

# **Annual Report 2011**





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# Management and company information

## BOARD OF DIRECTORS

### Søren Holm, Chairman

Group Managing Director,  
Nykredit Realkredit A/S  
Managing Director, Nykredit Holding A/S  
Director of:  
Ejendomsselskabet Kalvebod A/S  
JN Data A/S  
Nykredit Administration V A/S  
Nykredit Bank A/S (Deputy Chairman)  
Nykredit Mægler A/S

### Bent Naur, Deputy Chairman

CEO, Ringkjøbing Landbobank A/S  
Director of:  
JN Data A/S  
Nykredit Holding A/S  
PRAS A/S (Chairman)

### Kim Duus

Group Managing Director,  
Nykredit Realkredit A/S  
Managing Director, Nykredit Holding A/S  
Director of:  
Nykredit Bank A/S  
Nykredit Portefølje Administration A/S

### Karen Frøsig

Managing Director, Sydbank A/S  
Director of:  
Ejendomsselskabet af  
1. juni 1986 A/S (Chairman)  
BI Holding A/S  
Multidata A/S  
Multidata Holding A/S  
PRAS A/S

### Lars Holst

Executive Vice President, Nykredit Realkredit A/S  
Managing Director, Ejendomsselskabet  
Kalvebod A/S  
Director of:  
Max Bank af 2011 A/S

### Gert Jonassen

CEO, Arbejdernes Landsbank A/S  
Director of:  
AL Finans A/S (Chairman)  
Nordisk Finans IT P/S  
Komplementarselskabet NFIT A/S  
LR Realkredit A/S  
Multidata A/S

Multidata Holding A/S  
Nets Holding A/S

### Frank Kristensen

CEO, Vestjysk Bank A/S  
Director of:  
e-nettet A/S  
e-nettet Holding A/S  
PRAS A/S  
Sparinvest Holding A/S  
VP Securities A/S

### Jette Alsig Bargholz \*

Consultant

### Jari Loch Jensen \*

Team Manager

### Merete Nilausen \*

Consultant

\* Staff-elected member

## EXECUTIVE BOARD

Troels Bülow-Olsen, Managing Director  
Director of:  
Nykredit Mægler A/S

Hans Henrik Andersen, Managing Director

## Company information

Totalkredit A/S  
Helgeshøj Allé 53  
DK-2630 Taastrup  
Tel: +45 44 55 54 00  
CVR no 21 83 22 78

## AUDITORS

Deloitte  
Statsautoriseret Revisionspartnerselskab  
Weidekampsgade 6  
DK-2300 Copenhagen S

## STOCK EXCHANGE ANNOUNCEMENTS

Stock exchange announcements etc are available  
at [totalkredit.dk](http://totalkredit.dk) and at [nykredit.com/press](http://nykredit.com/press)



# Financial highlights

DKK MILLION

	2011	2010	2009	2008	2007
<b>CORE EARNINGS AND PROFIT FOR THE YEAR</b>					
<b>Core income from</b>					
Business operations	1,225	1,403	1,378	1,141	999
Securities	156	123	181	461	344
<b>Total</b>	<b>1,381</b>	<b>1,526</b>	<b>1,559</b>	<b>1,602</b>	<b>1,343</b>
Operating costs, depreciation and amortisation	367	420	374	375	314
<b>Core earnings before impairment losses</b>	<b>1,014</b>	<b>1,106</b>	<b>1,185</b>	<b>1,227</b>	<b>1,029</b>
Impairment losses on loans and advances	447	158	515	55	1
<b>Core earnings after impairment losses</b>	<b>567</b>	<b>948</b>	<b>670</b>	<b>1,172</b>	<b>1,028</b>
Investment portfolio income	182	237	420	(72)	(24)
<b>Profit before tax</b>	<b>749</b>	<b>1,185</b>	<b>1,090</b>	<b>1,100</b>	<b>1,004</b>
Tax	187	298	273	277	250
<b>Profit for the year</b>	<b>562</b>	<b>887</b>	<b>817</b>	<b>823</b>	<b>754</b>
<b>SUMMARY BALANCE SHEET, YEAR-END</b>					
<b>ASSETS</b>					
Receivables from credit institutions	14,565	18,111	16,112	16,283	11,647
Mortgage loans	480,928	455,846	430,710	390,451	349,278
Bonds and equities	86,512	81,540	87,311	52,437	47,156
Other assets	4,392	4,894	3,762	2,167	1,833
<b>Total assets</b>	<b>586,397</b>	<b>560,391</b>	<b>537,895</b>	<b>461,338</b>	<b>409,914</b>
<b>LIABILITIES AND EQUITY</b>					
Payables to credit institutions	480,544	443,630	406,899	315,349	242,623
Issued bonds	78,328	90,193	104,789	121,243	145,401
Supplementary capital	3,100	2,600	2,600	3,600	3,600
Other liabilities	10,607	10,712	11,238	9,594	7,561
Equity	13,818	13,256	12,369	11,552	10,729
<b>Total liabilities and equity</b>	<b>586,397</b>	<b>560,391</b>	<b>537,895</b>	<b>461,338</b>	<b>409,914</b>
<b>FINANCIAL RATIOS</b>					
Profit for the year as % of average equity	4.1	6.9	6.8	7.4	8.1
Core earnings after impairment losses as % of average equity	4.2	7.4	5.6	10.5	11.1
Costs as % of core income	26.6	27.5	24.0	23.4	23.4
Total capital ratio, %*	18.8	22.9	20.2	26.7	9.5
Tier 1 capital ratio, %*	15.6	19.3	16.7	20.5	7.1
Internal capital adequacy requirement (ICAAP), %	10.3	12.1	11.1	13.6	-
* As from 2008, the total capital and Tier 1 capital ratios are determined in accordance with the CRD					

## Management's review

### RESULTS

Totalkredit recorded a profit before tax of DKK 749m against DKK 1,185m in 2010. Profit after tax came to DKK 562m against DKK 887m in 2010.

Results for 2011 were adversely affected by low lending activity, a rise in impairment losses on loans and advances and higher interest expenses on supplementary collateral for SDO-funded loans.

In 2011 Totalkredit's administrative expenses declined by 13% on the previous year.

### Totalkredit's strategic position and business concept

Totalkredit is a wholly-owned subsidiary of Nykredit Realkredit A/S. Totalkredit provides residential mortgage loans through its partner banks – Danish local and regional banks.

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 for managing the credit risk relating to the loan portfolio.

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

In all material respects, the part of the loan portfolio originally arranged by partner banks that no longer offer Totalkredit loans has been hedged through guarantees or according to the above-mentioned principle of set-off through agreements with the banks assuming the exposures from the borrowers' former bank.

The partner banks receive fees for sales and credit risk management. In 2011 the fees totalled DKK 1,389m against DKK 1,316m in 2010.

### Loans and advances

Totalkredit is Denmark's largest residential mortgage lender.

