part of both day-to-day operations and long-term planning, including to promote a culture where openness and awareness of non-financial risks are natural elements of the everyday work of all colleagues.

The Executive Board has delegated responsibility for the ongoing monitoring of non-financial risks to the Group Risk Committee. The Committee regularly reviews material risks and determines whether a risk – even if it falls within the risk appetite – should be presented to the Board of Directors. Risks that fall outside Nykredit's risk appetite are always presented to the Board of Directors for consideration.

6.1.1 Identification and management of non-financial risks

Non-financial risks are identified as part of the ongoing risk activities in the units where the risks are taken and managed. All Nykredit's organisational units must continuously identify, assess and manage the risks associated with their operations. At least quarterly, the units must review and report on all their risks, classifying the risks according to the Group's risk taxonomy. The reports must describe the risk-mitigating activities and controls implemented, or expected to be implemented. Non-financial risks are also identified in connection with the approval of new products, major strategic and business decisions, model validations, process and compliance reviews and calculations according to *5 Credit risk* and *7 Market risk*.

Identified non-financial risks are assessed based on the probability that a given event will occur and the estimated impact of such event. Identified risks are scored on a four-point scale from low to critical.

To strengthen the efforts to address and mitigate non-financial risks, one or more Assistant Risk and Compliance Officers (ARCOs) have been appointed in the individual business divisions. ARCOs assist the managements of the individual business divisions in executing risk- and compliance-related tasks and in raising awareness of Nykredit's risk culture. ARCOs serve as links between the first line of defence and the compliance and risk management functions in the second line of defence. They are also found in units in the second line of defence.

Nykredit's risk management function holds regular risk meetings with the Group's organisational units; all units have at least one meeting a year. At the meetings, the risk outlook reported by the relevant unit is reviewed and challenged, and it is assessed whether the risks are adequately managed through controls and other risk-mitigating actions, or additional measures are required.

6.1.2 Control and reporting

The main purpose of the risk management function is to monitor, assess, control and report on Nykredit's non-financial risks. In addition to ad-hoc reporting on major events and non-financial risks with red residual risk, reporting is undertaken as follows:

- Annual reporting

- Reporting of red and critical orange inherent non-financial risks (to Boards of Directors)
- Loss analysis (to the Group Risk Committee)
- Scenario analysis (to the Group Risk Committee)
- Reporting on Nykredit's corporate culture policy regarding the principles to promote a sound corporate culture and Nykredit's non-financial risk policy (to Boards of Directors)

- Semi-annual reporting

Reporting of orange and yellow residual risks (to the Group Risk Committee and the Chief Risk Officer, respectively)

- Quarterly reporting

Internal risk reports (section and appendices on non-financial risks) to Boards of Directors.

Non-financial risk governance

Board of Directors and Board Risk Committee:
Lay down policies and guidelines for non-financial risks, IT risk, model risk, data governance and compliance. In its guidelines to the Executive Board, the Board of Directors sets out tasks and responsibilities for ensuring that non-financial risks are mitigated and managed in accordance with the principles and limits of the policies.

Receive quarterly reports on compliance with the respective policies, as well as separate information about risks with critical risk scores and events with critical impacts and a description of the response to such risks or events.

Executive Board and Group Risk Committee:
Approve and implement non-financial risk policies and oversee compliance based on quarterly risk outlook reports.
Receive quarterly reports, in selected areas, on compliance with non-financial risk policies.

Receive separate information about risks with high risk scores and events with high impacts and a description of response and risk mitigation.

Chief Risk Officer:
Must maintain a comprehensive view of Nykredit's risk exposures for the purpose of evaluating risk management.

Control functions (second line of defence):
Perform controlling and monitoring independently of the risk-taking units and prepare independent reports for the Boards of Directors and the Executive Boards.

Risk-taking units (first line of defence):
Identify and manage risks and internal controls.

6.1.3 Current risk profile and development

In 2023 measures were taken to render the Group's non-financial risk management more robust, focusing on the following areas:

- Processes. Mapping the Group's main customer-facing processes, including identification of risks associated with these processes and establishment of controls to mitigate them.

- System support. Continued system support of risk management activities and increasing use of standardised frameworks and procedures. For example, the Group's operational risk management in both the first and second lines of defence has been switched to a governance, risk and compliance system.

- Controls. Stepwise implementation of common control standards for a continuously increasing focus on ongoing review of control effectiveness. This work will continue throughout 2024.

- Improved product governance. All new products and significant changes to existing products are subject to a formalised, structured process in which the product owner, with input from all relevant units, describes the product risks relative to customers, the Group and any counterparties, including any risk-mitigating measures implemented or planned.

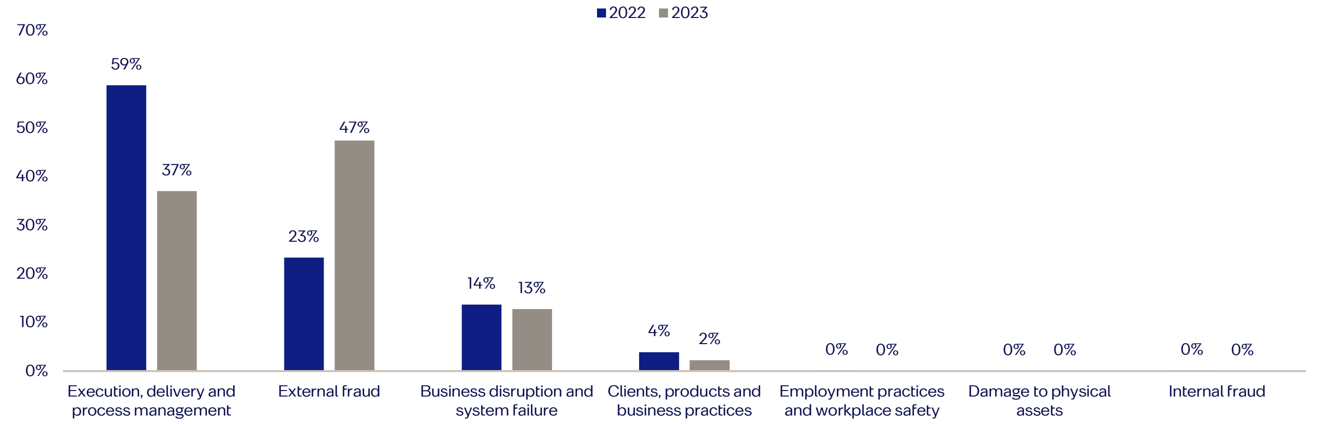
- Scenario analysis and inherent risk analysis have been strengthened. For non-financial risks with critical residual impact and low/medium residual probability, independent scenario analyses are performed together with the risk-owning business units. This is done to test the risk assessments of the business units and to substantiate the probability that the residual risk does not in fact fall outside the risk appetite.

6.1.4 Managing non-financial risk events

In addition to the identification of non-financial risks, all non-financial risk events involving a loss of DKK 10,000 or more, or a change in REA of DKK 0.1 billion or more, are systematically recorded, categorised and reported. Moreover, non-financial risk gain events, potential non-financial loss/gain events and events that did not lead to a loss or a gain (near-miss events) are recorded. Finally, flawed reporting (internal or external) or flawed decision-making events that resulted in, at minimum, minor regulatory sanctions or delays in key activities, or which must be submitted to Nykredit's Group committees or committees reporting to Nykredit's Group committees for consideration, are recorded.
The above chart shows the Nykredit Realkredit Group's total losses divided into the 7 Basel II categories.

Also, information must be provided about any insurance cover and the time spent dealing with the event. In relation to events that are

Operational risk events distributed by Basel loss category (%)



significant in terms of size or number, an assessment will be made of the need to implement new risk-mitigating measures. Significant events are reported quarterly to the Board of Directors and the Executive Board as part of Nykredit's overall risk outlook. The reports also cover any measures taken to reduce the risk of recurrence of a given risk event.

6.1.5 Capital requirement for non-financial risks

Nykredit determines the capital requirement for non-financial risks using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings of the past three years. REA for non-financial risks was DKK 30.9 billion in 2023.

REA for non-financial risks

DKK **30.9** billion

(2022: DKK 29.7 billion)

Based on the reported non-financial risks and risk events, it is assessed whether the total internal capital adequacy requirement for non-financial risks is appropriate. This assessment is conducted quarterly in connection with the determination of the internal capital adequacy requirement and is documented annually in the ICAAP.

6.2 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. Operational risk management is governed by the Group's non-financial risk policy.

6.2.1 Specifically about prevention of money laundering, terrorist financing and breach of financial sanctions

Nykredit works consistently to strengthen monitoring, controls and processes so as to have an effective safeguard at all times against misuse of the Group's products and services for purposes of money laundering, terrorist financing or breach of financial sanctions.

Activities are based on Nykredit's policy for the area, and responsibility for them has been broadly delegated across the Group. A member of the Group Executive Board has been charged with delegating and ensuring managerial responsibility and focus on the prevention of money laundering, terrorist financing and breach of financial sanctions throughout the Group. The Executive Boards of the Group companies have each appointed a Chief AML Officer at the executive level. The Nykredit Group also has an AML Responsible Officer covering all relevant Group companies.

The complexity and scope of the sanctions packages multiplied in 2023 as a consequence of the geopolitical situation. As part of complying with the sanctions, Nykredit has suspended the facilitation of transactions to and from Russia and Belarus. In 2023 Nykredit ramped up its efforts to reduce the risk of money laundering, terrorist financing and breach of financial sanctions. This included introducing a more extensive risk assessment method and implementing additional system support as well as new and improved processes and business procedures in the area.

Colleagues' awareness and vigilance are important elements of the defence against money laundering, terrorist financing and breach of financial sanctions. To ensure that all colleagues possess the requisite knowledge, a mandatory e-learning programme on preventing money laundering, terrorist financing and breach of financial sanctions has been introduced. All colleagues must complete the programme every year.

6.2.2 Specifically about personal data protection (GDPR)

Nykredit focuses strongly on ensuring that personal data are treated as confidential and processed in compliance with the General Data Protection Regulation (GDPR) and the data protection legislation. Relevant policies and business procedures have been laid down, and processes have been established to ensure that personal data are processed in compliance with applicable law.

Responsibility for personal data processing has been delegated to the relevant business units and is supported by Privacy Leads in all units. Privacy Leads must ensure that data protection rules are complied with locally, including by identifying possible challenges and solutions. Privacy Leads also increase awareness of Nykredit's policies and guidelines in this field locally in the organisation. All colleagues must complete an e-learning programme on personal data processing once a year. The programme ends with a test that must be passed.

Nykredit's compliance function includes a Data Protection Officer (DPO) tasked with assessing, monitoring and reporting on the effectiveness of Nykredit's methods and procedures relating to personal data processing.

