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TOTALKREDIT A/S – A SUBSIDIARY OF NYKREDIT REALKREDIT A/S CONSOLIDATED IN THE NYKREDIT GROUP FINANCIAL STATEMENTS

INTERIM REPORT FOR 1 JANUARY – 30 SEPTEMBER 2017

In the Q1-Q3 Interim Report 2017 Totalkredit has changed its earnings presentation. The former item "Profit from core business" has been replaced by "Business profit". This change is described on page 3.

Q1-Q3 – summary

- Profit before tax was up 4.8% to DKK 1,950m against DKK 1,860m in Q1-Q3/2016.
- Income rose by 6.9% from DKK 2,407m to DKK 2,574m.
- Costs totalled DKK 529m against DKK 484m in Q1-Q3/2016. Costs as a percentage of income were 20.6% compared with 20.1% in Q1-Q3/2016, primarily due to the development of a new IT platform for mortgage lending.
- Impairment charges for loans and advances came to DKK 95m against DKK 63m in Q1-Q3/2016. This trend reflected fewer individual impairment provisions and a rise in collective impairment provisions.
- Profit for the period increased from DKK 1,450m in Q1-Q3/2016 to DKK 1,554m in Q1-Q3/2017.
- At nominal value, the loan portfolio grew to DKK 618bn compared with DKK 591bn at the beginning of the year.

Own funds

- Equity stood at DKK 22.2bn at 30 September 2017 against DKK 20.7bn at end-2016.
- The total capital ratio and the Common Equity Tier 1 capital ratio were 29.8% and 23.3%, respectively, against 28.7% and 22.2% at end-2016.
- The internal capital adequacy requirement was 10.8% against 10.4% at end-2016.

About Totalkredit A/S

Totalkredit's annual and interim reports and further information about Totalkredit are available at totalkredit.dk.

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FINANCIAL HIGHLIGHTS

DKK million

	Q1-Q3/ 2017	Q1-Q3/ 2016	Q3/ 2017	Q3/ 2016	FY/ 2016
Business profit and profit for the period					
Net interest income	2,349	2,070	792	784	2,868
Net fee income	376	339	127	162	490
Net interest from capitalisation	(200)	(99)	(64)	(31)	(140)
Trading, investment portfolio and other income	49	98	(12)	38	129
Income	2,574	2,407	843	953	3,347
Costs	529	484	184	162	673
Business profit before impairment charges	2,045	1,923	659	791	2,674
Impairment charges for loans and advances	95	63	37	19	47
Profit before tax	1,950	1,860	622	772	2,628
Tax	396	410	103	170	579
Profit for the period	1,554	1,450	517	600	2,048
SUMMARY BALANCE SHEET					
	30.09.2017	30.09.2016	30.09.2017	30.09.2016	31.12.2016
Assets					
Receivables from credit institutions	10,905	21,178	10,905	21,178	19,341
Mortgage loans at fair value	632,922	596,942	632,922	596,942	599,943
Bonds and equities	71,168	80,654	71,168	80,654	69,364
Remaining assets	1,783	1,915	1,783	1,915	1,878
Total assets	716,777	700,689	716,777	700,689	690,527
Liabilities and equity					
Payables to credit institutions	673,487	660,000	673,487	660,000	647,073
Bonds in issue at fair value	9,549	12,076	9,549	12,076	11,162
Remaining liabilities	5,526	6,551	5,526	6,551	5,631
Subordinated debt	6,000	2,000	6,000	2,000	6,000
Equity	22,215	20,063	22,215	20,063	20,661
Total liabilities and equity	716,777	700,689	716,777	700,689	690,527
FINANCIAL RATIOS					
Profit for the period as % pa of average equity	9.7	10.0	9.4	12.1	10.4
Business profit before impairment charges as % pa of average equity	12.7	13.3	12.0	16.0	13.6
Costs as % of income	20.5	20.1	21.8	17.0	20.1
Impairment charges for the period, %	0.02	0.01	0.01	0.00	0.01
Total capital ratio, %	29.8	23.0	23.2	20.4	28.7
Common Equity Tier 1 capital ratio, %	23.3	20.9	20.6	17.7	22.2
Internal capital adequacy requirement, %	10.8	10.8	10.8	10.9	10.4
Average number of staff, full-time equivalent	117	131	131	131	132

As part of the ongoing adjustment of the internal and external reporting, various changes have been made for the earnings presentation effective from and including Q1-Q3/2017. "Income from core business", "Profit from core business before impairment charges" and "Profit from core business" will not be included in future financial reports. These items will be replaced by "Income", "Business profit before impairment charges" and "Profit before tax".

Most significantly, investment portfolio income will be included in "Income", which will be more differentiated going forward. Previously, investment portfolio income was stated as a separate item.

In future reports, the former "Profit from core business" will be replaced by the new key item "Business profit". "Profit before tax" includes the former item "Investment portfolio income", which is now part of "Income".

These changes did not affect the company's profit, comprehensive income, balance sheet or equity. The accounting policies are unchanged.

Further, the adjustment should be viewed in light of the Nykredit Group's corresponding adjustment in the earnings presentation, and reference is made to Nykredit's stock exchange announcement of 27 October 2017.

Q1-Q3/2017 – SUMMARY

Totalkredit recorded a profit before tax of DKK 1,950m against DKK 1,860m in the same period last year. Profit after tax was DKK 1,554m against DKK 1,450m in Q1-Q3/2016.

Activity levels in Q1-Q3/2017 were slightly above expectations, and in April 2017 nominal mortgage lending reached a historic milestone of DKK 600bn, totalling DKK 618bn at 30 September 2017.