In 2011 Totalkredit's loan portfolio measured at nominal value grew by DKK 18.5bn to DKK 474bn.

Totalkredit's market share of Danish residential mortgage lending rose to 33.8% from 33.1% at the beginning of the year.

The distribution of lending by loan type changed slightly in 2011. The share of interest-only loans was 56.7% against 54.5% at end-2010. Floating-rate loans came to 71.3% compared with 68.8% the year before.

The average LTV (loan-to-value) ratio of the loan portfolio, determined as the top part of the loan amount for each property, rose to 76% at end-2011 from 68% at the beginning of the year.

2011 saw subdued activity in the residential property market as a result of few transactions, limited refinancing activity, and low demand for supplementary loans. Thus, Danish mortgage banks saw a decline of about 42% in gross new lending compared with 2010.

Totalkredit's gross new lending decreased by approximately 36% in 2011 to DKK 70bn.

### Core earnings before impairment losses

Core income from customer-oriented business operations amounted to DKK 1,225m against DKK 1,403m in 2010.

Interest payable on supplementary collateral for SDO-funded loans was charged against income in "Core income from business operations" at an amount of DKK 90m compared with DKK 34m in 2010.

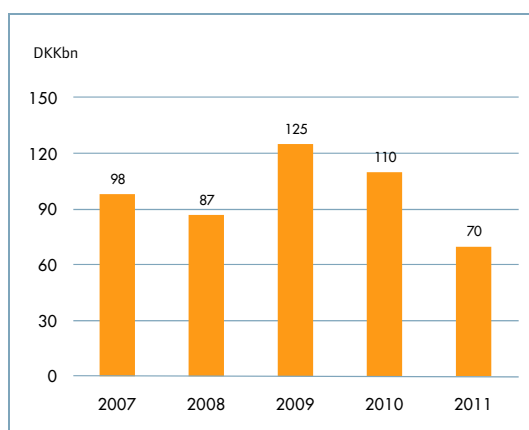
Core income from securities amounted to DKK 156m against DKK 123m in 2010.

In 2011 operating costs, depreciation and amortisation declined by DKK 53m to DKK 367m.

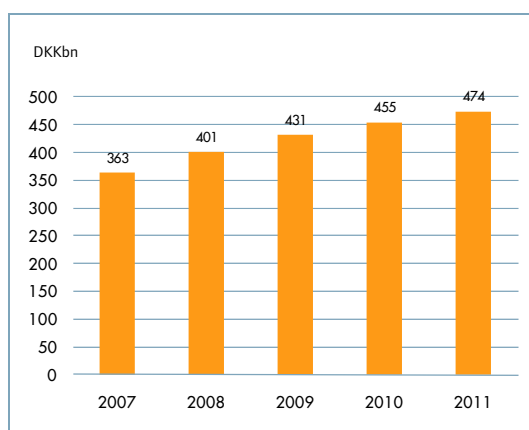
This decline was primarily attributable to reduced IT development costs.

Totalkredit's core earnings before impairment losses were DKK 1,014m against DKK 1,106m in 2010.

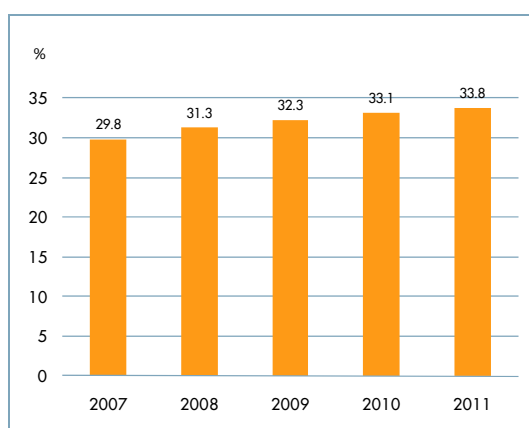
### Gross new lending



### Mortgage lending, year-end, nominal value



### Share of Danish mortgage lending



### Impairment losses on loans and advances

Impairment losses on loans and advances came to DKK 447m against DKK 158m in 2010, or 0.09% of lending compared with 0.03% at end-2010.

Recognised losses in 2011 totalled DKK 409m, of which DKK 177m or 43% was offset against commission payable to partner banks.

Individual impairment provisions landed at DKK 393m at end-2011 against DKK 278m at the beginning of the year.

Collective impairment provisions amounted to DKK 311m at end-2011 against DKK 245m at the beginning of the year.

Total impairment provisions were DKK 704m, equal to 0.15% of lending.

The arrears ratio calculated 75 days after the September due date was 0.31% in 2011 against 0.33% at the same time in 2010.

2011 saw repossession of 130 properties while 98 properties were sold. The portfolio of properties repossessed stood at 85 at end-2011 against 53 at the beginning of the year.

### Investment portfolio income

The investment portfolio income was DKK 182m against DKK 237m the year before.

### Tax

Tax calculated on profit for the year was DKK 187m, equal to an effective tax rate of 25%.

### Parent company loan

In 2011 Totalkredit raised a new loan in the amount of DKK 8.6bn with Nykredit Realkredit A/S in connection with supplementary collateral. At year-end, loans raised for the purpose of providing supplementary collateral totalled DKK 18.6bn.

In 2011 Totalkredit also raised a new loan in the form of subordinated debt of a total amount of DKK 0.5bn with Nykredit Realkredit A/S. At year-end, loans raised in the form of subordinated debt totalled DKK 3.1bn.

### Capital base and capital adequacy

At end-2011, the capital base was DKK 16.4bn, corresponding to a total capital ratio of 18.8%.



The capital requirement amounted to DKK 6.9bn, the Tier 1 capital ratio stood at 15.6%.

The internal capital adequacy requirement (ICAAP) was 10.3% at year-end.

The internal capital adequacy requirement is calculated as the required capital base as a percentage of risk-weighted items.

The determination of the required capital base takes into account the business targets by allocating capital for all relevant risks.

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

### **Pillar I**

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

### **Pillar II**

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

Under Pillar II, a capital charge is included that reflects the uncertainty of the models used. Generally, the charge applied corresponds to 10% of the risks calculated.

The determination of capital base, capital adequacy and capital requirement is specified on page 40 of this Report.

### **Results relative to expectations**

In the Annual Report 2010, core earnings before impairment losses for 2011 were forecast to be in the region of DKK 1,000m-1,100m. In the Q1-Q3/2011 Interim Report, this forecast was adjusted to DKK 900m-1,000m.

Core earnings before impairment losses for 2011 amounted to DKK 1,014m.

### **OUTLOOK FOR 2012**

Homeowners' uncertainty about the economic development is expected to have an effect on the housing market also in 2012.

2012 lending activity is expected to correspond to the lending level realised in 2011.

The announced price increases taking effect from 1 April 2012 for new as well as existing lending will improve earnings, whereas the raising of new loans in 2011 and 2012 for supplementary collateral will have an adverse earnings impact.