Data breaches must be reported and treated in compliance with the guidelines of the Danish Data Protection Agency. Nykredit continuously monitors for personal data breaches in the Group. Most data breaches in Nykredit have been related to procedural errors involving a few customers, for instance e-mails sent to the wrong recipient or with the wrong document attached.

6.2.3 Specifically about outsourcing

Nykredit takes a responsible approach to outsourcing based on a robust and efficient process for the outsourcing of Nykredit's core activities to service providers. Nykredit has prepared an outsourcing policy that specifies two key outsourcing principles: a risk principle and a proportionality principle. Under the risk principle, any decision to outsource must be made according to a risk-based approach, ensuring that all material risks are identified and that the necessary measures are taken to mitigate the risk of the arrangement to a level that is within Nykredit's risk appetite. An activity will not be outsourced if measures cannot be taken to mitigate the risk to a level that is acceptable to Nykredit. Under the proportionality principle, Nykredit must meet the requirements of Nykredit's outsourcing policy and the Danish Executive Order on outsourcing, taking into account the proportionality of the requirements to Nykredit's risk appetite, business model, size, structure and business complexity.

Responsibility for outsourcing has been delegated to the relevant business units and is supported by the Procurement unit that coordinates and runs the outsourcing process. The Procurement unit includes a Chief Outsourcing Officer. The Chief Outsourcing Officer assists Nykredit's Executive Board and Board of Directors in ensuring compliance with outsourcing legislation through continuous monitoring and control. The Chief Outsourcing Officer reports to the Executive Board and the Board of Directors on the effectiveness of Nykredit's methods, procedures and controls relating to outsourcing. In addition, the Chief Outsourcing Officer is responsible for increasing awareness of outsourcing rules across Nykredit.

Critical or important outsourcing is subject to approval by the Board of Directors, who receive regular reports from business units on the results of controls and monitoring conducted to ensure that the service providers perform the outsourcing satisfactorily.

6.2.4 Specifically about product development

The Nykredit Group's product development follows a centralised process ensuring that the regulatory requirements for product development are met across the Group's business areas and geographical presence.

Nykredit's Products Committee was set up by the Executive Boards of the Group companies. It considers all types of products across the business according to the same governance and documentation requirements. The Products Committee consists of representatives from the business areas and is chaired by a Group Managing Director. The first and second lines of defence are also represented on the Committee – the latter as an observer only. Responsibility for ongoing product development has been delegated to the relevant business units, but all units follow the same procedure and report regularly to the Boards of Directors and Executive Boards of the Group companies and to the Products Committee.

6.3 Conduct risk

Conduct risk is the risk of reputational damage or financial losses as a result customers or the general public perceiving Nykredit's business practices as inappropriate or, at worst, irresponsible. Conduct risk management is particularly focused on risks related to products, conduct, advisory services and third parties. Conduct risk management is governed by the Group's non-financial risk policy. Also, Nykredit's corporate culture policy and Code of Conduct help provide an up-to-date and clear framework defining responsible conduct in day-to-day work.

Conduct risk is a fixed part of the Group's established risk management practices and is identified, assessed and addressed on a par with other non-financial risks, for instance by adjusting practices or conduct. Conduct risk is also reviewed at the meetings held at least annually by the Group's risk control function with all Group entities and the relevant managers. Nykredit's product development and evaluation procedures also include the assessment of new products in terms of conduct risk. Likewise, conduct risk assessment forms part of the credit approval process.

All Nykredit colleagues are responsible for contributing to and ensuring responsible business practices, and responsibility is a behavioural skill against which all members of staff and management are assessed. Nykredit's leaders have a special responsibility for promoting a safe and open atmosphere and supporting a corporate culture that encourages colleagues to openly share opinions or concerns if they become aware of any conduct that is not in accordance with Nykredit's objective of being a responsible business, thus ensuring that Nykredit's practices and conduct can be explained and justified in all areas.

6.4 Compliance risk

Compliance risk is the risk that legal or regulatory sanctions are imposed on Nykredit or that Nykredit suffers financial losses or reputational damage caused by non-compliance with legislation, market standards or internal rules.

6.4.1 Policy and Chief Compliance Officer

Nykredit's Board of Directors has adopted a compliance policy that defines the risk appetite in the compliance area. Like other non-financial risks, compliance risks should be low relative to other types of risk of the Group.

The policy sets out a number of objectives and compliance principles that management and all employees must observe, including in particular the objective that Nykredit must comply with current legislation, market standards and internal rules applying to Nykredit's activities. The compliance policy supports the aim of promoting proper, honest and ethical conduct in Nykredit and among its staff and a culture where openness about and awareness and handling of compliance risks are a matter of course.

Further, the compliance policy contains a description of the responsibilities, authority and organisation of the compliance function. Based on the policy, the Board of Directors has issued a function description for the Chief Compliance Officer, providing a detailed description and delimitation of the Chief Compliance Officer's tasks, authority, duties and responsibilities. The function description also specifies the compliance function's duties and organisation, including capabilities and resources, and the division of responsibilities relative to other relevant units of Nykredit.

6.4.2 Control and reporting

The main purpose of the compliance function is to monitor, assess, control and report on Nykredit's compliance risks. The compliance function oversees whether Nykredit meets the compliance rules applicable to the individual risk areas and assesses and determines whether the methods and procedures implemented by Nykredit to identify and mitigate such compliance risks in these areas are adequate and effective.
The following is reported to the Boards of Directors and the Executive Boards on a quarterly basis:

- an assessment of compliance with the compliance policy
- an assessment of the overall compliance risk
- a description of the findings from the compliance function's reviews completed in the reporting period
- progress on agreed measures from previous reports.

6.4.3 Compliance plan, reviews and follow-up

According to a risk-based approach, the compliance function every year selects a number of risk areas that will be included in the compliance plan for the coming year. The risk areas are selected on the basis of, for instance, input from the Executive Boards, the Chief Risk Officer and the business management as well as experience from previous reviews, etc.
The risk areas identified are reviewed during the year. Following its review of an area, the compliance function prepares a compliance report for the business management. The report provides a description of the findings from the review and an assessment of whether appropriate and adequate measures have been taken to address the most significant compliance risks or whether additional measures have been agreed to reduce the risks in the area concerned. Agreed measures are recorded in a central system, and the compliance function regularly follows up on agreed measures not

yet implemented. In conclusion, the report contains an assessment of the overall compliance risk in the area after the review. Compliance risk is assessed on the basis of the probability of a given event occurring and the potential impact of such event. The compliance function thus uses the same risk classification model as for other non-financial risks.

6.5 IT risk

IT risk is the risk of negative impacts on processes, systems and/or data. The sources of IT risk can be internal or external.

Regular controls are performed to check that Nykredit and relevant IT service providers comply with policies and underlying guidelines and business procedures. As most of Nykredit's IT operations have been outsourced, there is a strong focus on the performance of service agreements and on service providers maintaining a satisfactory IT security level. To ensure increasingly robust IT risk management, the second line of defence has stepped up oversight of the Group's identification, assessment and management of IT risks. The efforts to strengthen second line oversight will continue in 2024.

IT risk assessments are conducted regularly to ensure that risks are identified, assessed and managed according to a risk-based approach. The objective is not to eliminate all risks, but rather to identify risks and make the right decisions on how to manage them. Neither threats nor Nykredit's IT landscape are static, so Nykredit's defence and controls must be continuously adapted to reflect current conditions. Nykredit continuously develops and improves its IT risk management framework, and in 2023 efforts were initiated to make a more granular breakdown of IT risks to enable more accurate management.

To ensure that all colleagues have satisfactory knowledge of IT security, all new colleagues must complete an e-learning programme on IT security. Also, Nykredit regularly provides e-learning programmes and conducts phishing tests aimed at its people.

Nykredit conducts penetration testing and/or Red Team testing where external partners, in the form of professional hackers, challenge Nykredit's cyber defence, testing Nykredit's capacity to handle security incidents in practice. Any potential risks identified are subsequently reduced through mitigating measures.

The Digital Operational Resilience Act (DORA) is an EU Regulation that entered into force on 16 January 2023 and must be complied with from 17 January 2025. DORA will replace existing IT risk management requirements, introducing stricter detailed requirements. Nykredit is well prepared to ensure adequate compliance.

6.6 Model risk

Model risk is the risk of loss resulting from decisions based mainly on model results. Nykredit uses mathematical and statistical models for the purpose of business decisions and to determine risk limits, capital usage, capital adequacy, impairments etc.

Model risk occurs as a result of model weaknesses. Such weaknesses may result from operational errors or weak data in connection with the development or implementation of the models. They may also result from weaknesses in the data to which the models are applied or incorrect usage of model results. Over the past few years, the focus of authorities on model risk as an independent risk area has increased significantly.

Nykredit's model risk policy adopted by the Board of Directors and guidelines provided by the Board of Directors reflect the current Executive Order and define Nykredit's risk appetite in this area. These documents lay down requirements for framework, structures and responsibilities which ensure active management and monitoring of model risk and structured governance of models and model changes. The requirements include ongoing reporting and review of model risk.

Nykredit has a comprehensive model register that provides an overview and clear definitions of roles and responsibilities, and which is used as a tool for measurement and assessment of model risks.

Model risk is monitored closely by domain-specific model committees, which report to the Group Risk Committee. This includes governance in connection with the approval and change of models, ensuring that model risk is managed and assessed in a uniform way across the Group and that model risk becomes visible in Nykredit's overall risk landscape.

6.7 Data quality risk

Data quality risk is the risk of uintended consequences as a result of data quality failing to meet business needs. As a financial institution, the Nykredit Group is dependent on the quality of the data it uses, as they form the basis for Nykredit's business decisions. A strong data governance set-up is therefore crucial to minimise the risk that data quality across the Group does not satisfy Nykredit's business needs and relevant regulatory requirements. Nykredit has stepped up its data governance efforts considerably in recent years.

Nykredit's data governance policy lays down the overall principles and standards for data governance at Nykredit. The purpose of the policy is to ensure that Nykredit complies with current legislation in this area and to support existing and future business processes, and it aims to ensure professional and effective data governance development.

Data have been divided into ten data domains, together comprising all data used by Nykredit. Ownership lies with data domain owners in the business, each holding overall responsibility for data governance and for defining and maintaining data standards in their respective areas.

Nykredit has made substantial investments in recent years to strengthen data governance of critical data across the Group. Further, Nykredit's data ethics policy, adopted by the Board of Directors, provides a clear framework defining responsible conduct in relation to the use of data. Nykredit's data governance activities are far from complete and are unlikely to ever be completed, as new data will continue to come into existence.

7 Market risk

Market risk is the risk of loss as a result of movements in financial markets and includes interest rate, yield spread, foreign exchange, equity price and volatility risks etc.