Income went up owing to increased net interest and fee income, whereas other income was lower than in the same period in 2016.

In Q3/2017 Totalkredit paid out KundeKroner loyalty bonuses, which are cash discounts for the company's customers. The cash discounts totalled DKK 151m, largely corresponding to distribution of DKK 150m from Forenet Kredit.

Business profit before impairment charges

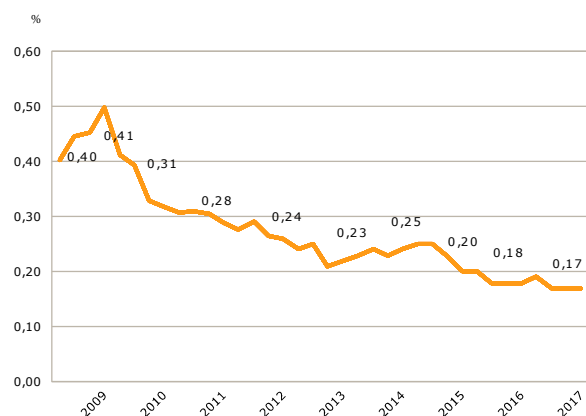
Income was DKK 2,574m, up DKK 167m compared with Q1-Q3/2016.

Administration margin income rose by DKK 437m to DKK 4,182m, cf note 2 of the Financial Statements, in part due to the administration margin adjustment on 1 July 2016 as well as growing loan portfolios. Commission to loan arrangers increased by DKK 286m, whereas other income rose by DKK 16m.

In Q1-Q3/2017, income included interest expenses of DKK 173m, partly relating to Additional Tier 1 capital raised at end-2016.

Costs totalled DKK 529m, up DKK 45m on the same period last year. This increase was mainly driven by the development of a new joint IT platform for mortgage lending, which is a project of the Totalkredit alliance. Wages fell by DKK 6m, while other administrative expenses increased by DKK 51m.

Arrears ratio, mortgage lending – 75 days past due



The average number of full-time equivalent staff totalled 117 compared with 131 in Q1-Q3/2016.

Totalkredit's contribution for Q1-Q3/2017 to the Danish Resolution Fund came to DKK 46m against DKK 54m in Q1-Q3/2016.

Business profit before impairment charges came to DKK 2,045m against DKK 1,923m in Q1-Q3/2016.

Impairment charges for loans and advances

Impairment charges for loans and advances totalled DKK 95m against DKK 63m in the same period last year. Property market trends were generally positive, which was reflected in low impairment levels.

Net individual impairment provisions came to DKK 94m, whereas collective impairment provisions increased by DKK 1m in Q1-Q3/2017. Collective impairment provisions were a gain of DKK 147m, whereas individual impairment provisions were a charge of DKK 210m in Q1-Q3/2016.

In Q1-Q3/2017, the expense equalled 0.02% of lending compared with 0.01% in the same period last year.

Write-offs for the period totalled DKK 359m, of which DKK 161m was covered by the partner banks by set-off against commission payable or by guarantees in Q1-Q3/2017. In Q1-Q3/2016 write-offs came to DKK 411m, of which DKK 179m was set off against commission payable.

Impairment provisions totalled DKK 1,069m against DKK 1,130m at the beginning of the year. The balance consisted of individual impairment provisions of DKK 492m and collective impairment provisions of DKK 577m against DKK 554m and DKK 576m, respectively, at end-2016. Impairment provisions equalled 0.18% of lending. At end-2016, this ratio was also 0.19%.

The arrears ratio measured at the June due date, 75 days past due, was 0.17% against 0.18% at the same time in 2016 and 0.19% at end-2016. The graph shows the 0.17% compared with figures as at 31 December in previous years.

In Q1-Q3/2017, 418 properties mortgaged by Totalkredit were sold as forced sales by public auction. In the same period, Totalkredit acquired 40 properties by foreclosure and sold 48. At 30 September 2017, the portfolio of properties acquired by foreclosure stood at 11 against 19 at the beginning of the year.

Lending

Totalkredit is Denmark's largest private residential mortgage provider.

Measured at fair value, the loan portfolio increased to DKK 633bn against DKK 600bn at the beginning of the year. At nominal value, the loan portfolio totalled DKK 618bn at 30

September 2017 compared with DKK 591bn at the beginning of the year.

Gross new lending was DKK 96bn, of which around DKK 12bn was loans offered through Nykredit Realkredit A/S.

Broken down by loan type, the share of interest-only loans in the loan portfolio fell from 53.0% at end-2016 to 51.5% at 30 September 2017. The share of variable-rate loans dropped from 56.8% to 55.7%. Of these loans, 8.3% had interest rate caps against 9.8% at the beginning of the year.

Loan-to-value ratios (LTVs)

The average LTV ratio of the loan portfolio, determined as the top part of the loan amount for each property, was 69% at 30 September 2017, unchanged on end-2016.

For the part of the loan portfolio which is funded by SDOs (Danish covered bonds) and for which LTV ratios exceed the statutory LTV limits of 80% for owner-occupied dwellings and, from 25 April 2017, 75% for holiday homes, supplementary collateral must be provided to bondholders. The supplementary collateral requirement averaged DKK 11.4bn in Q1-Q3.

Totalkredit raises supplementary collateral by investing part of its own funds or borrowed funds, primarily proceeds from senior secured debt in issue, in particularly secure assets.

Balance sheet

At end-September 2017, the balance sheet stood at DKK 716.8bn against DKK 690.5bn at the beginning of the year.

Assets essentially consist of three items: receivables from credit institutions of DKK 10.9bn, mortgage lending of DKK 632.9bn and a bond portfolio of DKK 71.2bn.