Operating costs are expected to remain at the level seen in 2011.

Impairment losses on loans and advances are expected to remain on a level with 2011.

Total profit will depend on the development in the housing market and in financial markets.

## **OTHER**

### **Future business conditions**

The conditions for mortgage lending are undergoing significant changes. In order to adjust Nykredit and Totalcredit to the new conditions and ensure continued financial sustainability, it was decided in June 2011 to prepare the following initiatives:

- To fund adjustable-rate mortgage loans (ARMs) out of a special capital centre.
- To secure rating and long-term lending capacity by raising the price of existing and new loans with effect from 1 April 2012. The price increase reflects the higher costs of mortgage lending and the risk relating to the various types of loan.
- To introduce combined mortgaging in H1/2012 where part of a mortgage – probably up to 60% – will be subject to the rules governing SDOs, while the top part of a mortgage up to 80% will be subject to the rules governing traditional mortgage bonds (ROs). This will reduce the supplementary collateral requirement in case of declining property prices.
- That Nykredit Realkredit will grant retail mortgages through Totalcredit from H1/2012 in line with Totalcredit's partner banks.

### **New capital centre for loans subject to refinancing**

In August 2011 Totalcredit opened a new SDO Capital Centre H for the issuance of bonds funding loans subject to refinancing. In September, the capital centre was assigned the rating Aa1 by Moody's and the top rating AAA by Standard & Poor's. In October and December, existing loans in Capital Centre E and Capital Centre D were refinanced out of Capital Centre H.

## **EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR**

No significant events have occurred in the period up to the presentation of the Annual Report.

## **ORGANISATION AND DELEGATION OF RESPONSIBILITIES**

The Board of Directors of Totalkredit is responsible for defining limits for and monitoring the risk incurred by Totalkredit as well as for approving the delegation of responsibilities and overall instructions. The Board of Directors has laid down guidelines and specific limits as to the types of risk the Company may assume. These risk limits have been delegated within the organisation.

Totalkredit is subject to the Nykredit Group's coordinated risk management. The continuous monitoring and managing of risk are the responsibility of committees, all chaired by a member of the Group Executive Board.

The most important committees relative to Totalkredit are the Asset/Liability Committee, the Treasury Committee and the Risk Committee.

The Asset/Liability Committee is responsible for the Group's overall asset/liability and liquidity management. The Treasury Committee manages the Group's market risk and approves or endorses the overall risk limits.

For the purpose of managing overall Group risk, Totalkredit's market and liquidity risk is subject to approval by the Treasury and Asset/Liability Committees.

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

## **Board Committees**

### *Audit Board*

The Parent Company, Nykredit Realkredit A/S, has appointed an Audit Board, which also serves as audit board for Totalkredit A/S. The principal tasks of the Audit Board are to monitor the financial reporting process, the effectiveness of the Group's internal control systems and risk management, the statutory audit of the financial statements, and to monitor and verify the independence of the auditors.

### *Remuneration Board*

The Parent Company, Nykredit Realkredit A/S, has appointed a Remuneration Board, which also serves as remuneration board for Totalkredit A/S. The principal tasks of the Remuneration Board are to make recommendations in respect of the Group's remuneration policy, including guidelines on incentive pay, for the approval of the Board of Directors. Also, the Remuneration Board is tasked with drawing up proposals for remuneration of the Committee of Representatives, the Board of Directors and the Executive Board. Further, it is to approve draft resolutions concerning staff bonus budgets and to ensure that the information in the Annual Report about remuneration of the Board of Directors and the Executive Board is correct, fair and satisfactory.

### *Nomination Board*

In June 2011, the parent company Nykredit Realkredit A/S appointed a joint Nomination Board serving all the companies of the Nykredit Group. The objective of the Nomination Board is to submit recommendations to the Board of Directors for the nomination of candidates for the Committee of Representatives, the Board of Directors and the Executive Board. In addition, the Nomination Board, which reports to the Board of Directors, is responsible for the competence profiles and continuous evaluation of the work and results of the Board of Directors and the Executive Board.

For further details on the board committees, please refer to the Annual Report 2011 of the Nykredit Realkredit Group.





## RISK AND CAPITAL MANAGEMENT

Totalkredit grants mortgage loans for owner-occupied dwellings and holiday homes against mortgages on property.

Risk management is a key element of Totalkredit's business operations. Through risk management, Totalkredit, being part of the Nykredit Group, seeks to ensure financially sustainable solutions in the short and long term. Totalkredit applies the Nykredit Group's models for quantifying risk.

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

Totalkredit's lending consists of mortgage lending governed by the balance principle. The legislative framework behind the balance principle is the Danish Financial Business Act, the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act and the Danish Executive Order on bonds.

Danish mortgage banks may apply either the specific balance principle or the general balance principle. The Nykredit Group, including Totalkredit, has opted for the general balance principle, but operates internally according to a set of rules that is considerably stricter than the specific balance principle.

Totalkredit's lending is match-funded, which in practice means that Totalkredit incurs no interest rate risk, foreign exchange risk, liquidity risk or refinancing risk from its mortgage lending and the underlying funding. As a result, Totalkredit's lending mainly involves credit risk.

### Credit risk

Credit risk denotes the risk of loss following counterparties' non-performance of their obligations.

The Board of Directors of Totalkredit lays down the overall framework of credit granting and is presented with the Company's largest credit applications for approval or briefing.

Loans secured by mortgage on properties with a mortgageable value of more than DKK 12m are

subject to approval by the Board of Directors of Totalkredit A/S.

Totalkredit's credits area is responsible for managing and monitoring credit risk in accordance with the guidelines laid down by the Board of Directors and the Executive Board. Totalkredit's credits area undertakes all reporting on individual credit exposures. Determination and reporting of credit risk at portfolio level to Totalkredit's Management are the responsibility of Group Risk Management.

Under the Totalkredit concept, the partner banks conduct a preliminary assessment of the individual customer's financial position etc and rate the customer on the basis of the Group's credit models. In addition, a statutory property valuation is performed. Properties with a mortgageable value of more than DKK 6m are always valued by Totalkredit A/S.

Totalkredit and the partner banks have agreed that any losses realised within the LTV range of 60-80% based on the cash value of the property at the time a loan is issued may be offset against future commission payments to the partner banks. A small part of the loan portfolio is not subject to the right of set-off, but is in all material respects secured by guarantees covering losses incurred within the LTV range of 60-80% based on the cash value of the property.

### Credit risk models

The determination of credit risk is based on three key parameters: Probability of Default (PD), Loss Given Default (LGD) and the exposure value.

The models used to determine PD and LGD are built on historical data allowing for periods of low as well as high business activity. PD is therefore estimated by weighting current data against data dating back to the early 1990s. Current data carry approximately a 40% weighting, while data from the early 1990s carry approximately a 60% weighting. The LGD level for mortgage products reflects the level of losses during the recession in 1991-1993.