Nykredit's aggregate market risk is divided into trading book exposures and banking book exposures. Positions of assets held for trading are classified as trading book positions, while positions of assets traded infrequently and held for the longer term are classified as banking book positions. Nykredit has laid down guidelines defining criteria for the valuation of securities and financial instruments and their distribution between the trading and banking books.

Nykredit's main market risks are yield spread risk on covered bonds in the trading book and equity price risk on equities held for business strategic purposes in the banking book. Yield spread risk is the risk of movements in the spreads between yields of covered bonds/credit bonds and swap rates, which may lead to gains or losses. Equity price risk is the risk of movements in equity prices affecting the value of Nykredit's portfolios, which may lead to gains or losses.

The market risk relating to Nykredit's largest business area, mortgage lending, is, in practice, minimal. This is because mortgage lending is governed by a statutory balance principle and is match-funded, see the description in *8 Liquidity risk and funding*.

Nykredit's investee companies are screened prior to investment to identify any breaches of international conventions etc. Such screening is based on Nykredit's Sustainable Investment Policy, which covers all Nykredit's portfolios, including alternative investments.

Risk appetite

Nykredit's market risk management is to ensure that Nykredit's financial stability cannot be compromised as a result of losses related to market risk. The overall risk appetite is expressed as the maximum potential loss relative to budgeted earnings which Nykredit is willing to incur if market conditions become unfavourable for Nykredit's portfolios related to market risk.

7.1 Market risk policy and guidelines

The Board of Directors has laid down a market risk policy setting out principles for the overall market risk appetite in Nykredit's trading and banking books. The main principle of the policy is that the probability of losses from market risk exposures exceeding Nykredit's aggregate budgeted quarterly results must be low. This is monitored daily, for instance by calculating and reporting estimated losses of a number of stress scenarios that may occur in the trading book or the banking book. Estimated losses are measured against the defined risk appetite.

In addition to the overall risk appetite defined in the market risk policy, Nykredit's Board of Directors has laid down market risk guidelines for the Executive Board, applicable to the trading book and banking book, respectively, which are used in day-to-day market risk management. In accordance with these guidelines, the Executive Board delegates specific limits for the different types of market risk to the Group companies through the Asset/Liability Committee. Read more about the Asset/Liability Committee in *2.6.1 Committees.*

The market risk guidelines lay down measurable limits on the total portfolio risk and also permit the use of financial instruments. However, it is a condition that the risk relating to the financial instruments can be measured and managed sufficiently accurately. Risk limits covering trading book as well as banking book portfolios are applied to all types of financial instruments involving market risk.

It is Nykredit's policy to measure bond positions (assets) primarily at fair value, whereby value adjustments are recognised in profit or loss on a continuing basis. However, Nykredit has a bond portfolio that is measured at amortised cost. This portfolio is hedged using interest rate swaps, and it is adjusted to fair value in respect of the hedged risk (interest rate risk). The portfolio should also be seen in conjunction with a corresponding portfolio of issued bonds, which are also measured at amortised cost.

In the financial reporting, bonds issued by Nykredit are, today, generally recognised at amortised cost, which means that they are not value-adjusted. The interest rate risk of the issues is fully hedged using interest rate derivatives.This ensures that changes in interest rates do not result in large unrealised value adjustments. This does not apply to issued covered bonds, which, together with the mortgage loans they fund, are carried at fair value.

Market risk governance

Board of Directors and Board Risk Committee:
Lay down the market risk policy and the Board of Directors' market risk guidelines, including risk appetite and risk limits for equities, bonds and other financial instruments.

Receive monthly reports on compliance with the market risk policy and on the risk outlook.

Receive separate reports, possibly including an action plan, in case of breaches of the market risk policy or the Board of Directors' guidelines.

Executive Boards and Asset/Liability Committee:
Approve and implement the market risk policy and the Board of Directors' guidelines and oversee compliance based on quarterly and monthly reports.

Receive separate reports and an action plan in case of breaches of the market risk policy or the Board of Directors' guidelines.

Risk management function (second line of defence):
Performs controlling and monitoring independently of the risk-taking units. Prepares independent reports for Boards of Directors and Executive Boards.

7.2 Control and reporting

The risk management function continuously reports on the Group's market risk profile to the Board of Directors, the Board Risk Committee, the Executive Boards, the Asset/Liability Committee and the Group Risk Committee.

On a daily basis, Nykredit's risk management function checks that the market risk policy and the Board of Directors' market risk guidelines are complied with. Also on a daily basis, the current utilisation of the limits set out in the guidelines is reported to the head of Nykredit's risk management function, the Asset/Liability Committee and the heads and dealers of the acting units. Any breaches of these limits are reported by the risk management function to the Asset/Liability Committee, Executive Boards or Boards of Directors depending on the nature of such breaches.

Nykredit's market risk, including VaR, is measured and monitored in internal systems through the collection and control of risk data from different source systems which are subsequently allocated to different company levels.

The current utilisation of risk limits is monitored and reported by Nykredit's risk management function and thus independently of the acting units.

Nykredit's Executive Boards and Boards of Directors as well as the Asset/Liability Committee monitor and evaluate the current market risk and its elements at least quarterly. The risk outlook is described in the quarterly reports to the Board of Directors, the Board Risk Committee and the Group Risk Committee. Moreover, the market risk policy and the Board of Directors' market risk guidelines are subject to annual adjustment and approval.

7.3 Current risk profile and development

Market risk is assessed on the basis of a range of different metrics that express sensitivity to movements in the financial markets combined with two VaR models for calculating an aggregate trading book exposure for both Nykredit Realkredit and Nykredit Bank.

At end-2023 VaR levels had declined for both Nykredit Realkredit and Nykredit Bank compared with end-2022; this was mainly driven by low market volatility in 2023 compared with 2022, except for the end of March when selected US banks collapsed, causing market volatility to grow. In Q4 Nykredit Realkredit's portfolios of callable covered bonds and equities were also reduced. For further details, see *7.6 Models for determination of market risk*.

The metrics and market risk model outputs are supplemented with a number of stress tests which, based on the current portfolios, quantify potential losses in financial markets using historical as well as forward-looking scenarios.

7.4 Trading book risk

Nykredit's market risk is essentially based on calculations of a number of traditional metrics that may be regarded as portfolio sensitivity tests. They are used to calculate the effect on the value of the individual portfolios of market movements such as changes in interest rates, yield spreads, equity prices or volatilities. These calculations are made for the trading book and the banking book. Nykredit's main risks are interest rate, yield spread and equity price risks.

The traditional metrics do not indicate the probability of an event occurring, but rather how much the occurrence of the given event would affect the value of a portfolio. To incorporate the probabilities of different events in day-to-day risk measurement, Nykredit applies VaR models, supplemented with stress test calculations and scenario analyses.

Value-at-Risk (VaR)

In day-to-day risk management, Nykredit uses VaR to calculate one risk measure covering most of Nykredit's trading book positions. VaR captures Nykredit's maximum potential losses in one day at a probability of 99%. The Nykredit Group's VaR totalled DKK 29.8 million at end-2023.

Nykredit Realkredit Group
Value-at-Risk in the trading book

Daily VaR calculations are based on historical daily fluctuations in, for instance, yield spreads, equity prices and interest rates over the past 250 trading days. Since the beginning of 2023, daily VaR has reduced by DKK 33.6 million. As mentioned above, this is mainly attributable to the absence in 2023 of high-volatility periods like the ones observed in 2022 and the reduction of Nykredit Realkredit's portfolios of equities and callable covered bonds.

For a detailed description of VaR, see *7.6 Models for determination of market risk.*

Yield spread risk

Yield spread risk is the risk of loss as a result of yield spreads between individual bonds and general interest rate levels widening by 1 percentage point. In historical terms, yield spread widening of 1 percentage point is much rarer than a general interest rate rise of 1 percentage point.

VaR in
the trading book

DKK **29.8** million

(end-2022: DKK 64.4 million)

Yield spread risk in
the trading book

DKK **1.95** billion

(end-2022: DKK 1.99 billion)

Interest rate risk in
the trading book

DKK **275** million

(end-2022: DKK 327 million)

In the Group's trading book, the yield spread exposure on covered bonds was DKK 1.92 billion at end-2023, while the yield spread exposure on the credit bond positions was DKK 34 million. The chart below shows the development in yield spread risk in Nykredit's trading book.

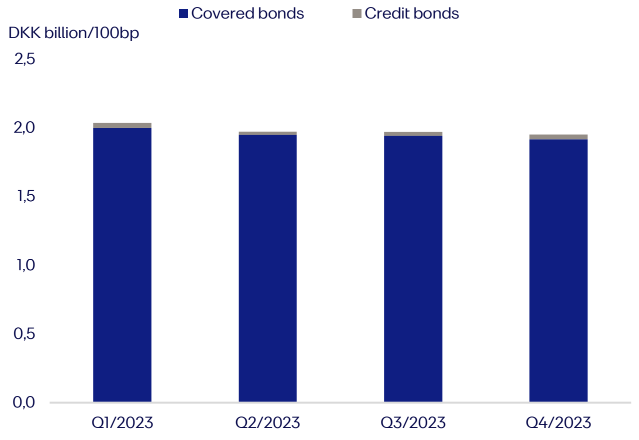
Interest rate risk

Interest rate risk is the risk of loss as a result of interest rate changes. Nykredit's interest rate risk is measured as the change in the market value of Nykredit's portfolios resulting from a general interest rate increase of 1 percentage point in respect of bonds and other financial instruments. Nykredit's interest rate exposure in the trading book was DKK 275 million at end-2023.

Equity price risk

Equity price risk is the risk of loss as a result of changes in equity prices, and it is expressed by the aggregate market value of Nykredit's equity portfolios. The Group's net equity price risk exposure in the trading book amounted to DKK 10 million at end-2023.

Nykredit Realkredit Group
Yield spread risk in the trading book



7.4.1 Daily stress tests

Systematic stress tests are performed on a daily basis to measure the risk of loss during turbulent market conditions. The tests are based on a number of forward-looking scenarios characterised by significant, but plausible, market movements and events that could occur during the next 3-5 years. In addition, a historical stress scenario is used, calculating portfolio losses for particularly stressed periods since 2007. Overall, the different stress tests are used to assess portfolio losses, should these events occur. The stress tests are also used for reporting on compliance with the Board of Directors' market risk policy, as losses estimated by the stress tests are measured against the market risk appetite set out in the policy. The scenarios used are reviewed quarterly to ensure their adequacy and relevance to Nykredit's portfolios.

7.4.2 Other market risks

Besides the market risks addressed above, Nykredit is exposed to foreign exchange risk and volatility risk on selected instruments, such as options. These risks only make up a minor part of the total market risk exposure.