Totalkredit Capital and capital adequacy ¹	30.09.2017	30.09.2016	2016
DKK million			
Credit risk	83,011	88,289	83,965
Market risk	3,462	2,285	3,708
Operational risk	5,642	4,624	4,624
Total REA	92,115	95,198	92,296
Equity	22,215	20,063	20,661
Deductions relating to Q3 results	(517)	-	-
CET1 capital deductions	(215)	(130)	(132)
CET1 capital	21,483	19,933	20,528
Subordinated debt	6,000	2,000	6,000
Subordinated debt reductions	10	39	(13)
Own funds	27,494	21,972	26,516
CET1 capital ratio, %	23.3	20.9	22.2
Total capital ratio, %	29.8	23.0	28.7
Internal capital adequacy requirement (Pillar I and Pillar II),%	10.8	10.8	10.4

¹ Capital and capital adequacy are specified further in note 20.

Liabilities essentially consist of payables to the Parent, Nykredit Realkredit A/S, totalling DKK 673.3bn, of which DKK 668.9bn related to the funding of mortgage loans and DKK 4.5bn related to supplementary collateral for SDO-funded lending. At end-2016, payables amounted to DKK 647.0bn.

At 30 September 2017, Totalkredit's self-issued covered bonds totalled DKK 9.5bn compared with DKK 11.2bn at end-2016.

Equity including profit for the period totalled DKK 22.2bn at 30 September 2017 compared with DKK 20.7bn at end-2016.

CAPITAL AND CAPITAL ADEQUACY

Totalkredit's own funds include Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital after deductions. The determination of own funds at end-Q3/2017 excludes Q3 results.

The risk exposure amount (REA) was DKK 92bn at end-Q1-Q3/2017, which corresponds to end-2016.

The total capital ratio was 29.8% at the end of September 2017 against 28.7% at end-2016. The Tier 1 capital ratio was 27.6% compared with 26.5% at end-2016, and the Common Equity Tier 1 capital ratio was 23.3% compared with 22.2% at end-2016.

Totalkredit's internal capital adequacy requirement was 10.8% at the end of September 2017 compared with 10.4% at end-2016.

OUTLOOK FOR 2017

Totalkredit has recently forecast profit from core business for 2017 below the level in 2016 when profit came to DKK 2.5bn.

In Q3/2017, Totalkredit introduced a new income statement format no longer including the item "Profit from core business". As a consequence, Totalkredit will no longer provide an outlook for and follow up on profit from core income, but will instead provide the outlook based on profit before tax, which was DKK 2.6bn in 2016.

In Q1-Q3/2017 profit before tax developed satisfactorily, and therefore, profit before tax is now expected to be on a level with 2016.

In connection with the full-year outlook, it should be noted that especially the Danish interest rate markets, mortgage market activity and uncertainty about loan impairment charges may impact pre-tax profit.

CREDIT RATINGS

The lending activities of Totalkredit and Nykredit Realkredit, Totalkredit's Parent, are jointly funded. Due to the joint funding, Totalkredit and Nykredit Realkredit use the same bond series to fund identical loans. Nykredit Realkredit issues the requisite bonds through capital centres which are rated AAA by S&P Global Ratings.

The covered bonds issued by Totalkredit through Capital Centre C are also rated AAA by S&P GlobalRatings. The Capital Centre is not open for new lending.

SPECIAL ACCOUNTING CIRCUMSTANCES

New earnings presentation in Management Commentary

The Management Commentary is based on the internal financial reporting applied at Totalkredit and the Nykredit Group.

In the opinion of Management, the Management Commentary should be based on the internal management and business reporting, which forms part of Nykredit's financial governance. Readers of financial reports are thus provided with information that is relevant to their assessment of the financial performance.

The changes are described in more detail on page 3.

OTHER

Nykredit's efforts to secure funding

Forenet Kredit and Nykredit's Board of Directors have decided to prepare for an initial public offering of Nykredit A/S (formerly Nykredit Holding A/S) in order to ensure greater funding flexibility in the Group. This should be seen against the backdrop that Nykredit currently has more restricted access to capital markets than listed companies, as Nykredit's majority shareholder, Forenet Kredit, is unable to contribute capital today if required due to general economic conditions, new regulation or other circumstances.

This has led to talks with several investors in spring 2017 that subsequently developed into negotiations with a group of Danish investors. These negotiations have now resulted in a specific purchase offer.

For further information, please refer to the stock exchange announcements published on 3 November 2017 and 7 November 2017.

Customer loyalty bonuses

KundeKroner is Nykredit's customer loyalty programme. The programme is initially introduced to customers of Totalkredit, and the first amount was recently offset against administration margin payments for Q3/2017.

Under the programme, customers will receive quarterly cash discounts amounting to 0.1% pa of their debt outstanding. The amount will be offset against their administration margin payments, beginning with the payments for Q3/2017. We aim to pay out the KundeKroner loyalty bonus to our customers each year and have thus already at this point decided to maintain KundeKroner at the same level up to and including Q2/2019.

Change in Totalkredit's Board of Directors

Totalkredit's staff has voted to discontinue the staff representation of the Company's Board of Directors. The staff representatives thus stepped down from Totalkredit's Board of Directors when the annual general meeting was held on 15 March 2017.

Further changes were made to the Board of Directors as at 9 August 2017. The changes aim at strengthening Totalkredit's partnership with the partner banks.

Specifically, the changes mean that Kim Duus, Søren Holm and Anders Jensen (members of the Nykredit Group Executive Board) have stepped down from the Board, while John Fisker from Ringkjøbing Landbobank, Lasse Nyby from Spar Nord and John Christiansen from Lån & Spar Bank have joined the Board as new members.