LGD is determined for each of a customer's loans using internal approaches based on loss and default data. The calculations factor in any security provided, such as mortgages on property and bank guarantees, including the type of security, its quality and ranking in the order of priority.

Mortgage banking is characterised by low LGDs as the security provided by way of mortgages on property offers good protection against losses.

PD is calculated on the basis of the customer's credit score and payment history. Credit scoring is a statistical calculation of a customer's creditworthiness.

The PDs of individual customers are converted into ratings from 0 to 10, 10 being the highest rating. Non-performing loans fall outside the rating scale and thus constitute a separate category. Customer ratings are an important element of the credit policy and customer assessment. Loans by rating category are shown on page 36.

PDs have seen marginal deterioration over the past year, primarily due to rising LTV ratios.

#### **Loan-to-value ratios (LTVs)**

At the time of granting, a mortgage loan must not exceed a certain proportion of the value of the mortgaged property pursuant to Danish legislation.

For owner-occupied dwellings for all-year habitation, the LTV ratio may not exceed 80% of the property value and 60% for holiday homes.

If the LTV ratio subsequently exceeds the stipulated maximum, loans funded by the issuance of SDOs must be secured by supplementary collateral.

A decline in property prices or a rise in the carrying amounts of the loans as a result of increasing bond prices may trigger a need for supplementary collateral.

At end-2011, Totalkredit had provided supplementary collateral in the amount of DKK 19.6bn compared with DKK 7.0bn at the beginning of the year, as a result of LTV ratios exceeding the limits for part of the SDO-funded loans.

On a 5% decline in housing prices, the required additional supplementary collateral will amount to approximately DKK 10bn.

Totalkredit A/S raises supplementary collateral by investing part of its capital base or any borrowed funds in particularly secure assets.

#### **Market risk**

Market risk reflects the risk of loss of market value as a result of movements in financial markets (interest rate, foreign exchange, equity price, volatility risks, etc).

Totalkredit's lending consists exclusively of mortgage loans issued in DKK. Due to the statutory balance principle, interest rate, volatility, foreign exchange and liquidity risk relating to mortgage lending and the underlying bond funding is limited.

Totalkredit's market risk therefore primarily derives from its investment portfolio and is very limited. Totalkredit's interest rate exposure is in the currencies DKK and EUR. Foreign exchange risk is hedged and is consequently very limited.

Totalkredit mainly invests in Danish government and mortgage bonds issued in DKK and, to a lesser extent, in covered bonds issued in EUR.

Totalkredit's interest rate risk is measured as the change in market value caused by a general interest rate increase of 1 percentage point in respect of bonds and financial instruments.

Interest rate risk is managed by investing in bonds with varying interest rate risk through German government bond futures and DKK and EUR denominated interest rate swaps. In 2011 the interest rate exposure target was in the range of DKK 0-200m. The average exposure was about DKK 70m, equivalent to 0.4% of Totalkredit's subordinate loan capital at the beginning of the year. The maximum interest rate exposure was DKK 110m, and the minimum exposure was DKK 35m. The standardised approach is used to determine the capital requirement for market risk in Totalkredit A/S.

The investment portfolio's sensitivity to an interest rate increase of 1 percentage point will have a negative impact of about DKK 70m on post-tax results and equity, and an interest rate decrease of 1 percentage point will have a positive impact of about DKK 70m on post-tax results and equity. By comparison, an interest rate increase of 1 percentage point would have had a negative impact of DKK 69m on post-tax results and equity at end-2010, and an interest rate decrease of 1 percentage point would have had a positive impact of DKK 70m on post-tax results and equity.



Totalkredit's sensitivity to foreign exchange risk determined as the greatest loss at a change of +/- 2.25% in the EUR/DKK rate amounted to a loss of DKK 0.4m at end-2011 against DKK 0.2m at the beginning of the year.

### **Liquidity risk**

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

Mortgage lending is funded by covered bonds (ROs and SDOs) according to the match-funding principle. Mortgage lending and the underlying funding are therefore by and large liquidity neutral.

As a result of Totalkredit's large bond portfolio, the Company's liquidity is very high.

### **Refinancing risk**

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

With a view to reducing customers' refinancing risk, Totalkredit has distributed its refinancing auctions more evenly over the year and conducts auctions three times a year in connection with refinancing on 1 January, 1 April and 1 October.

### **Operational risk**

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

Totalkredit's capital charge for operational risk is determined using the basic indicator approach. This means that the capital charge is stated as 15% of average gross earnings. At end-2011, the capital charge for operational risk came to DKK 0.3bn.

Totalkredit systematically records and classifies operational events to create an overview of loss sources and gain experience that may help prevent future loss events.

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

Operational risk factors associated with mortgage lending are limited by nature as they are based on a high degree of standardisation.

### **Uncertainty as to recognition and measurement**

The preparation of the Annual Report involves the use of informed accounting estimates. These estimates are made by Totalkredit's Management in accordance with the accounting policies and based on previous experience and, in Management's opinion, reasonable and realistic assumptions. Uncertainty as to recognition and measurement is described in more detail in note 1 "Accounting policies" under "Significant accounting estimates and assessments".

### **FINANCIAL REPORTING PROCESS**

The Board of Directors and the Executive Board of Totalkredit A/S are responsible for the Company's control and risk management systems. The delegation of the responsibilities of the Board of Directors and the Executive Board is prescribed by rules of procedure.

Totalkredit's internal controls and risk management relating to the financial reporting process are designed to efficiently manage rather than eliminate the risk of errors and omissions in connection with financial reporting.

The financial reporting process is based on internal control and risk management systems which together ensure that all relevant financial transactions are correctly reflected for accounting purposes and in financial statements.

The finance area of Totalkredit contributes to the Group's financial control and reporting. It is responsible for Totalkredit's financial reporting, which includes compliance with current legislation and the Group's accounting policies. Financial data and Management's comments on financial and business developments are reported monthly to Group Finance of the Parent Company.

### **Control environment**

Business procedures are laid down and controls are implemented for all material and risk areas, including areas of significance to the financial reporting process.

The Executive Board is responsible for risk delineation, management and monitoring. The Executive Board's powers and duties are provided in:

- The Board of Directors' rules of procedure
- The Executive Board's rules of procedure
- Instructions for the granting of loans and other credit facilities
- Instructions on market risk limits.

Furthermore, the Parent Company has provided a number of policies and instructions, which have been implemented into Totalkredit's business management.

**Risk assessment**

The risk management of the Board of Directors and the Executive Board relating to the financial reporting process may generally be summarised as follows:

- Periodical review of risk and financial reporting, including IT systems, general procedures and business procedures
- Review of the areas which include assumptions and estimates material to the financial statements
- Review of business and financial developments
- Review and approval of budgets and forecasts
- Review of interim and annual reports and other financial data
- Annual assessment of the risk of fraud.