Nykredit mainly uses other currencies to hedge its foreign exchange risk on investments and has only minor foreign exchange positions held to achieve a gain. Therefore, the Group had only minor positions in currencies other than EUR in 2023.

Nykredit's volatility risk mainly relates to investments in, for example, callable covered bonds with implied call options, as these bonds may be prepaid. Interest rate expectations will affect market values and may in consequence lead to gains as well as losses. However, the risk is limited and stems mainly from the portfolio of Danish callable covered bonds, but also from other interest rate and equity derivatives.

7.5 Banking book risk

The market risk exposure of the trading book can quickly be increased or reduced, as positions tend to be very liquid. This is not necessarily the case with the banking book. Basically, the same types of market risk are found in the banking book, but regulatory restrictions apply to the trading frequency in such positions.

The market risk in Nykredit's banking book mainly derives from equities held for business strategic purposes, which include listed as well as unlisted equities in Totalkredit partner banks. The portfolio is concentrated on relatively few but large positions. Further, the banking book comprises a private equity portfolio and some long-dated, interest rate-hedged bond positions relating to the lending operations. Also, a number of short-dated credit and covered bond positions are included in the banking book. Banking book positions, except for positions with foreign exchange risk, are not included in VaR.

Equity price risk

Equities in the banking book comprise Nykredit's equities held for business strategic purposes and private equity holdings.

Equities held for business strategic purposes comprise equities in regional and national banks with which Nykredit has business relationships as well as equities in property companies. The aggregate market value of these portfolios was DKK 7.2 billion at end-2023. Given the relatively large equity portfolio, equity price risk represents a substantial proportion of Nykredit's total market risk. For capital adequacy purposes, the risk associated with equities held for business strategic purposes is determined as credit risk exposure.

Yield spread risk

Yield spread risk in the banking book mainly derives from the investment of proceeds from unsecured debt issued by Nykredit for purposes such as meeting the debt buffer and MREL requirements. Secondarily, it derives from portfolios containing bonds in all ISINs for loan redemptions, allowing customers to prepay their loans at any time. In the banking book, the yield spread risk on covered bonds was DKK 1,003 million at end-2023, while yield spread risk on senior secured and unsecured debt and credit bonds was a negative DKK 231 million and a positive DKK 14 million, respectively.

Interest rate risk

Interest rate risk in the banking book is limited and derives mainly from Nykredit Bank's lending operations. The interest rate risk of the mortgage banks is very limited due to the match-funding principle governing covered bond issues.

Any interest rate risk in the banking book is partly hedged using interest rate swaps in relevant currencies and maturities. Interest rate exposure in the banking book totalled DKK 232 million net at end-2023. Interest rate risk in the banking book is subject to daily market risk monitoring, see *7.1 Market risk policy and guidelines* and *7.2 Control and reporting*.

Equity price risk in the banking book

DKK **7.2** billion

(end-2022: DKK 7.0 billion)

Yield spread risk in the banking book

DKK **786** million

(end-2022: DKK 982 million)

Interest rate risk in the banking book

DKK **232** million

(end-2022: DKK 185 million)

Regulatory requirements for interest rate risk (IRRBB)
Moreover, a number of specific regulatory requirements apply to interest rate risk in banking books (IRRBB), and the Board of Directors' market risk policy lays down an annual maximum risk appetite for IRRBB. Two regulatory metrics are used to manage IRRBB: Economic Value of Equity (EVE) and Net Interest Income (NII), expressing potential losses in terms of value adjustments and earnings impact, respectively, as a result of different interest rate change scenarios. Risks in these areas must be mitigated by holding capital under Pillar II and not Pillar I as described in *7.6.3 Regulatory capital requirement.*

At end-2023, EVE came to a potential loss of DKK 213 million under a scenario where short-term interest rates go up. NII came to a loss of DKK 606 million, driven by an interest rate decline of 2 percentage points. EVE has reduced from DKK 237 million at end-2022, while NII has reduced from DKK 821 million at end-2022.

Utilisation of the regulatory metrics is monitored daily and reported to Nykredit Realkredit's Board of Directors, the Executive Boards and the Asset/Liability Committee on an ongoing basis.

NII is calculated quarterly and includes gap risk, which is defined as income sensitivity to parallel shifts in yield curves, and, for Nykredit Bank, also an option element allowing for deposits and lending with interest rate floors and caps in the banking book.

The reduction in NII was mainly driven by reduced gap risk at Nykredit Realkredit A/S. The future annual earnings impact will be less negative under the parallel shock down scenario. The reason is semi-annual interest rate fixing of variable-rate bonds.

Regulatory requirements for credit spread risk (CSRBB)
A number of regulatory requirements apply to credit spread risk in the banking book (CSRBB). Nykredit monitors this credit spread risk, but holds additional Pillar II capital to cover the uncertainty about future regulatory requirements in relation to IRRBB and CSRBB.

7.6 Models for determination of market risk

In addition to the traditional risk metrics of interest rate risk and equity price risk etc, Nykredit uses market risk models to calculate VaR as described above. Nykredit Realkredit and Nykredit Bank use different models.

Both models are applied in day-to-day internal risk management and in the determination of the regulatory capital requirement for positions involving market risk. The Danish Financial Supervisory Authority (FSA) regularly supervises the use of the models applied to determine capital requirements.

Mark-to-market is applied in the valuation of financial instruments whenever possible. Where mark-to-market is not possible, ie no liquid market prices exist, positions are marked to model. When using mark-to-model, validated pricing models are applied which are within standard market practice. All pricing models used for mark-to-model valuation comply with Nykredit's internal model risk policy, including requirements of management reporting, assessment of model appropriateness by independent validation and frequent pricing model review.

Independent verification of market prices and model inputs is performed daily using closing prices. The verification includes prices and model input for the most frequently traded instruments. Verified market data are delivered daily to the source systems used for pricing and risk management. In addition, the most important calibrated yield curves and volatility surfaces that serve as input to pricing models are monitored daily.

The market risk models, including IRRBB, are subject to the same internal approval, validation and control procedures as credit risk models so as to assure their quality. Read more in *5.6.7 Approval, validation and testing of credit risk models.*

7.6.1 VaR for day-to-day management

VaR model results are reported on a daily basis against prescribed limits and are determined as the 0.99 fractile of the distribution of daily returns over a rolling 1-year period. Daily VaR limits have been laid down at Group, company and organisational unit levels.

7.6.2 Backtesting of market risk models

To measure VaR model performance, the model results are backtested against realised returns on Nykredit's portfolios on a daily basis. In the backtests, daily earnings (gains/losses) are compared with the model estimates of maximum losses.

As the models apply a 99% probability, there will expectedly be backtest overshootings, indicating losses exceeding the VaR model estimate, 2.5 times per year.

If losses exceed the model estimate of maximum losses five times or more within a year, an additional regulatory capital charge will be added to Nykredit's VaR capital requirement.
VaR backtests for Nykredit Realkredit A/S and Nykredit Bank A/S are shown in the charts below.

Nykredit Realkredit A/S recorded three backtest overshootings in 2023, and Nykredit Bank A/S recorded zero. The three overshootings at Nykredit Realkredit were all in March when a number of foreign banks failed or were taken over by the government as a result of liquidity shortage, resulting in highly volatile markets.

7.6.3 Regulatory capital requirement

In determining the risk exposure amount (REA) for market risk, Nykredit uses a combination of models and the standardised approach, and the risk exposures are furthermore divided into general risk and specific risk. General risk means risk affecting financial markets in general, and specific risk is the risk related to single-name issuers.

Nykredit applies the current VaR models for determination of the regulatory capital requirement for general market risk. These models have been approved for use on the trading books of Nykredit Realkredit and Nykredit Bank. Totalkredit only applies the statutory standardised approach, as the company does not have an approved internal VaR model. VaR for the Nykredit Realkredit Group is the total of VaR for Nykredit Bank and VaR for Nykredit Realkredit. See the table below for details on company-specific risk types.

To determine the VaR capital requirement, the time horizon has been scaled up to 10 days instead of 1 day as used in day-to-day management and limit monitoring where approximations are used to assess sensitivity. Changes to model risk factors are determined in either relative or absolute terms, depending on the type of risk factor (interest rate, price, volatility, curve spread etc).

Total REA for general market risk in the portfolio is calculated daily under current as well as stressed market conditions by including:

- The largest losses over the past 12 months based on the current portfolio (VaR)
- The largest losses over a historical 12-month period when markets were particularly distressed based on the current portfolio (stressed VaR).

The period used to calculate stressed VaR is under constant review. The period is determined based on the portfolio composition. Currently, the following three stress periods are relevant:

- The financial crisis in 2008-2009
- The outbreak of covid-19 in 2020
- The banking turmoil in 2023

REA for market risk in the trading book

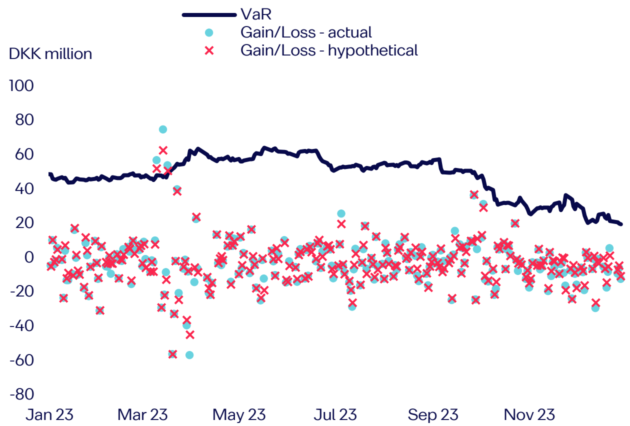
DKK **28.0** billion

(end-2022: DKK 42.4 billion)

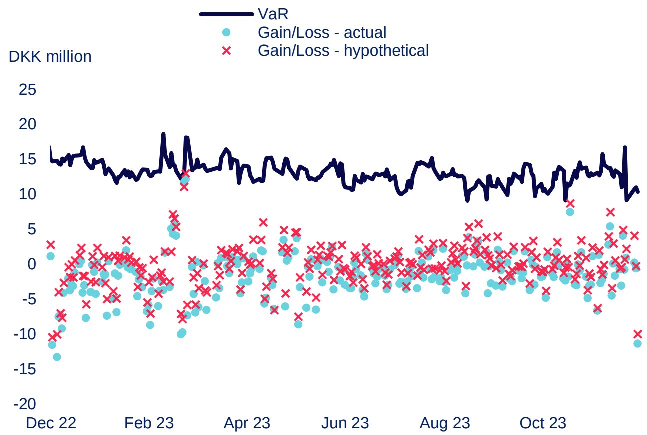
The financial crisis, including the collapse of Lehman Brothers in September 2008, was characterised by significant yield spread widening, particularly on short-dated bonds, which had a large impact on covered bond positions with maturities of up to 5 years. Correspondingly, the outbreak of covid-19 in 2020 was characterised by substantial widening of credit and yield spreads of long-dated callable covered bonds. The banking turmoil, caused by turbulence in relation to Silicon Valley Bank and Credit Suisse, drove credit bond yield spreads as well as yield spreads between government bonds and swaps higher.
At end-2023 the covid-19 crisis and the financial crisis, respectively, are used as stressed periods by Nykredit Realkredit and Nykredit Bank.