Totalkredit continues to be a wholly-owned subsidiary of the Nykredit Group.

BUSINESS CONCEPT

Totalkredit is a wholly-owned subsidiary of Nykredit Realkredit A/S. Totalkredit provides property loans through its partner banks – Danish local and national banks – as well as through Nykredit Realkredit A/S.

Lending is funded through the issuance of bonds by means of intercompany funding between Totalkredit A/S and Nykredit Realkredit A/S.

Totalkredit's business concept is based on partner banks being responsible for customer services and covering a share of the risk of loss relating to the loan portfolio.

Under the agreement, incurred losses corresponding to the cash part of a loan exceeding 60% of the mortgageable value at the time of granting are offset against future commission payments from Totalkredit to the partner banks.

Since 2014 a minor part of the right of set-off has been replaced by a loss guarantee provided by the partner banks.

EVENTS SINCE THE BALANCE SHEET DATE

Forenet Kredit has received an offer to purchase a minority share of Forenet Kredit's shareholding in Nykredit A/S. For further information, please refer to the Forenet Kredit and Nykredit A/S's stock exchange announcements published on 3 November 2017 and 7 November 2017.

No other events have occurred in the period up to the presentation of the Q1-Q3 Interim Report 2017 which materially affect the Group's financial position.

UNCERTAINTY AS TO RECOGNITION AND MEASUREMENT

Measurement of certain assets and liabilities is based on accounting estimates made by Company Management.

The areas in which assumptions and estimates significant to the financial statements have been made include provisions for loan and receivable impairment as well as other provisions, cf the mention in the Annual Report 2016.

Uncertainty as to recognition and measurement is described in detail in the Company's accounting policies (note 1) of the Annual Report 2016, to which reference is made.

MANAGEMENT STATEMENT

STATEMENT BY THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD ON THE INTERIM REPORT

The Board of Directors and the Executive Board have today reviewed and approved the Interim Report for the period 1 January – 30 September 2017 of Totalkredit A/S.

The Interim Report has been prepared in accordance with the Danish Financial Business Act and the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

Moreover, the Interim Report has been prepared in accordance with additional Danish disclosure requirements for interim reports of issuers of listed bonds.

Copenhagen, 7 November 2017

Executive Board

Troels Bülow-Olsen

Camilla Holm

In our opinion the Interim Financial Statements give a true and fair view of the Company's assets, liabilities, equity and financial position at 30 September 2017 and of the results of the Company's operations for the financial period 1 January – 30 September 2017.

Further, in our opinion, the Management Commentary gives a fair review of the development in the operations and financial circumstances of the Company as well as a description of the material risk and uncertainty factors which may affect the Company.

The Interim Report has not been subject to audit or review.

Board of Directors

Michael Rasmussen,
Chairman

Claus E. Petersen,
Deputy Chairman

Petter Blondeau

John Christiansen

John Fisker

Karen Frøsig

David Hellemann

Gert Jonassen

Lasse Nyby

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

DKK million

		Q1-Q3/2017	Q1-Q3/2016	Q3/2017	Q3/2016
INCOME STATEMENT					
Interest income	2	11,619	11,768	3,786	4,068
Interest expenses	3	7,477	7,903	2,482	2,599
Net interest income		4,142	3,865	1,304	1,469
Fee and commission income	4	367	367	132	165
Fee and commission expenses	5	2,293	2,003	785	778
Net interest and fee income		2,217	2,229	650	856
Value adjustments	6	208	176	40	97
Other operating income		150	2	150	0
Staff and administrative expenses	7	528	482	183	161
Other operating expenses		1	2	0	1
Impairment charges for loans, advances and receivables	8	95	63	37	19
Profit before tax		1,950	1,860	620	771
Tax	9	396	410	103	170
Profit for the period		1,554	1,450	517	601
STATEMENT OF COMPREHENSIVE INCOME					
Comprehensive income					
Profit for the period		1,554	1,450	517	601
Other comprehensive income		-	-	-	-
Comprehensive income for the period		1,554	1,450	517	601

BALANCE SHEET

DKK million

		30.09.2017	31.12.2016
ASSETS			
Receivables from credit institutions and central banks	10	10,905	19,341
Loans, advances and other receivables at fair value	11	632,922	599,943
Loans, advances and other receivables at amortised cost	11	79	68
Bonds at fair value	12	71,168	69,364
Current tax assets		-	35
Deferred tax assets		6	5
Assets in temporary possession	13	23	10
Other assets	14	1,663	1,754
Prepayments		12	7
Total assets		716,777	690,527
LIABILITIES AND EQUITY			
Payables to credit institutions and central banks	15	673,487	647,073
Bonds in issue at fair value	15	9,549	11,162
Current tax liabilities		279	-
Other liabilities	16	5,241	5,625
Total payables		688,556	663,860
Provisions for pensions and similar obligations		6	6
Subordinated debt	17	6,000	6,000
Equity			
Share capital		848	848
Reserves			
- series reserves		1,646	1,646
- other reserves		19,721	18,167
Total equity		22,215	20,661
Total liabilities and equity		716,777	690,527
OFF-BALANCE SHEET ITEMS			
Contingent liabilities	18	-	-
Other commitments		2	7
Total		2	7

STATEMENT OF CHANGES IN EQUITY

	DKK million			
	Share capital	Series reserves	Retained earnings	Total
Equity, 1 January 2017	848	1,646	18,167	20,661
Profit for the period	-	-	1,554	1,554
Total comprehensive income for the period	-	-	1,554	1,554
Equity, 30 September 2017	848	1,646	19,721	22,215
Equity, 1 January 2016	848	1,646	16,119	18,613
Profit for the period	-	-	1,450	1,450
Total comprehensive income for the period	-	-	1,450	1,450
Equity, 30 September 2016	848	1,646	17,569	20,063

The share capital consists of 8,480,442 shares of DKK 100. There is only one share class. The entire share capital is owned by Nykredit Realkredit A/S.