**Controls**

The purpose of the controls is to ensure that policies, manuals and procedures laid down by the Executive Board are observed and to ensure timely prevention, detection and correction of any errors, deviations or omissions.

The controls comprise manual and physical controls as well as general IT controls and automatic application controls in IT systems applied.

Furthermore, in connection with the preparation of financial statements, a number of fixed procedures and internal controls ensure a fair presentation of the financial statements and compliance with current legislation.

The controls are supported by central areas of the Parent Company, eg Risk Management, Compliance and IT Security as well as internal and external audits.

## Management statement and audit reports

The Board of Directors and the Executive Board have today reviewed and approved the Annual Report for 2011 of Totalkredit A/S.

The Financial Statements and the Management's Review have been prepared in accordance with the Danish Financial Business Act and the Executive Order on the Presentation of Financial Reports of Credit Institutions and Investment Companies, etc. Furthermore, the Annual Report has been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

Taastrup, 9 February 2012

### **EXECUTIVE BOARD**

Troels Bülow-Olsen

Hans Henrik Andersen

In our opinion, the Financial Statements give a fair representation of the Company's assets, liabilities, equity and financial position at 31 December 2011 and of the results of the Company's operations and cash flows for the financial year 2011.

We are furthermore of the opinion that the Management's Review gives a fair review of the development in the operations and financial circumstances of the Company as well as a description of material risk and uncertainty factors which may affect the Company.

The Annual Report is recommended for approval by the General Meeting.

### **BOARD OF DIRECTORS**

Søren Holm,  
Chairman

Bent Naur,  
Deputy Chairman

Jette Alsig Bargholz

Kim Duus

Karen Frøsig

Lars Holst

Jari Loch Jensen

Gert Jonassen

Frank Kristensen

Merete Nilausen



## INTERNAL AUDITORS' REPORT

### Report on the Financial Statements

We have audited the Financial Statements of Totalkredit A/S for the financial year 1 January – 31 December 2011. The Financial Statements have been prepared in accordance with the Danish Financial Business Act.

### Basis of opinion

We conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Undertakings etc. as well as Financial Groups and the International Standards on Auditing. This requires us to plan and perform the audit to obtain reasonable assurance that the Financial Statements are free from material misstatement.

The audit has been performed in accordance with the division of work agreed with the external auditors and has included an assessment of business procedures and internal controls established, including the risk management organised by Management relevant to the Company's reporting processes and significant business risks. Based on materiality and risk, we have examined, on a test basis, the basis of amounts and other disclosures in the Financial Statements. Furthermore, the audit has included assessing the appropriateness of the accounting policies applied by Management, the reasonableness of the accounting estimates made by Management and the overall presentation of the Financial Statements.

We have participated in the audit of risk and other material areas and believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

### Opinion

In our opinion, the business procedures and internal controls established, including the risk management organised by Management aimed at the Company's reporting processes and significant business risks, are working satisfactorily.

Furthermore, in our opinion, the Financial Statements give a fair presentation of the Company's assets, liabilities, equity and financial position at 31 December 2011 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2011 in accor-

dance with the Danish Financial Business Act.

### Statement on the Management's Review

We have read the Management's Review pursuant to the Danish Financial Business Act. We have performed no further procedures in addition to the audit of the Financial Statements.

On this basis, it is our opinion that the information in the Management's Review is consistent with the Financial Statements.

Taastrup, 9 February 2012

Claus Okholm  
Chief Audit Executive

Kim Stormly Hansen  
Deputy Chief Audit Executive



## INDEPENDENT AUDITORS' REPORT

### To the shareholder of Totalkredit A/S

#### Report on the Financial Statements

We have audited the Financial Statements of Totalkredit A/S for the financial year 1 January – 31 December 2011, comprising income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The Financial Statements have been prepared in accordance with the Danish Financial Business Act.

#### Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of Financial Statements in accordance with the Danish Financial Business Act. Management is also responsible for the internal controls as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' responsibilities

Our responsibility is to express an opinion on the Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements in Danish audit legislation. This requires us to comply with ethical requirements and to plan and perform the audit to obtain reasonable assurance that the Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence for the amounts and disclosures in the Financial Statements. The audit procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the Company's preparation and fair presentation of Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes assessing the appropriateness of the accounting policies adopted by Management, the reasonableness of the accounting estimates made by Management

and the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

#### Opinion

In our opinion, the Financial Statements give a fair presentation of the Company's assets, liabilities, equity and financial position at 31 December 2011 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2011 in accordance with the Danish Financial Business Act.

#### Statement on the Management's Review

We have read the Management's Review pursuant to the Danish Financial Business Act. We have performed no further procedures in addition to the audit of the Financial Statements.

On this basis, it is our opinion that the information in the Management's Review is consistent with the Financial Statements.

Copenhagen, 9 February 2012

Deloitte

Statsautoriseret Revisionspartnerselskab

Anders O. Gjelstrup

State-Authorised Public Accountant

Henrik Wellejus

State-Authorised Public Accountant



# Income statement for 1 January – 31 December

DKK MILLION

	Note	2011	2010
Interest income	2	19,405	19,676
Interest expenses	3	16,618	16,700
<b>Net interest income</b>		<b>2,787</b>	<b>2,976</b>
Fee and commission income	4	344	478
Fee and commission expenses	5	1,495	1,431
<b>Net interest and fee income</b>		<b>1,636</b>	<b>2,023</b>
Value adjustments	6	(73)	(261)
Other operating income		0	2
Staff and administrative expenses	7	366	420
Depreciation and impairment losses for property, plant and equipment	13	1	1
Impairment losses on loans, advances and receivables	8	447	158
<b>Profit before tax</b>		<b>749</b>	<b>1,185</b>
Tax	9	187	298
<b>Profit for the year</b>		<b>562</b>	<b>887</b>
<b>Comprehensive income</b>			
Profit for the year		562	887
Other comprehensive income		0	0
<b>Total comprehensive income</b>		<b>562</b>	<b>887</b>
<b>Proposal for the distribution of profit</b>			
Profit for the year		562	887
<b>Total amount available for distribution</b>		<b>562</b>	<b>887</b>
Transferred to equity		562	887
<b>Total distribution</b>		<b>562</b>	<b>887</b>