Total REA for market risk came to DKK 28.0 billion, equivalent to 6.5% of Nykredit's total REA, at end-2023. Nykredit's REA calculated using VaR amounted to DKK 6.3 billion at end-2023, while stressed VaR amounted to DKK 13.0 billion.

Nykredit Realkredit A/S
VaR model backtesting



Nykredit Bank A/S
VaR model backtesting



Thus, total REA for market risk was down DKK 14.5 billion on end-2022 when it amounted to DKK 42.4 billion. The decline is mainly due to reductions in VaR and stressed VaR. As mentioned in 7.4, the reductions in these metrics is mainly due to calm markets throughout 2023 and reductions in equity and callable covered bond portfolios.

Approach to determination of risk exposures

	Pillar I		Pillar II
	General risk		
	Internal	Standard-	
Nykredit Realkredit A/S			
Interest rate risk	Yes	Yes	-
Credit spread risk	Yes	-	-
Equity price risk	Yes	-	-
Foreign exchange risk	Yes	-	-
Nykredit Bank Group			
Interest rate risk	Yes	Yes	-
Credit spread risk	Yes	-	-
Equity price risk	-	Yes	-
Foreign exchange risk	Yes	Yes	-
Totalkredit A/S			
Interest rate risk	-	Yes	-
Credit spread risk	-	-	Yes
Equity price risk	-	Yes	-
Foreign exchange risk	-	-	-

Note: As no internal model exists for the Nykredit Realkredit Group, risk exposures for the Group are a result of calculations in the underlying companies. For IRRBB under Pillar II, see section 7.5.

New reporting requirement (FRTB)
The new method for determining the capital requirement for market risk is based on the Basel Committee's Fundamental Review of the Trading Book (FRTB) introduced as a reporting requirement in 2021.

The FRTB is changing the existing framework for calculating market risk. However, in many ways the new methodology is comparable to the existing internal models used for determination, management and capital adequacy purposes.

Initially, the FRTB has been introduced as a reporting requirement only. The FRTB is currently expected to take effect as an actual capital requirement from 1 January 2025. Therefore, capital requirements for market risk are still determined using the internal models described above. Total risk exposures for the Nykredit Realkredit Group determined under the FRTB amounted to DKK 33.9 billion at end-2023, so the level will not change significantly from the current determination.

Nykredit Realkredit Group
REA for market risk in the trading book[1]

DKK million	Specific risk	General risk	2023 Total REA	2022 Total REA
Internal models (VaR):	**-**	**19,350**	**19,350**	**34,167**
Value-at-Risk (99%, 10 days[2])	-	6,338	6,338	13,674
Stressed Value-at-Risk (99%, 10 days)	-	13,012	13,012	20,493
Standardised approach:	**6,319**	**2,311**	**8,630**	**8,276**
Debt instruments	6,312	2,286	8,598	7,595
Equities	7	16	23	666
Foreign exchange risk	-	-	-	-
Collective investment schemes	-	9	9	15
Settlement risk	-	0	0	0
Total market risk exposure			**27,981**	**42,443**

[1] REA for market risk in the banking book is addressed under Pillar II.

[2] The time horizon has been scaled up to 10 days from 1 day by multiplying by the square root of 10.

8 Liquidity risk and funding

Nykredit's liquidity risk is the risk that Nykredit is unable to fulfil its financial obligations and meet regulatory requirements and rating criteria in the short, medium and long term. Liquidity risk is also the risk of funding shortages, preventing Nykredit from pursuing the adopted business model, or the risk that Nykredit's costs of raising liquidity become prohibitive.

The structure of Nykredit's liquidity and funding is affected by regulatory requirements and rating criteria. Liquidity risk is subject to significant regulation, including the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Minimum Requirement for own funds and Eligible Liabilities (MREL), Additional Loss-Absorbing Capacity (ALAC), debt buffer and Supervisory Diamond benchmarks.

Throughout 2023 Nykredit maintained a high level of excess liquidity coverage, relative to regulatory requirements as well as to internal delegated guidelines and limits.

Risk appetite

Nykredit follows a prudent liquidity policy that promotes confidence in Nykredit and Nykredit's mortgage business. Nykredit's risk profile is designed to ensure competitive prices, customer access to loan financing regardless of market conditions, and high ratings of Nykredit and Nykredit's issues.

Nykredit Realkredit, Totalkredit and Nykredit Bank have been designated as systemically important financial institutions (SIFIs). Nykredit's liquidity policy and risk appetite have been defined taking into account this fact and with a view to ensuring sound business operations and maintaining a stable financial sector.

8.1 Liquidity risk policy and guidelines

Nykredit's liquidity policy is laid down by Nykredit's Board of Directors and defines Nykredit's overall risk appetite in relation to its liquidity risk profile and funding structure. One aim of the liquidity policy is to ensure that Nykredit's funding and liquidity management supports its mortgage and banking business and ensures competitive prices for customers and Nykredit, regardless of the market conditions. Furthermore, the liquidity management framework must sustain Nykredit's ability to maintain high credit ratings and its status as issuer of covered bonds (SDOs).

In addition to the liquidity policy, Nykredit's Board of Directors has laid down guidelines on the day-to-day liquidity management. In accordance with the guidelines provided by the Board of Directors, the Executive Board delegates liquidity management limits to the Group companies through the Asset/Liability Committee, see the chapter on governance and management. Liquidity and asset-liability management is coordinated centrally at Group level.

The guidelines provide limits for Nykredit's day-to-day liquidity management and for short-, medium- and long-term management. Limits have also been set for the composition of the stock of liquid assets, the LCR, the NSFR, Nykredit Bank's deposits, the use and diversification of funding sources, leverage, MREL, the debt buffer and rating criteria.

Nykredit annually prepares a liquidity management report in the form of a Internal Liquidity Adequacy Assessment Process (ILAAP) report, which is submitted to the Board of Directors and the Danish FSA for their review.

8.2 Control and reporting

The risk control function continuously reports on the Group's liquidity and funding risk profile to the Board of Directors, the Board Risk Committee, the Executive Boards, the Asset/Liability Committee and the Group Risk Committee.

The current utilisation of risk limits is monitored and reported daily by Nykredit's risk control function and thus independently of the acting units. Also, the current utilisation of the limits set out in the guidelines is reported daily to the head of Nykredit's risk control function, the Chair of the Asset/Liability Committee and the heads and dealers of the acting units. Any breaches of these limits are reported by the risk management function to the Asset/Liability Committee, Executive Boards, the Board of Directors of Nykredit Realkredit or other Boards of Directors depending on the nature of such breaches.

Nykredit's liquidity risk is measured and monitored by internal systems based on the collection and control of risk data from different source systems. Measuring and monitoring takes place at different company levels.

Nykredit's Executive Boards and Boards of Directors as well as the Asset/Liability Committee oversee and evaluate the current liquidity and funding risks on a monthly basis, and this forms the basis for an annual review and approval of the liquidity policy and guidelines. The risk outlook is described in the quarterly reports to the Board of Directors, the Board Risk Committee and the Group Risk Committee.

8.3 Current risk profile and development

Nykredit's liquidity risk is limited, and measured against the Board of Directors' risk appetite, the risk level is low. Nykredit remains comfortably within internal delegated guidelines and limits, as well as regulatory requirements.

Throughout 2023, Nykredit maintained liquidity reserves that were adequate to counter periods of financial turmoil and accommodate lending growth. Over a number of years, Nykredit has tightened its internal guidelines and limits to obtain liquidity reserves that are robust and able to withstand severe liquidity stress.

2023 was characterised by high economic uncertainty in the wake of historically tight monetary policies with large and rapid interest rate hikes and a transition away from quantitative easing and towards quantitative tightening. Current market consensus is that the major central banks have completed their hiking cycles and will start cutting interest rates from mid-2024. However, it is important to stress that uncertainty about the economic development and interest rate trends in 2024 is currently high.

Liquidity and funding governance

Board of Directors and Board Risk Committee:
Lay down the liquidity policy and the Board of Directors' liquidity risk guidelines, including risk appetite and limits.

Receive monthly reports on compliance with the liquidity policy and on the risk outlook.

Receive separate reports, possibly including an action plan, in case of breaches of the policy or guidelines.

Executive Board and Asset/Liability Committee:
Approve and implement the liquidity policy and the Board of Directors' guidelines and oversee compliance based on quarterly and monthly reports.

Receive separate reports and action plans in case of breaches of the policy or guidelines.

Liquidity management is coordinated centrally at Group level to ensure efficient use and management as well as compliance with regulatory and internal requirements at alle levels.

Risk management function (second line of defence):
Performs controlling and monitoring independently of the risk-taking units. Prepares independent reports for the Board of Directors and the Executive Board.

In 2023 Nykredit maintained its business activities despite market turbulence, including the selling and issuing of bonds to fund its day-to-day lending and scheduled refinancing operations. Market liquidity has largely normalised in the wake of the volatile markets in 2022. In other words, markets have adapted to a new equilibrium with no significant pricing mismatch between borrowers and investors, as was sometimes the case in previous years.

Nykredit has a detailed internal limit management framework, implementing the Board of Directors' liquidity management policy and guidelines. Limit management and monitoring ensures compliance with the defined risk appetite. See the table for an outline of Nykredit's internal limit management.

Risk profile management, Nykredit Realkredit Group

Liquidity reserves and excess coverage	Frequency
Limits, liquidity reserves and structure	Daily
Excess liquidity coverage relative to LCR must exceed 110%	Daily
Excess liquidity coverage relative to regulatory requirements must be positive on a 12-month horizon and stressed excess liquidity coverage must be positive on a 6-month horizon.	Daily
LCR determined separately in EUR must exceed 100%	Daily
Funding structure	
Limits, maturity and use of external funding	Daily
NSFR must exceed 105%	Monthly
Stressed NSFR must exceed 100%	Monthly

8.4 Balance principle and match funding

Nykredit's mortgage lending is governed by the balance principle, which provides limits to the financial risks Nykredit may assume in relation to lending and funding.

Nykredit operates according to the general balance principle, which allows the use of derivatives for risk hedging under certain conditions. In practice, Nykredit's mortgage lending is match funded. As a result, Nykredit's lending and related funding activities only involve negligible financial risks. Nykredit currently does not apply derivatives in connection with mortgage lending.