Totalkredit is included in the Consolidated Financial Statements of this company and the Consolidated Financial Statements of Forenet Kredit f.m.b.a, Kalvebod Brygge 1-3, Copenhagen, Denmark, which owns 89.8% of Nykredit Realkredit A/S. The Financial Statements [in Danish] of Forenet Kredit f.m.b.a may be obtained from the association.

Series reserves consist of a non-distributable reserve fund established pursuant to section 220 of the Danish Financial Business Act in connection with Totalkredit's conversion into a public limited company in 2000. The capital is used to cover regulatory capital requirements and may otherwise only be used to cover losses not covered by amounts distributable as dividend in the public limited company.

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1. ACCOUNTING POLICIES

GENERAL

The Q1-Q3 Interim Report 2017 has been prepared in accordance with the Danish Financial Business Act and the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. (the Danish Executive Order on the Presentation of Financial Statements).

Moreover, the Interim Report has been prepared in accordance with additional Danish disclosure requirements for interim reports of issuers of listed bonds.

No changes have been made to the Danish FSA's Executive Order on the Presentation of Financial Statements or other accounting provisions and interpretations, which influence the Q1-Q3 Interim Report 2017.

The accounting policies are unchanged compared with the Annual Report 2016. For a description, please refer to the Annual Report 2016.

All figures in the Interim Report are rounded to the nearest million Danish kroner (DKK). The totals stated are calculated on the basis of actual figures. Due to the rounding-off, the sum of individual figures and the stated totals may differ slightly.

NOTES

DKK million

	Q1-Q3/2017	Q1-Q3/2016
2. INTEREST INCOME		
Receivables from credit institutions and central banks	(21)	(21)
Loans, advances and other receivables	7,301	7,779
Administration margin (income)	4,182	3,745
Bonds		
- Self-issued bonds	1	2
- Other covered bonds	122	215
- Government bonds	-	12
Derivative financial instruments		
- Interest rate contracts	30	38
Other interest income	5	1
Total	11,620	11,770
Set-off of interest from self-issued bonds	(1)	(2)
Total	11,619	11,768
3. INTEREST EXPENSES		
Mortgage loan funding through Nykredit Realkredit A/S	7,100	7,578
Bonds in issue	127	190
Other payables to Nykredit Realkredit A/S	76	107
Subordinated debt	173	30
Other interest expenses	0	0
Total	7,476	7,905
Set-off of interest from self-issued bonds	(1)	(2)
Total	7,477	7,903
4. FEE AND COMMISSION INCOME		
Loan fees, new lending	211	276
Trading commission and other fees	156	91
Total	367	367
5. FEE AND COMMISSION EXPENSES		
Loan arrangement fees	165	106
Commission to loan arrangers	1,981	1,695
Trading commission and other fees	146	203
Total	2,293	2,003
6. VALUE ADJUSTMENTS		
Mortgage lending	6,155	13,296
Bonds	290	281
Foreign exchange, interest rate and other contracts as well as derivative financial instruments	(144)	(155)
Other liabilities	61	49
Bonds in issue ¹	(6,155)	(13,296)
Total	208	176

¹ Bonds in issue, including payables to Nykredit Realkredit A/S relating to bonds issued by Nykredit Realkredit A/S in connection with the funding of mortgage loans granted by Totalkredit A/S.

NOTES

DKK million

	Q1-Q3/2017	Q1-Q3/2016
7. STAFF AND ADMINISTRATIVE EXPENSES		
Remuneration of Board of Directors and Executive Board	5	4
Staff expenses	57	63
Other administrative expenses	466	415
Total	528	482
Remuneration of Board of Directors and Executive Board		
Board of Directors		
Fees	1	1
Executive Board		
Salaries	4	3
Pensions	0	0
Total	5	4
Staff expenses		
Salaries	43	49
Pensions	5	6
Other social security expenses	8	8
Total	57	63
Number of staff		
Average number of staff, full-time equivalent	117	131
8. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES		
Change in individual impairment provisions for loans and advances	154	250
Change in collective impairment provisions for loans and advances	1	(147)
Write-offs for the period	128	143
Recoveries on claims previously written off	17	15
Total impairment charges for loans and advances and receivables	266	231
Value adjustment of assets in temporary possession	0	19
Write-offs offset against commission payments to partner banks	161	179
Value adjustment of claims previously written off	10	9
Total	95	63
Specification of provisions for loan impairment		
Individual impairment provisions for loans and advances	492	557
Collective impairment provisions	577	642
Total impairment provisions	1,069	1,200
Individual impairment provisions for loans and advances		
Impairment provisions, beginning of period	554	553
Impairment provisions for the period	338	421
Impairment provisions reversed	184	171
Value adjustment of properties acquired by foreclosure	(19)	(6)
Impairment provisions written off	197	240
Impairment provisions, end of period	492	557