# Balance sheet at 31 December

DKK MILLION

	Note	2011	2010
<b>ASSETS</b>			
Cash balance and demand deposits with central banks		0	0
Receivables from credit institutions and central banks	10	14,565	18,111
Loans, advances and other receivables at fair value	11	481,046	455,957
Loans, advances and other receivables at amortised cost	11	47	54
Bonds at fair value	12	86,512	81,540
Other property, plant and equipment	13	0	1
Deferred tax assets		1	1
Assets in temporary possession	14	115	39
Other assets	15	4,100	4,682
Prepayments		11	6
<b>Total assets</b>		<b>586,397</b>	<b>560,391</b>
<b>LIABILITIES AND EQUITY</b>			
Payables to credit institutions	16	480,544	443,630
Issued bonds at fair value	16	78,328	90,193
Current tax liabilities		124	10
Other liabilities	17	10,478	10,698
<b>Total payables</b>		<b>569,474</b>	<b>544,531</b>
Provisions for liabilities		5	4
Subordinated debt	18	3,100	2,600
<b>Equity</b>			
Share capital		799	799
<b>Reserves</b>			
Series reserves		1,646	1,634
Other reserves		11,373	10,823
<b>Total equity</b>		<b>13,818</b>	<b>13,256</b>
<b>Total liabilities and equity</b>		<b>586,397</b>	<b>560,391</b>
<b>OFF-BALANCE SHEET ITEMS</b>			
	19		
Guarantees		0	0
Other commitments		12	12
<b>Total off-balance sheet items</b>		<b>12</b>	<b>12</b>



# Statement of changes in equity

DKK MILLION

	Share capital	Series reserves	Other reserves	Total
<b>Equity at 1 January 2011</b>	<b>799</b>	<b>1,634</b>	<b>10,823</b>	<b>13,256</b>
Profit for the year		12	550	562
<b>Comprehensive income for the year</b>		<b>12</b>	<b>550</b>	<b>562</b>
<b>Equity, year-end</b>	<b>799</b>	<b>1,646</b>	<b>11,373</b>	<b>13,818</b>
<b>Equity at 1 January 2010</b>	<b>799</b>	<b>1,616</b>	<b>9,954</b>	<b>12,369</b>
Profit for the year		18	869	887
<b>Comprehensive income for the year</b>		<b>18</b>	<b>869</b>	<b>887</b>
<b>Equity, year-end</b>	<b>799</b>	<b>1,634</b>	<b>10,823</b>	<b>13,256</b>

The share capital consists of 7,987,391 shares of DKK 100. There is only one share class. The entire share capital is owned by Nykredit Realkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.

Series reserves consist of an undistributable reserve fund established pursuant to section 220 of the Danish Financial Business Act in connection with the Company's conversion into a public limited company in 2000. Capital is used to cover statutory capital requirements and is otherwise only used to cover losses not covered by amounts that may be used as dividend in the public limited company.



# Cash flow statement

DKK MILLION

	2011	2010
<b>Profit after tax for the year</b>	<b>562</b>	<b>887</b>
<b>Adjustment for non-cash operating items, depreciation and impairment losses</b>		
Depreciation and impairment losses for property, plant and equipment	1	1
Impairment losses on loans and advances	447	158
Prepayments/deferred income, net	(5)	1
Tax calculated on profit for the year	187	298
Other adjustments	(75)	(20)
<b>Total</b>	<b>555</b>	<b>438</b>
<b>Profit for the year adjusted for non-cash operating items</b>	<b>1,117</b>	<b>1,325</b>
<b>Change in working capital</b>		
Loans and advances	(25,529)	(25,604)
Deposits and payables to credit institutions	36,914	36,731
Issued mortgage bonds	(11,865)	(14,596)
Other working capital	362	(1,123)
<b>Total</b>	<b>(118)</b>	<b>(4,592)</b>
<b>Corporation tax paid, net</b>	<b>(73)</b>	<b>(504)</b>
<b>Cash flows from operating activities</b>	<b>926</b>	<b>(3,772)</b>
<b>Cash flows from investing and financing activities</b>		
Investments	(4,972)	5,771
Subordinated debt	500	0
<b>Total</b>	<b>(4,472)</b>	<b>5,771</b>
<b>Total cash flows</b>	<b>(3,546)</b>	<b>1,999</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>18,111</b>	<b>16,112</b>
<b>Cash and cash equivalents, year-end</b>	<b>14,565</b>	<b>18,111</b>

# Notes

## 1. ACCOUNTING POLICIES

### GENERAL

The Financial Statements and the Management's Review are prepared in accordance with the Danish Financial Business Act and the Executive Order on the Presentation of Financial Reports of Credit Institutions and Investment Companies, etc. The Financial Statements and the Management's Review are furthermore prepared in accordance with additional Danish disclosure requirements relating to annual reports of issuers of listed bonds.

All figures in the Annual Report are rounded to the nearest million 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.

The accounting policies are unchanged compared with the Annual Report for 2010.

### Significant accounting estimates

The preparation of the Financial Statements involves the use of informed accounting estimates. These estimates are made by Totalcredit's Management in accordance with accounting policies and based on past experience and an assessment of future conditions.

Accounting estimates and assumptions are tested and assessed regularly. The estimates applied are based on assumptions which Management considers reasonable and realistic, but which are per se uncertain and unpredictable.

Areas implying a high degree of assessment or complexity or areas in which assumptions and estimates are material to the financial statements are:

Provisions for loan impairment involving significant estimates in the quantification of the risk of not receiving all future payments. If it is ascertained that not all future payments will be received, the determination of the time and amount of the expected payments is subject to significant estimates. Furthermore, realisable values of security and expected dividend payments from bankrupt estates are subject to a number of estimates. Reference is made to "ASSETS", "Provisions for loan and receivable impairment" below for a detailed description.

### Recognition and measurement

Assets are recognised in the balance sheet if it is probable that future economic benefits will flow to Totalcredit, and if the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet if it is probable that future economic benefits will flow from Totalcredit, and if the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at fair value, whereas property, plant and equipment are measured at cost. Subsequent measurement is made as described below under each item.

Financial instruments are recognised on the settlement date, and changes in the fair value of instruments purchased or sold in the period between the trade date and the settlement date are recognised as financial assets or liabilities.

Income is recognised in the income statement as earned. Furthermore, value adjustment of financial assets and liabilities measured at fair value or amortised cost is recognised through profit or loss or in other comprehensive income for the period in which it arose.

All costs incurred by the Company are recognised in the income statement, including depreciation, impairment losses, provisions and reversals as a result of changed accounting estimates of amounts previously recognised in the income statement.

### Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently measured at fair value. Value adjustments are recognised in the income statement as such for the period in which they arose. Positive and negative fair values of derivative financial instruments are recognised in "Other assets" or "Other liabilities".

The fair values of derivative financial instruments are determined using recognised measurement methods based on market information and other recognised measurement methods.



### **Core earnings and investment portfolio income**

The financial key figures in the Management's Review of Totalcredit are presented in the statement of core earnings and investment portfolio income, as Management finds that this presentation reflects the activities and earnings of the Company.

Core earnings mirror results from customer-oriented activities and risk-free returns on the securities portfolio less operating costs, depreciation and impairment losses on loans and advances.

Core income from securities includes the return which Totalcredit would have obtained by placing its investment portfolios at a risk-free interest rate – Danmarks Nationalbank's repo rate. In addition, core income from securities includes interest expenses relating to supplementary capital.

Investment portfolio income is the excess income obtained from investing in equities, bonds and derivative financial instruments in addition to risk-free interest. Price spreads and interest margins relating to the mortgage lending have been included not as investment portfolio income, but as core income from business operations.