To eliminate interest rate and foreign exchange risk, the interest rate and foreign exchange terms of mortgage loans match those of the bonds funding the loans. Long-term fixed-rate loans maintain the same funding throughout their terms. Adjustable-rate mortgages (ARMs) and floating-rate loans are funded by bonds with maturities shorter than the terms of the underlying loans, which are refinanced on maturity of the bonds. The loan rate is adjusted upon refinancing based on the yield-to-maturity of the new bonds sold.

The outstanding funding is reduced by principal payments and loan redemptions. Borrowers cover Nykredit's costs of redemption.

The due dates of payment of interest and principal are fixed so that Nykredit receives the funds on or before the dates when the payments to bondholders fall due, if borrowers make timely payments. Thus, match funding ensures a match between the interest and principal payments of a loan and the underlying funding. Nykredit's earnings margin consists of a separate so-called administration margin, which is most often calculated on the basis of borrowers' debt outstanding. In addition, various fees may be charged.

Balance principle and match funding

8.5 Regulatory requirements

Legislation lays down a number of requirements for the structure and amount of Nykredit's liquidity and funding in the short, medium and long term. At end-2023 all requirements had been met.

8.5.1 Liquidity Coverage Ratio (LCR)

The regulatory requirement of LCR is used to assess Nykredit's short-term liquidity risk. Nykredit's LCR reflects the share of liquid assets relative to net cash outflows over a 30-day period and must be at least 100%. Under this requirement, Nykredit must hold an adequate stock of liquid assets to withstand a liquidity stress for a period of at least 30 days.

As appears from the table below, Nykredit's LCR was 310% and the excess liquidity coverage was DKK 72 billion at end-2023. The aggregate LCR of Nykredit's mortgage banks was 254% (Pillars I and II), while Nykredit Bank's LCR was 191%. Liquid assets used to comply with the requirement of supplementary collateral in Nykredit Realkredit and Totalkredit are considered to be encumbered and consequently ineligible for the purpose of LCR determination. For more details, see *8.5.5 Supplementary collateral*.

Excess liquidity coverage

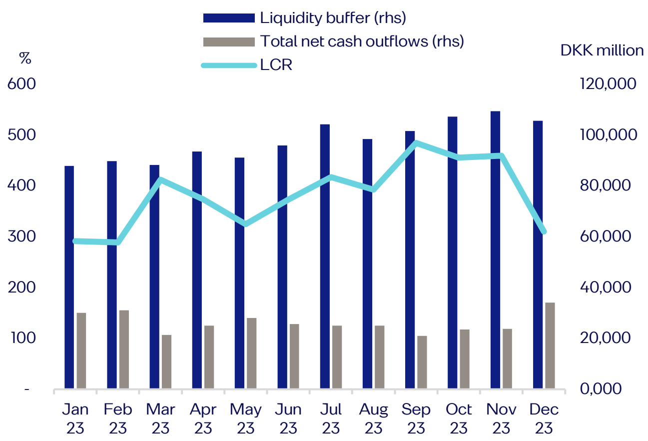
DKK **72** billion

(2022: DKK 63.0 billion)

DKK billion	31.12.2023	31.12.2022
Nykredit Realkredit Group		
LCR (%)	310	283
Excess liquidity coverage (DKKbn)	71.6	63.0
LCR, EUR (%)	400	317
Nykredit Realkredit and Totalkredit		
LCR (Pillars I+II) (%)	254	529
Excess liquidity coverage (DKKbn)	26.7	28.4
Nykredit Bank		
LCR (%)	191	205
Excess liquidity coverage (DKKbn)	29.8	31.6

The Danish FSA has granted Nykredit permission not to include mortgage lending and its funding in the calculation of LCR for Nykredit Realkredit and Totalkredit. The permission was motivated by the fact that match funding limits liquidity risk in relation to mortgage lending and its funding.

Development in LCR, buffer and cash flows



At end-2023 the Pillar II A requirement was DKK 11.2 billion. This requirement will cover the risk of a liquidity need resulting from remortgaging cases where borrowers have terminated an existing loan for prepayment but have not raised a new loan, as well as the liquidity risk related to borrowers in arrears. The Pillar II B requirement was DKK 18.2 billion at end-2023 and will cover risks related to refinancing. The Pillar II B requirement was met with non-HQLA liquid assets that are not included in LCR calculations. Total LCR (Pillar I and Pillar II) for Nykredit Realkredit and Totalkredit was 254% at end-2023, equal to excess coverage of DKK 26.7 billion.

The Danish FSA has introduced an additional liquidity requirement concerning foreign currencies. This requirement, which for Nykredit only concerns EUR, applies to the Nykredit Realkredit Group. The LCR in foreign currencies must be 100% or more. At end-2023, Nykredit's LCR in EUR was 400%.
Nykredit is under a statutory obligation to disclose derivatives exposures and their effect on the LCR. Nykredit uses derivatives to hedge risks relating to the stock of liquid assets. The market value of the derivatives portfolio will vary over time, which will impact Nykredit's posting of collateral. Therefore, when calculating the LCR, an amount is allocated to cover any negative fluctuations in required collateral.

8.5.2 Liquidity reserves

Nykredit's liquidity reserves are exclusively made up of assets that can readily be converted into cash or which are eligible as collateral to obtain cash when required.

Nykredit's liquidity reserves may include:

- Ultra-liquid assets; ie assets placed with Danmarks Nationalbank or the ECB
- Highly liquid assets; ie assets such as Danish and European government and covered bonds
- Assets not eligible for use as collateral with a central bank; ie negotiable securities with longer realisation periods. Securities in this group are mainly bonds not qualifying for the highly liquid category, credit bonds and equities.

In its liquidity policy, Nykredit has an overall policy for the size and quality of the liquidity buffer, based on the balance sheet structure and risk profile of the Group. At end-2023 the Group's liquidity reserves amounted to DKK 106 billion against DKK 101 billion at end-2022.

8.5.3 Liquidity benchmark

The liquidity benchmark is included in the Supervisory Diamond for banks.

The liquidity benchmark is based on the LCR and must be 100%, but over a 3-month period. It means that Nykredit Bank must have sufficient liquid assets to withstand a liquidity stress for a period of at least three months. At end-2023 Nykredit Bank's liquidity benchmark was 223%, with excess coverage of DKK 48 billion kr..

8.5.4 Intraday liquidity risk

Nykredit Bank's intraday liquidity risk is the risk that the Bank will not be able to meet its intraday financial obligations. Nykredit Bank actively controls, manages and monitors its intraday liquidity risk.

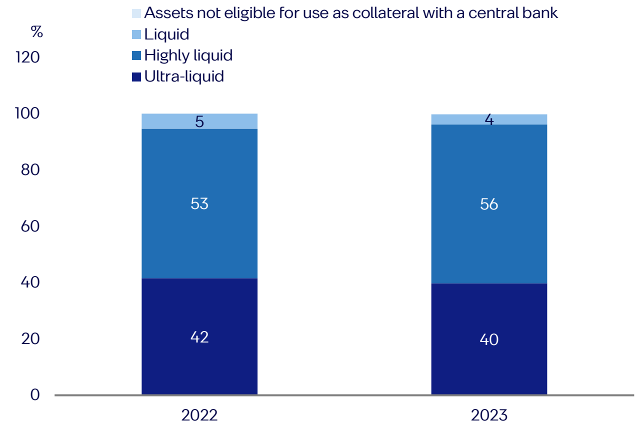
The intraday liquidity risk of Nykredit Realkredit and Totalkredit is limited, as the mortgage lending model is designed so as to eliminate any structural intraday liquidity requirement.

8.5.5 Supplementary collateral

In order for the Capital Centres E and H to comply with CRR requirements for covered bonds (SDOs), Nykredit must provide supplementary collateral for loans in case of property price declines where the LTV ratios exceed the statutory LTV limits.

Supplementary collateral is not required for public housing loans issued through SDO Capital Centre J, as these loans and bonds are government guaranteed. Nykredit also issues small amounts of covered bonds of the RO type. Unlike in Nykredit's SDO capital centres, supplementary collateral will not be required in case of property price declines in Nykredit's RO capital centres, as RO capital centres are not subject to the same requirements of monitoring collateral.

Development in liquidity reserves



The higher supplementary collateral requirement in 2023 compared with 2022 is mainly due to rising LTV ratios as a result of interest rate declines and increasing fair values of mortgage loans. The total supplementary collateral requirement for Capital Centres E and H went up in 2023, amounting to DKK 7.2 billion at end-2023, against DKK 4.0 billion at end-2022. This should be seen in the context of recent years' increasing prices of commercial and residential property and decreasing LTV ratios, which have led to a declining supplementary collateral requirement. The supplementary collateral requirement was therefore relatively low in 2022.

It is Nykredit's policy to have a collateral buffer in case of declining property prices. The minimum buffer is determined by means of stress testing.

Thanks to the buffer, Nykredit would have been able at end-2023 to absorb an immediate property price decline of about 17% without additional funding. The funding of the debt buffer and MREL requirements raises Nykredit's ability to absorb a property price decline.

8.5.6 Net Stable Funding Ratio (NSFR)

The purpose of the NSFR is to ensure that credit institutions apply sufficiently stable, long-term funding when issuing loans. In this context, stable means that the funding is considered to be reliable in the long term and under stressed conditions. The NSFR is the ratio of an institution's amount of available stable funding to the amount of its required stable funding. To meet the NSFR requirement, this ratio must be at least 100%. The level of stable funding is calculated by weighting assets according to their liquidity and maturity. Funding with times-to-maturity of more than one year is considered more stable than other types of funding.

At end-2023 the NSFR was 147%, compared with 149% at end-2022.

8.5.7 Stress testing

To sustain Nykredit's business model and also to ensure that Nykredit has sufficient liquidity to meet regulatory requirements, liquidity stress tests are conducted for the short, medium and long term. They show the development in excess liquidity coverage in an expected scenario and in stress scenarios, taking into account regulatory requirements, including LCR and supplementary collateral, and rating criteria.

The stress tests show the resilience of the liquidity position in a situation where Nykredit has no access to a significant part of its usual funding sources, while at the same time external factors have an adverse impact on liquidity in the stress scenarios.

The stress tests are based on a number of scenarios: An expected scenario, an institution-specific scenario, a market-specific scenario and a combination stress scenario in which the institution-specific and market-specific scenarios occur at the same time.

The Board of Directors and the Asset/Liability Committee have set limits for excess liquidity coverage in an expected scenario on a 12-month horizon and for the most severe of the three above stress scenarios on a 6-month horizon.

8.6 Funding

Nykredit has extensive market activities for the purpose of funding the Group's lending. This includes daily tap issuance to fund Nykredit's mortgage lending. Moreover, Nykredit regularly refinances ARMs, floating-rate loans etc. Nykredit also issues capital market funding to comply with regulatory requirements and rating criteria.