NOTES

DKK million

	Q1-Q3/2017	Q1-Q3/2016
8. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES (CONTINUED)		
Collective impairment provisions		
Impairment provisions, beginning of period	576	789
Impairment provisions for the period, net	1	(147)
Impairment provisions, end of period	577	642
Individual impairment provisions for properties acquired by foreclosure		
Impairment provisions, beginning of period	69	70
Transfer from impairment provisions for loans and advances	19	6
Impairment provisions for the period	13	41
Impairment provisions reversed	13	22
Impairment provisions written off	34	28
Impairment provisions, end of period	54	67
Specification of loans and advances		
Loans and advances subject to individual provisioning	6,674	3,066
Impairment provisions	492	557
Loans and advances after impairment	6,183	2,509
Loans and advances subject to collective provisioning	41,521	36,785
Impairment provisions	577	642
Loans and advances after impairment	40,944	36,143
9. TAX		
Current tax rate, %	22.0	22.0
Non-deductible costs, %	1.7	(0.0)
Effective tax rate, %	20.3	22.0

NOTES

DKK million

	30.09.2017	31.12.2016
10. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS		
Receivables from credit institutions	10,905	19,341
Total	10,905	19,341
11. LOANS, ADVANCES AND OTHER RECEIVABLES		
Loans, advances and other receivables at fair value	632,922	599,943
Loans, advances and other receivables at amortised cost	79	68
Total	633,000	600,011
Loans, advances and other receivables at fair value		
Mortgage lending	632,764	599,721
Arrears and outlays	158	222
Total	632,922	599,943
Mortgage lending		
Balance, beginning of period, nominal value	590,959	570,806
New loans	96,327	137,047
Ordinary principal payments	(7,769)	(8,930)
Prepayments and extraordinary principal payments	(61,648)	(107,964)
Balance, end of period, nominal value	617,869	590,959
Loans transferred relating to properties in temporary possession	(46)	(32)
Adjustment for interest rate risk	15,913	9,849
Adjustment for credit risk		
Individual impairment provisions	(394)	(479)
Collective impairment provisions	(577)	(576)
Balance, end of period, fair value	632,764	599,721
As collateral for loans and advances, Nykredit has received mortgages over real estate and:		
Arrears before impairment provisions	104	129
Outlays before impairment provisions	151	168
Impairment provisions for arrears	(15)	(3)
Impairment provisions for outlays	(82)	(72)
Total	158	222
Mortgage arrears up to and including the September 2017 due date, for which no provisions have been made, amounted to DKK 0.		
Loans, advances and other receivables at amortised cost		
Mortgage lending	16	16
Other loans and advances	63	52
Total	79	68
Measured at fair value, the item amounted to DKK 79m at end-Q1-Q3/2017 and DKK 68m at end-2016.		
For mortgage lending, the following bank guarantees have been received:		
Supplementary guarantees in addition to mortgages on real estate	29,371	23,980
Statutory guarantees for interim loans	18,829	16,644
Guarantees for loans disbursed before obtaining a registered mortgage	20,069	25,165
Balance, end of period, nominal value	68,269	65,790

NOTES

DKK million

	30.09.2017	31.12.2016
12. BONDS AT FAIR VALUE		
Self-issued ROs	84	329
Other covered bonds	71,168	69,364
Total	71,252	69,693
Transferred to set-off against "Bonds in issue at fair value" – note 15	(84)	(329)
Total bonds	71,168	69,364
13. ASSETS IN TEMPORARY POSSESSION		
Debt outstanding, end of period	6	11
Outlays	28	28
Impairment provisions, end of period	(12)	(29)
Total	23	10
14. OTHER ASSETS		
Positive market value of derivative financial instruments	7	22
Interest and commission receivable on loans and advances	1,227	1,169
Interest receivable from bonds and credit institutions	373	533
Other assets	56	29
Total	1,663	1,754

NOTES

DKK million

	30.09.2017	31.12.2016
15. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS		
Payables to credit institutions	143	95
Payables to Nykredit Realkredit A/S concerning supplementary collateral for SDO-funded mortgage lending	4,491	10,976
Payables to Nykredit Realkredit A/S concerning funding of mortgage lending	668,853	636,001
Total	673,487	647,073
Of which payables to Nykredit Realkredit A/S concerning the funding of mortgage loans		
Balance, beginning of period, nominal value	626,799	593,450
Additions	147,556	185,904
Redemptions and prepayments	(114,905)	(142,592)
Prepayments and extraordinary principal payments	(5,923)	(9,964)
Balance, end of period, nominal value	653,527	626,799
Fair value adjustment	15,326	9,203
Total	668,853	636,001
Bonds in issue at fair value		
Covered bonds issued against mortgages on real estate		
Balance, beginning of period, nominal value	10,845	19,651
Redemptions and prepayments	(1,696)	(8,538)
Prepayments and extraordinary principal payments	(102)	(269)
Balance, end of period	9,047	10,845
Set-off of self-issued covered bonds	(84)	(329)
Fair value adjustment	587	646
Total	9,549	11,162
Covered bonds at next creditor payment date	434	789
16. OTHER LIABILITIES		
Interest and commission payable	4,346	4,812
Negative market value of derivative financial instruments	11	43
Other payables	884	771
Total	5,241	5,625

NOTES

DKK million

	30.09.2017	31.12.2016
17. SUBORDINATED DEBT		
Subordinated debt consists of financial liabilities in the form of subordinate loan capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.		
Nykredit Bank A/S is creditor on the loans. Subordinated debt that may be included in own funds totalled DKK 6,000m against DKK 6,000m at 30 September 2017.		
Subordinate loan capital		
Nominal DKK 2,000m raised on 21 December 2015. The loan falls due at par (100) on 1 January 2026 and carries an interest rate of 2.1% pa above 3M Cibor	2,000	2,000
Total subordinate loan capital	2,000	2,000
Additional Tier 1 capital		
Nominal DKK 4,000m raised on 9 December 2016. The loan is perpetual and carries an interest rate of 5.0% pa above 3M Cibor	4,000	4,000
Total Additional Tier 1 capital	4,000	4,000
Total subordinated debt	6,000	6,000
No costs were incurred in connection with the redemption or raising of subordinate loan capital. Measured at fair value, subordinated debt amounted to DKK 6,000m.		
18. OFF-BALANCE SHEET ITEMS		
Other commitments		
Contingent liabilities	-	-
Other liabilities	2	7
Off-balance sheet items	2	7

Additional contingent liabilities

Totalkredit participates in the Danish resolution scheme, implying that a resolution fund must be built up at sector level (banks and mortgage lenders etc), the purpose of which is to issue guarantees and provide loans etc to credit institutions in connection with restructuring and resolution measures.