### **Segment information**

According to the Danish Executive Order on the Presentation of Financial Statements, net interest and fee income and value adjustments must be disclosed by activity and geographical market where these differ. Totalcredit has one single activity in one single geographical market for which reason such information has been omitted.

### **Currency**

The Financial Statements are presented in Danish kroner (DKK), which is the functional as well as the presentation currency of the Company. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction date. Exchange gains and losses arising on the settlement of these transactions are recognised in the income statement.

At the balance sheet date, monetary assets and liabilities in foreign currencies are translated at the exchange rates prevailing on the balance sheet date. Foreign currency translation adjustment is recognised in the income statement.

## **INCOME STATEMENT**

### **Interest income and expenses**

Interest includes interest due and accrued up to the balance sheet date.

Interest income includes interest and interest-like income, including administration margins and forward premiums on securities and foreign exchange trades.

Interest expenses include all interest-like expenses.

### **Fees and commissions**

Fees and commissions include income and costs relating to services. Fees and commissions are fully recognised in the income statement at the date of transaction.

### **Value adjustments**

Value adjustments include foreign currency translation adjustment and value adjustment of assets and liabilities measured at fair value. Value adjustments relating to the credit risk of loans, advances and receivables measured at fair value are recognised in "Impairment losses on loans, advances and receivables".

### **Tax**

Tax on taxable income for the year calculated at the current tax rate as well as adjustment of deferred tax and tax assessed for prior years are charged to the income statement. Interest receivable under the scheme for payment of tax on account has been recognised as net interest income.

Provisions are made for deferred tax as to all timing differences between the carrying amounts and profit for tax purposes. Deferred tax is recognised in the balance sheet in "Current tax liabilities" or "Deferred tax assets". Changes for the year in deferred tax are recognised as income or expenses in the income statement.

## **ASSETS**

### **Receivables from credit institutions and central banks**

Receivables from credit institutions and central banks include receivables from other credit institutions and time deposits with central banks. Initial recognition is made at fair value. Subsequent measurement is made at amortised cost.

### **Loans, advances and other receivables at fair value**

The item includes loans and advances included in the trading book and mortgage loans classified at fair value (the fair value option) as such classification eliminates the accounting mismatch that would arise on using the general measurement provisions.

Mortgage loans granted in accordance with Danish mortgage legislation have been funded by issued listed covered bonds (ROs and SDOs) of uniform terms. Such mortgage loans may be prepaid by way of a delivery of the underlying bonds. Totalkredit buys and sells its self-issued covered bonds on a continuing basis as they constitute a key part of the Danish money market.

If mortgage loans and issued covered bonds were measured at amortised cost, the purchase and sale of self-issued covered bonds would lead to a time lag between the recognition of gains and losses in the financial statements. The purchase price of the holding would not equal the amortised cost of the issued bonds, and the elimination would lead to the recognition of a random earnings impact. If the holding of self-issued covered bonds was subsequently sold, the new amortised cost of the "new issue" would not equal the amortised cost of the matching mortgage loans, and the difference would be amortised over the time-to-maturity.

Mortgage loans are therefore measured at fair value and include an adjustment for the market risk based on the value of the underlying bonds and an adjustment for credit risk based on the provisioning need.

#### *Mortgage loans funded through Nykredit Realkredit A/S*

Nykredit Realkredit A/S issues covered bonds for the funding of loans granted by Nykredit Realkredit A/S as well as Totalkredit A/S. Totalkredit A/S is therefore under an obligation to pay interest, drawing and prepayment amounts to Nykredit Realkredit A/S, which will transfer such payments to bond investors.

Mortgage loans funded by bonds issued by Nykredit Realkredit A/S are measured at fair value with adjustment for market risk based on the value of the underlying bonds and any impairment provisions for credit risk. Totalkredit A/S has resolved to apply the fair value option as such classification eliminates the accounting mismatch that would arise on using the general measurement provisions.

### **Loans, advances and other receivables at amortised cost**

On initial recognition, other loans and advances and other receivables at amortised cost are measured at fair value less/plus the costs and income relating to the acquisition. Subsequent measurement takes place at the lower of amortised cost and net realisable value less provisions for loan and receivable impairment.

### **Receivables from loans secured on properties not repossessed**

Receivables on such loans include mortgage payments due, but not paid, less provisions for loan impairment.

### **Provisions for loan and receivable impairment**

Provisions for loan and receivable impairment are divided into individual and collective provisions.

If there is objective evidence of impairment (OEI) and the event(s) concerned is(are) believed to have a reliably measurable effect on the size of expected future payments from the exposure, individual impairment provisions are made for the exposure.

#### *Individual impairment provisions*

Totalkredit performs continuous individual reviews and risk assessments of all significant loans, advances and receivables to determine whether there is any OEI.

There is OEI in respect of a loan if one or more of the following events have occurred:

- The borrower has serious financial difficulties
- The borrower fails to honour its contractual payment obligations
- It is probable that a borrower will go into bankruptcy or be subject to other financial restructuring.

The loan is impaired by the difference between the carrying amount before impairment and the present value of the expected future cash flows from the individual loan or exposure.

Strategy and action plans are prepared for all loans subject to individual impairment. The loans/exposures are reviewed quarterly.

Similar individual impairment provisions are made for non-significant loans, advances and receivables if there is OEI and the event(s) concerned is(are) believed to have a reliably measurable ef-



fect on the size of expected future payments from the exposure/loan.

If there is OEI in respect of loans at fair value, Totalkredit assesses the probability of losses, which assessment is included in the calculation of individual impairment provisions.

#### *Collective impairment provisions*

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

At each balance sheet date, collective assessments are made of loans and advances for which no individual impairment provisions have been made and, where objective evidence of impairment is identified in one or more groups, collective provisions for loan impairment are made.

The provisioning need is calculated based on the change in expected losses relative to the time the loans were granted. For each loan in a group of loans, the contribution to the impairment of that group is calculated as the difference between the present value of the loss flow at the balance sheet date and the present value of the expected loss when the loan was granted.

Collective impairment provisions are the total of contributions from a rating model, a segmentation model and management judgement.

The rating model determines impairment due to credit quality migration based on the development in adjusted Basel parameters. The segmentation model complements the rating model by adjusting the Basel parameters for events resulting from changes in the economic climate not yet reflected in the rating model. Management judgement supplements the models by including current expert opinions and expectations for the credit risk development of specific segments.

Having been adjusted to the current economic climate and accounting rules, the Basel parameters applied in the rating and segmentation models are based on cash flows until expiry of loan terms and the discounted present value of loss flows.

#### *Impairment provisions in general*

Total provisions for loan impairment are deducted from the relevant loans under asset items. Recognised losses and impairment changes for the year

have been charged to the income statement in "Impairment losses on loans, advances and receivables".