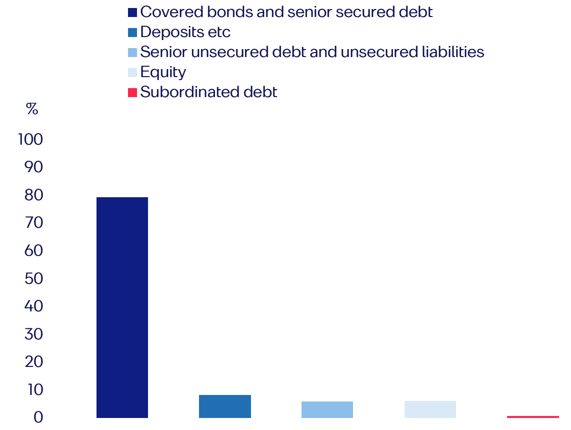
Nykredit raises funding in the following markets:

- Covered bonds (SDOs and ROs)
- Senior secured debt (currently not issued)
- Secured and unsecured bank loans
- Senior unsecured debt
- Senior non-preferred (SNP) debt
- Tier 2 and Additional Tier 1 capital

As shown in the chart Funding sources below, covered bond issues are the primary funding source. For the Bank, the primary source is deposits.

Nykredit Realkredit Group

Funding sources



8.6.1 Covered bonds

Nykredit's balance sheet mainly consists of lending secured by mortgages on real estate funded through the issuance of covered bonds (SDOs and ROs). These bonds are issued through daily tap issuance coupled with refinancing auctions for ARMs, floating-rate loans etc.

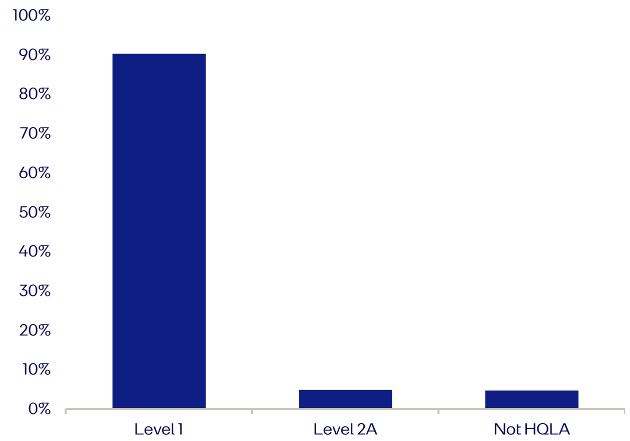
Nykredit strives to build large, liquid benchmark bond series to obtain an effective pricing of its bonds. Nykredit Realkredit and Totalkredit's joint bond issuance contributes to creating large volumes and high liquidity in the Group's key bond series.

In 2023 Nykredit had primary dealer arrangements with a number of securities brokers for the purpose of underpinning liquidity in the bond series and ensuring consistent market making in and efficient pricing of bonds issued by Nykredit.

Due to the rules determining which liquid assets are eligible for the LCR calculation, many banks prefer to invest in bonds with outstanding amounts of more than EUR 500 million and high credit ratings. As shown in the chart below, as much as 90% of the outstanding amounts of Nykredit's active bond series are today classified in the top LCR category (Level 1), while 5% are in the second-best category (Level 2A).

Nykredit Realkredit Group

Covered bonds by LCR category (percentages, end-2023)



Nykredit strives to have a range of bonds that best suits customers' needs while at the same time meeting investors' increased preference for very liquid bond series. The chart below shows Nykredit's products and the distribution of Nykredit's mortgage lending.

Over the past few years, Nykredit has reduced its refinancing risk. As can be seen from the chart below showing the loan portfolio mix, adjustable-rate mortgages (ARMs) funded by 1-year and 3-year bullet covered bonds represent a decreasing share of total mortgage lending. In 2022 and 2023 issuance patterns changed as a result of the surging interest rates, and short-dated bonds were increasingly issued rather than long-dated callable bonds. This could lead to a shift in the investor base due to investors' different duration preferences for their investment portfolios.

To support the liquidity of bullet covered bonds, Nykredit has in recent years aimed to concentrate loans in fewer bond series. Specifically, ARMs funded by 3-5-year bullets (SDOs) have been moved from the April and October payment dates to the January and July payment dates, while ARMs funded by 1-year bullets are now concentrated on the April payment date. Refinancing volumes are kept stable from quarter to quarter by planning the use of variable-rate bonds for new lending and refinancing. The chart below shows the volumes of the individual refinancing auctions.

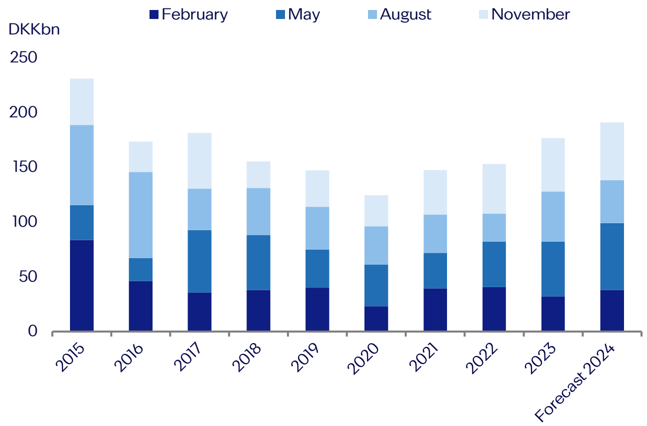
Nykredit Realkredit Group

Refinancing in 2024

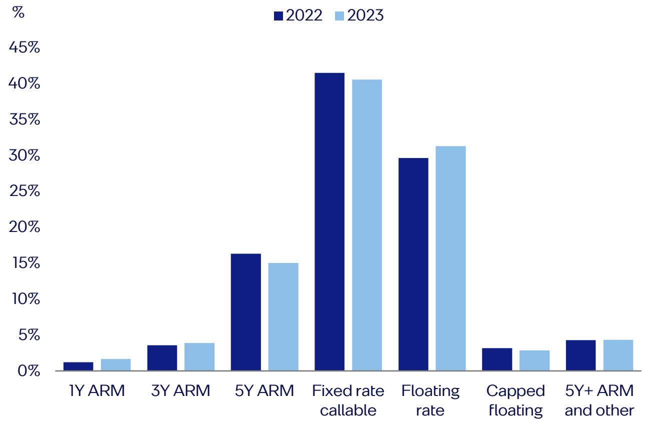
DKK billion Refinancing[1]	
Total maturity before set-off of self-issued bonds	**257.7**
- ordinary principal payments and scheduled[2] prepayments (settled)	34.9
- ordinary principal payments and scheduled[2] prepayments (not settled)	21.6
- pre-issued bonds and interest rate risk[2]	0.3
Total refinancing volume	**200.8**
- pre-auctioned amount sold under forward contracts	29.2
Refinancing volume remaining for 2023	**230**
- of which SDOs and ROs	229.9
- of which other issues	0.1

[1] The January, April, July and October 2024 payment dates.
[2] Known as at 31 December 2023.

Nykredit Realkredit Group
Refinancing auctions, SDOs and ROs



Nykredit Realkredit Group
Mortgage lending by loan type



8.6.2 Green bonds

Nykredit's Green Bond Framework, which was established in compliance with ICMA's Green Bond Principles (GBP), describes the principles of green loans and determines which sustainable assets are eligible for financing with green bonds.

Since 2019 Nykredit has been offering green mortgage loans to finance energy-efficient buildings with energy label A or B or other equivalent certification. Nykredit also offers green mortgage loans to finance renewable energy, and utility and electricity networks. The loans are currently offered to corporate clients. About DKK 35.9 billion-worth of green bonds and about DKK 0.95 billion-worth of green Tier 2 capital had been issued at end-2023. Further, Nykredit offers a series of green banking products.

Green bonds

DKK **35.9** billion

(2022: DKK 31.3 billion)

8.6.3 Funding schedule

Nykredit's future funding requirement depends on the volume of loans with refinancing, expected new lending as well as new regulatory requirements and rating agency criteria.

The funding of senior and subordinated debt is centralised in Nykredit Realkredit, meaning that funding is managed and issued by Nykredit Realkredit and distributed to Totalkredit and Nykredit Bank as required.

Nykredit issues covered bonds (SDOs and ROs) to fund new mortgage lending and the refinancing of existing mortgage loans. See *8.6.5 Issuance schedule* for expected issuance at refinancing auctions in 2024.

Bond issuance is distributed evenly over the quarters, reflecting Nykredit's aim of deconcentrating loan refinancing across payment dates. Also, Nykredit seeks a funding profile with a limited amount of short-term funding.

Nykredit expects to refinance DKK 373 billion-worth of covered bonds at auctions in 2024 and 2025. In addition, Nykredit expects to issue about DKK 225 billion-worth of bonds through tap issuance.

Senior non-preferred debt will largely replace senior secured debt and senior preferred debt, which has been used historically by Nykredit to meet the existing supplementary security and overcollateralisation (OC) requirements and the MREL requirement for Nykredit Bank A/S.

8.6.4 Capital market funding

Nykredit raises capital market funding mainly for the purpose of meeting regulatory capital requirements. Nykredit's funding requirement is driven by a stacked requirement consisting of the capital requirement, the 2% debt buffer and the MREL requirement. This stacked requirement must correspond to at least 8% of the consolidated balance sheet.

Instruments used to fund Nykredit Bank are issued by Nykredit Realkredit and distributed to Nykredit Bank as long-term intercompany funding.

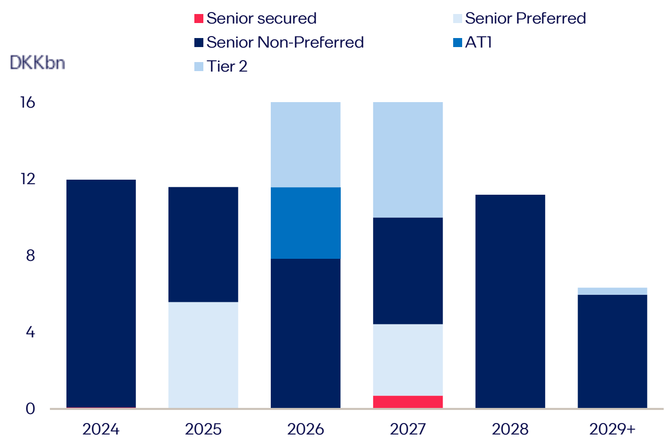
In 2023 Nykredit refinanced senior non-preferred debt to meet the debt buffer/MREL requirements. Senior non-preferred debt in issue totalled DKK 56.4 billion at year-end.

As at 31 December 2023, Nykredit Bank's senior unsecured debt consisted of short-term euro commercial paper (ECP) of DKK 6.0 billion.