The Resolution Fund was established on 1 July 2015 and must amount to at least 1% of the sector's covered deposits. The Resolution Fund will be based on annual contributions from the participating businesses and must be in place by end-2024. Totalkredit's contribution to the Danish Resolution Fund came to about DKK 1m for Q1-Q3/2017 and DKK 2m for the same period in 2016. Totalkredit further pays Nykredit Realkredit an amount corresponding to the part of the Group's contribution attributable to joint funding. The amount totalled about DKK 46m in Q1-Q3/2017.

The Company is jointly taxed in Denmark with Forenet Kredit f.m.b.a as the administration company. Pursuant to the Danish Corporation Tax Act, the Company is liable for income taxes etc payable by the jointly taxed companies as of the financial year 2013 and for any obligations to withhold tax at source on interest, royalties and dividends of these companies as of 1 July 2012. The total known net obligation to the Danish tax authorities (SKAT) of jointly taxed companies is stated in the Financial Statements of Forenet Kredit f.m.b.a.

19. RELATED PARTY TRANSACTIONS AND BALANCES

The Parent Nykredit Realkredit A/S, Copenhagen, Group enterprises and associates of Nykredit Realkredit A/S as well as Totalkredit A/S's Board of Directors and Executive Board and related parties thereof are regarded as related parties.

Transactions with Nykredit are based on intercompany agreements, and no unusual related party transactions occurred in Q1-Q3/2017.

Agreements include intercompany funding, loan capital and supplementary collateral, referral commission, IT support and development, payroll and staff administration, asset and risk management, and other administrative tasks. Intercompany trade in goods and services took place on an arm's length basis or on a cost reimbursement basis.

Transactions with Totalkredit's Board of Directors, its Executive Board and related parties thereof exclusively include mortgage loans granted on the terms stated in Totalkredit's price list.

Significant related party transactions prevailing/entered into in H1/2017 include:

Agreements between Totalkredit A/S and Nykredit Realkredit A/S

Totalkredit's mortgage lending is funded through a joint funding agreement with Nykredit Realkredit A/S, specified in note 15.

Totalkredit A/S has raised loans with Nykredit Realkredit A/S serving as collateral in Totalkredit's capital centres. Lending stood at DKK 4.5bn at 30 September 2017 against DKK 11bn at 31 December 2016.

Totalkredit A/S has raised loans with Nykredit Realkredit A/S in the form of subordinated debt. As at 30 September 2017, Totalkredit had raised loans totalling DKK 6.0bn with Nykredit Realkredit A/S in the form of subordinated debt.

Agreements between Totalkredit A/S and Nykredit Mægler A/S

Agreement on commission payable in connection with referral of lending business.

Agreements between Totalkredit A/S and Nykredit Bank A/S

Agreement on commission payable in connection with referral of lending business. Nykredit Bank A/S may transfer secured homeowner loans to Totalkredit A/S. In Q1-Q3/2017, Totalkredit received secured homeowner loans of DKK 2.8bn from Nykredit Bank A/S.

NOTES

DKK million

	30.09.2017	31.12.2016
20. CAPITAL AND CAPITAL ADEQUACY		
Own funds		
Equity, end of period	22,215	20,661
Loss for the period not included	(517)	-
Difference between expected losses and impairment charges	(265)	(206)
Other deductions	(3)	(9)
Transitional adjustments	53	82
Common Equity Tier 1 capital	21,483	20,529
Additional Tier 1 capital	4,000	4,000
Additional Tier 1 capital deductions	-	-
Transitional adjustment of deductions	(27)	(41)
Set-off of excess deductions	-	-
Total Additional Tier 1 capital after deductions	3,973	3,959
Tier 2 capital	2,000	2,000
Tier 2 capital additions/deductions	63	70
Transitional adjustment of deductions	(27)	(41)
Set-off of excess deductions	-	-
Own funds	27,494	26,517
Capital requirement		
Credit risk	6,641	6,717
Market risk	277	297
Operational risk	451	370
Total capital requirement	7,369	7,384
Total capital requirement subject to transitional rule¹	19,586	18,800
Total REA	92,115	92,296
Financial ratios		
Common Equity Tier 1 capital ratio, %	23.3	22.2
Total capital ratio, %	29.8	28.7
Required own funds and internal capital adequacy requirement		
Pillar I – primary risks		
Credit risk	6,641	6,717
Market risk	277	297
Operational risk	451	370
Total Pillar I	7,369	7,384
Pillar II – other risks		
Weaker economic climate	1,130	1,097
Other factors	1,409	1,163
Total Pillar II	2,539	2,260
Total required own funds	9,908	9,644
Total REA	92,115	92,296
Internal capital adequacy requirement, %	10.8	10.4

¹ Equity for end-Q3/2017 has been determined exclusive of profit for the period.