The total funding and ECP issuance need will depend on the development in customer deposits and lending as well as the Bank's other business activities. The chart below shows the current maturity profile of Nykredit's capital market funding.

Nykredit Realkredit Group

Maturity profile of capital market funding



8.6.5 Issuance schedule

Nykredit Realkredit will continue to issue covered bonds through tap issuance and at refinancing auctions.

Nykredit expects to refinance bonds worth DKK 61 billion and DKK 39 billion at the auctions in April and July 2024, and DKK 53 billion and DKK 55 billion at the auctions in October 2024 and January 2025.

Apart from the issuance of SDOs and ROs, Nykredit's need to issue other capital market funding depends on the interest rate level. Nykredit expects to issue bonds worth up to DKK 18 billion in 2024.

ECP issuance will continue through Nykredit Bank.

Senior debt totalling

DKK **56.4** billion

(2022: DKK 51.6 billion)

Nykredit Realkredit Group		DKK million
Bonds in issue	31.12.2023	31.12.2022
Covered bonds (ROs)	113,043	119,758
Covered bonds (SDOs)	1,412,023	1,383,244
Senior secured debt	651	704
Senior preferred debt, Nykredit Realkredit A/S	9,317	9,296
Senior non-preferred debt	47,049	42,345
Tier 2 capital	10,394	10,136
Additional Tier 1 capital, Nykredit Realkredit A/S	3,660	3,654
ECP issues, Nykredit Bank A/S	5,925	4,415

8.6.6 Deposits at Nykredit Bank A/S

Customer deposits are a significant source of funding to Nykredit Bank. About half of Nykredit's deposits are protected under the Danish deposit guarantee scheme. Historically, the percentage has been stable at around 50%.

Deposits not protected under the deposit guarantee scheme are mainly from business customers and financial counterparties, while deposits protected under the scheme are mainly from personal customers.

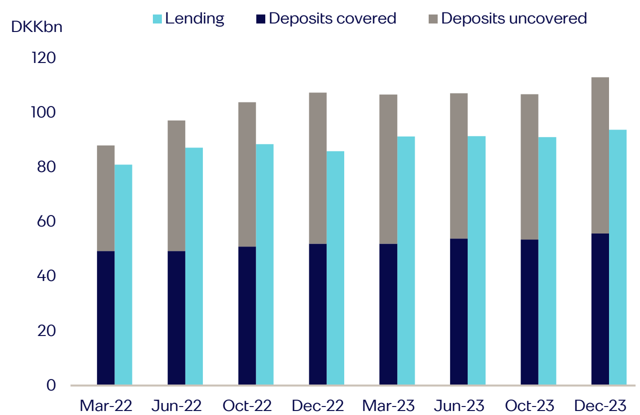
Nykredit Bank funds its lending activities through, for instance, deposits, and Nykredit is therefore focused on ensuring that deposits are robust and developing in parallel with lending growth.

As shown in the chart, Nykredit Bank's deposits have developed in parallel with lending growth. Deposits generally exceed lending, and Nykredit Bank A/S's surplus of deposits was approximately DKK 19 billion at end-Q4/2023.

In spring 2023, the global financial sector was shocked by the massive problems of some US banks and European bank Credit Suisse, which consequently faced actual bank runs. The market turbulence in this period did not have an adverse impact on Nykredit Bank's deposits, however.

Nykredit Bank A/S

Deposits by deposit guarantee protection, and lending



8.7 Ratings

Nykredit Realkredit and Nykredit Bank collaborate with international credit rating agencies S&P Global Ratings (S&P) and Fitch Ratings regarding the credit rating of the Group's companies and their funding.

8.7.1 S&P Global Ratings

S&P has assigned Nykredit Realkredit and Nykredit Bank long-term and short-term Issuer Credit Ratings of A+/A-1 with a stable outlook and long-term and short-term Resolution Counterparty Ratings of AA-/A-1+.

Senior non-preferred debt has a BBB+ rating with S&P.

Covered bonds (SDOs and ROs) issued by Nykredit Realkredit and Totalkredit through rated capital centres are all rated AAA by S&P, which is the highest possible rating. The rating outlook is stable.

Due to a very modest outstanding amount of covered bonds in Nykredit Realkredit in General and Nykredit Realkredit's Capital Centre C, Nykredit has decided that these bonds will no longer be rated from 1 January 2024.

Covered bonds initially issued by LR Realkredit are not and will not be rated.

8.7.2 Fitch Ratings

Nykredit Realkredit and Nykredit Bank each have long-term and short-term Issuer Credit Ratings of A/F1 with Fitch and long-term and short-term senior preferred debt ratings of A+/F1.

Senior non-preferred debt is rated A by Fitch.

8.7.3 S&P Global Ratings key ratios

In its rating criteria, S&P Global Ratings (S&P) has included a number of key ratios defined by S&P itself. These key ratios form part of S&P's overall credit rating of an institution.

Additional Loss-Absorbing Capacity (ALAC)

S&P's criteria provide for a rating upgrade if the level of additional loss-absorbing capacity (ALAC) is sufficiently high. ALAC consists of Tier 2 capital and senior non-preferred debt designated to absorb losses in case of Nykredit's recovery or resolution, thus protecting ordinary senior debt.

ALAC is expressed as a percentage of risk-weighted assets determined according to S&P's calculation method (S&P RWA). An ALAC maintained at 6% of S&P RWA or higher will currently trigger a 2-notch uplift of Nykredit's Issuer Credit Rating/senior rating. At end-2023 Nykredit's ALAC was 7.2%.

Overcollateralisation behind bond rating

When rating the Danish covered bonds issued by Nykredit Realkredit and Totalkredit, S&P applies its criteria to assess the collateral posted in the capital centres. In addition to the security by way of mortgages on real estate, Nykredit posts overcollateralisation (OC) in the form of liquid securities. To obtain the highest possible rating (AAA), OC of at least DKK 58.8 billion must be provided. The required OC is determined as the result of S&P's individual assessments of the OC requirement for each individual mortgage loan. Each assessment includes a large number of parameters, including property type, location, LTV ratio, loan type and payment history. In total, Nykredit Realkredit and Totalkredit had liquid assets of DKK 92.1 billion eligible for OC purposes at end-2023.

Nykredit Realkredit Group

Credit ratings

End-2023	Nominal DKK billion[1]	S&P	Fitch
Covered bonds (SDOs, ROs)			
Nykredit Realkredit A/S			
- Capital Centre C (covered bonds, RO)	0.2	AAA	
- Capital Centre D (covered bonds, RO)	10.9	AAA	
- Capital Centre E (covered bonds, SDO)	562.2	AAA	
- Capital Centre G (covered bonds, RO)	67.9	AAA	
- Capital Centre H (covered bonds, SDO)	807.4	AAA	
- Capital Centre I (covered bonds, RO)	3.9	AAA	
Totalkredit A/S			
- Capital Centre C (covered bonds, RO)	2.4	AAA	
Other ratings			
Nykredit Realkredit A/S			
- Short-term Resolution Counterparty Rating		A-1+	
- Long-term Resolution Counterparty Rating		AA-	
- Short-term Issuer Credit Rating		A-1	F1
- Long-term Issuer Credit Rating		A+	A
- Short-term senior unsecured debt		A-1	F1
- Long-term senior unsecured debt		A+	A+
- Senior non-preferred (SNP) debt		BBB+	A
- Tier 2 capital		BBB	BBB+
- Additional Tier 1 capital		BB+	BBB-
Nykredit Bank A/S			
- Short-term Resolution Counterparty Rating		A-1+	
- Long-term Resolution Counterparty Rating		AA-	
- Short-term Issuer Credit Rating		A-1	F1
- Long-term Issuer Credit Rating		A+	A
- Short-term senior unsecured debt		A-1	F1
- Long-term senior unsecured debt		A+	A+
- Short-term deposits		A-1	F1
- Long-term deposits		A+	A+

[1] Bonds in issue at nominal value at 31 December 2023.

8.7.4 ESG ratings

Society's growing focus on sustainability and governance is increasingly reflected in the focus of investors and issuers. ESG ratings (Environmental, Social and Governance) are a tool used by investors and other stakeholders to assess Nykredit's position in terms of sustainability, corporate responsibility and governance. ESG ratings are a parameter in many investment decisions and may potentially affect Nykredit's funding terms.

Nykredit currently focuses on ESG rating agencies MSCI and Sustainalytics, which consider all ESG factors, as well as on the CDP, which assesses the environmental impact of businesses.

The table below shows Nykredit's ESG ratings.

Nykredit Realkredit Group
ESG ratings at 31.12.2023

End-2023	Nykredit's rating
MSCI	AAA
Sustainalytics	Low risk
CDP	A-

8.8 Encumbered assets

Nykredit's main activity is to provide loans secured by mortgages on real estate. Nykredit's mortgage lending to customers is match funded through the issuance of bonds. The loans remain on Nykredit's balance sheet until they mature, and they are ring-fenced to ensure timely payments to bond investors in the event that Nykredit should default. Ring-fencing assets for creditors/investors is referred to as asset encumbrance. Liquid assets used to comply with the requirement of supplementary collateral are considered to be encumbered for the purpose of LCR and NSFR determination.

Moreover, Nykredit provides collateral in connection with derivatives trading and repo transactions. Nykredit provides collateral to other credit institutions for movements in the market value of Nykredit's OTC derivatives contracts and margin collateral in connection with exchange-traded derivatives. Nykredit also provides collateral to central clearing counterparties (CCPs). Such collateral is also considered to be encumbered assets.

Encumbered assets made up 80% of Nykredit's total assets at end-Q3/2023, the same level as at end-2022. It is natural that Nykredit should have a relatively high asset encumbrance ratio. It follows from the Danish mortgage lending model under which mortgage loans serve as collateral in favour of bondholders in the individual capital centres. The vast majority of the encumbered assets are in DKK. After netting for accounting purposes, encumbered assets in EUR are not significant.

Totalkredit's mortgage lending is also encumbered. The lending activities of Totalkredit and Nykredit Realkredit are jointly funded, which means that most of their mortgage lending is subject to intercompany encumbrance.

Nykredit's asset encumbrance is monitored and reported to the Danish FSA on a quarterly basis. The level of asset encumbrance is stable over time.

Encumbered assets

DKK million	30.09.2023	30.09.2022
Total encumbered assets	1,331,549	1,266,962
- of which derivatives collateral	5,745	5,790
- of which repo contracts	10,846	13,762
- of which central bank funding	-	0
- of which SDO issues	1,309,843	1,238,237
- of which other assets	5,116	775
Total encumberable assets	1,654,030	1,584,468
Asset encumbrance ratio	**80%**	**80%**

Note: The Q4 level will not be known until after release of the Risk and Capital Management 2023 report, and the Q3 level is reported instead.

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