² The capital requirement is determined subject to a transitional rule in accordance with the transitional provisions of the EU's Capital Requirements Regulation. The capital requirement must constitute at least 80% of the capital requirement determined under Basel I.

Capital and capital adequacy have been determined in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (the Capital Requirements Regulation) as well as the Danish transitional rules laid down by the Danish Financial Supervisory Authority.

Nykredit Realkredit A/S has been designated as a systemically important financial institution (SIFI) by the Danish authorities. As a result, a special SIFI CET1 capital buffer requirement applies to Totalkredit. The requirement of 1.2% is being phased in and currently constitutes 1.2%. To this should be added the phase-in of the permanent buffer requirement, currently 1.25%, applicable to all financial institutions.

NOTES

DKK million

	Q1-Q3/ 2017	Q1-Q3/ 2016	Q1-Q3/ 2015	Q1-Q3/ 2014	Q1-Q3/ 2013
21. FIVE-YEAR FINANCIAL HIGHLIGHTS					
Summary income statement					
Net interest income	4,142	3,865	3,724	3,281	2,400
Net fee income	(1,925)	(1,636)	(1,469)	(1,237)	(1,172)
Net interest and fee income	2,217	2,229	2,255	2,044	1,227
Value adjustments	208	176	59	(71)	(55)
Other operating income	150	2	0	0	0
Staff and administrative expenses	528	482	408	278	293
Depreciation and impairment charges for property, plant and equipment as well as intangible assets	0	0	0	0	0
Other operating expenses	1	2	21	0	0
Impairment charges for loans, advances and receivables	95	63	405	270	335
Profit from investments in associates and Group enterprises	-	-	-	-	-
Profit before tax	1,950	1,860	1,481	1,425	545
Tax	396	410	348	349	136
Profit for the period	1,554	1,450	1,133	1,076	409
SUMMARY BALANCE SHEET, END OF PERIOD					
	30.09.2017	30.09.2016	30.09.2015	30.09.2014	30.09.2013
Assets					
Cash balances and receivables from credit institutions and central banks	10,905	21,178	18,384	20,255	17,913
Mortgage lending	632,922	596,942	564,680	552,349	535,768
Bonds and equities	71,168	80,654	87,523	108,592	109,151
Remaining assets	1,783	1,915	2,725	3,993	4,246
Total assets	716,777	700,689	673,311	685,189	667,078
Liabilities and equity					
Payables to credit institutions and central banks	673,487	660,000	624,869	613,738	590,041
Bonds in issue	9,549	12,076	19,603	42,036	48,603
Remaining liabilities	5,526	6,551	7,494	9,584	9,836
Subordinated debt	6,000	2,000	3,100	3,100	3,100
Equity	22,215	20,063	18,245	16,730	15,498
Total liabilities and equity	716,777	700,689	673,311	685,189	667,078
Return on equity after tax, %	7.2	7.5	6.4	6.6	2.7
Return on equity before tax, %	9.1	9.6	8.4	8.8	3.6
Loans and advances:equity	28.5	29.8	31.0	33.0	34.6
Growth in loans and advances for the period, %	4.6	2.3	1.6	0.7	3.6
Impairment charges for the period, %	0.02	0.01	0.07	0.05	0.06
Income:cost ratio	4.12	4.40	2.78	3.60	1.87
Total capital ratio, %	29.8	23.0	23.2	20.4	21.9
Common Equity Tier 1 capital ratio, %	23.3	20.9	20.6	17.7	18.3
Foreign exchange position, %	0.7	0.1	0.1	0.5	0.7
Average number of staff, full-time equivalent	117	131	118	124	129
Return on capital employed, %	0.22	0.21	0.17	0.16	0.06

MANAGEMENT COMMENTARY (CONTINUED)

DKK million

	Q3/ 2017	Q2/ 2017	Q1/ 2017	Q4/ 2016	Q3/ 2016	Q2/ 2016
SIX-QUARTER FINANCIAL HIGHLIGHTS						
Business profit and profit for the period						
Net interest income	792	779	778	798	784	640
Net fee income	127	117	132	151	162	77
Net interest from capitalisation	(64)	(65)	(71)	(42)	(30)	(30)
Trading, investment portfolio and other income	(12)	(1)	62	30	(63)	40
Income	843	829	902	940	953	727
Costs	184	182	163	188	162	166
Business profit before impairment charges	659	648	739	752	791	559
Impairment charges for loans and advances	37	56	2	(16)	19	1
Profit before tax	622	591	737	767	772	558
Tax	103	131	162	169	170	123
Profit for the period	517	462	575	600	600	437
SUMMARY BALANCE SHEET, END OF PERIOD						
	30.09.2017	30.06.2017	31.03.2017	31.12.2016	30.09.2016	30.06.2016
Assets						
Cash balances and receivables from credit institutions and central banks	10,905	11,564	17,558	19,341	21,178	17,230
Mortgage lending	632,922	616,450	607,036	599,943	596,942	590,189
Bonds at fair value	71,168	77,830	69,609	69,364	80,654	53,644
Remaining assets	1,783	1,317	1,595	1,878	1,915	1,696
Total assets	716,777	707,160	695,798	690,527	700,689	662,760
Liabilities and equity						
Payables to credit institutions and central banks	673,487	663,947	652,885	647,073	660,000	622,514
Bonds in issue at fair value	9,549	10,016	10,311	11,162	12,076	12,816
Subordinated debt	6,000	6,000	6,000	6,000	2,000	2,000
Remaining liabilities	5,526	5,499	5,367	5,631	6,551	5,968
Equity	22,215	21,698	21,235	20,661	20,063	19,461
Total liabilities and equity	716,777	707,160	695,798	690,527	700,689	662,760

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.