Where events occur showing a partial or complete impairment reduction following individual or collective impairment provisioning, impairment provisions are reversed accordingly.

Loans not expected to be collected are written off.

### **Property, plant and equipment**

Equipment is measured at cost less accumulated depreciation and impairment losses. Equipment is depreciated over its expected useful life which for the individual categories of equipment are as follows:

- Computer equipment and machinery 4 years
- Equipment and motor vehicles 4 years

### **Bonds**

Bonds are initially recognised at fair value and are subsequently measured at fair value based on listed prices and recognised measurement methods.

Changes in the fair value are recognised on a current basis in "Value adjustments" in the income statement.

The portfolio of self-issued bonds is offset against issued bonds (the liability), and interest receivable relating to self-issued bonds is offset against interest payable.

### **Assets in temporary possession**

Assets in temporary possession are measured at the lower of the carrying amount and fair value less the cost of sale. The item includes Totalkredit's mortgages outstanding secured on such properties transferred from "Mortgage loans". Furthermore, mortgage payments due and expenses defrayed at the time of a forced sale as well as income and expenses arisen after the date of repossession are included.

## **LIABILITIES AND EQUITY**

### **Payables**

"Payables to credit institutions and central banks" is initially recognised at fair value and subsequently measured at amortised cost.

**Issued bonds at fair value**

Issued covered bonds and junior covered bonds are classified at fair value on initial recognition (the fair value option) as such classification eliminates the accounting mismatch that would arise on using the general measurement provisions.

The fair value of the covered bonds and junior covered bonds is generally prevailing market prices. Bonds drawn at future payment dates are measured at discounted value. Bonds not traded actively are recognised at calculated market prices.

Payables relating to intercompany funding via Nykredit Realkredit A/S are measured at fair value. Payables to Nykredit Realkredit A/S relating to funds for collateral for SDO-funded loans are measured at fair value. Other payables to Nykredit Realkredit A/S in the form of loans (senior debt) are measured at fair value.

**Other liabilities**

Other liabilities include derivative financial instruments, which are measured at fair value, and other payables, which are measured at amortised cost.

**Provisions**

Provisions are recognised where, as a result of an event occurred on or before the balance sheet date, the Company has a legal or constructive obligation which can be measured reliably and where it is probable that economic benefits must be given up to settle the obligation.

Provisions include pension benefits for the Executive Board, cf note 7 in the Financial Statements. The value in use of the pension obligation is based on an actuarial calculation and recognised successively up to the time of pension.

**Subordinated debt**

Subordinated debt is initially recognised at fair value less transaction costs incurred. Subordinated debt is subsequently measured at amortised cost, and any differences between the proceeds less transaction costs and the redemption value are recognised in the income statement over the loan term using the effective interest method.

**Cash flow statement**

The Company's cash flow statement is prepared according to the indirect method based on profit for the year. The cash flow statement shows cash flows for the year stemming from:

- Operating activities
- Investing and financing activities

Furthermore, the cash flow statement shows the changes in cash and cash equivalents for the year and the Company's cash and cash equivalents at the beginning and end of the year.

Cash and cash equivalents consist of "Cash balance and demand deposits with central banks" and "Receivables from credit institutions and central banks".



# Notes

DKK MILLION

	2011	2010
<b>2. INTEREST INCOME</b>		
Receivables from credit institutions	79	49
Loans and advances	16,235	16,464
Administrative margin income	2,253	2,146
Bonds:		
- Self-issued ROs (realkreditobligationer)	5	19
- Other ROs	822	987
- Government bonds	0	40
Derivative financial instruments:		
- Interest rate contracts	14	(10)
Other interest income	2	0
<b>Total</b>	<b>19,410</b>	<b>19,695</b>
Interest from self-issued ROs has been offset against interest expenses on issued bonds	(5)	(19)
<b>Total</b>	<b>19,405</b>	<b>19,676</b>
<b>3. INTEREST EXPENSES</b>		
Mortgage loan funding through Nykredit Realkredit A/S	13,560	13,279
Issued bonds	2,668	3,225
Set-off of interest from self-issued mortgage bonds	(5)	(19)
Other payables to Nykredit Realkredit A/S	343	164
Subordinated debt	51	46
Other interest expenses	1	5
<b>Total</b>	<b>16,618</b>	<b>16,700</b>
<b>4. FEE AND COMMISSION INCOME</b>		
Loan fees, new lending	211	280
Commission and other fees	133	198
<b>Total</b>	<b>344</b>	<b>478</b>
<b>5. FEE AND COMMISSION EXPENSES</b>		
Loan arrangement fees	167	212
Commission to loan arrangers	1,141	984
Commission and other fees	187	235
<b>Total</b>	<b>1,495</b>	<b>1,431</b>

# Notes

DKK MILLION

	2011	2010
<b>6. VALUE ADJUSTMENTS</b>		
Mortgage loans	7,067	2,631
Issued bonds, including bonds issued by Nykredit Realkredit in connection with the funding of mortgage loans granted by Totalkredit	(7,067)	(2,631)
Bonds	195	(293)
Foreign exchange	0	0
Foreign exchange, interest rate and other contracts as well as derivative financial instruments	(100)	(6)
Other liabilities	(168)	38
<b>Total</b>	<b>(73)</b>	<b>(261)</b>
<b>7. STAFF AND ADMINISTRATIVE EXPENSES</b>		
Remuneration of Board of Directors and Executive Board	6	6
Staff expenses	70	75
Administrative expenses	290	339
<b>Total</b>	<b>366</b>	<b>420</b>
<b>Remuneration of Board of Directors and Executive Board</b>		
<b>Board of Directors:</b>		
Remuneration	1	1
<b>Executive Board:</b>		
Salaries	4	4
Pensions	1	1
Other social security expenses and charges	0	0
<b>Total</b>	<b>5</b>	<b>5</b>
<b>Staff expenses:</b>		
Salaries	58	64
Pensions	6	5
Other social security expenses and charges	6	6
<b>Total</b>	<b>70</b>	<b>75</b>

## Terms and conditions applying to the Board of Directors

The 10 members of the Board of Directors receive fixed fees and a refund of any costs incurred in connection with board meetings. No agreements have been made as to pension plans, bonus programmes or special termination benefits for board members elected by the General Meeting. At end-2011 the annual remuneration amounted to DKK 200,000 for the Chairman, DKK 150,000 for the Deputy Chairman and DKK 100,000 for other Directors. Directors employed with Nykredit Realkredit A/S receive no remuneration. Members of the Board of Directors are listed on page 1 of the Annual Report.

# Notes

DKK MILLION

## Terms and conditions applying to the Executive Board

Executive Board members receive a fixed salary. The Executive Board participates in Nykredit's general bonus programme for executive officers. The programme is discretionary, which means that executive officers are not guaranteed a bonus. The amount paid to any executive officer is based on a bonus potential specified on a year-by-year basis. Remuneration paid in 2011:

Troels Bülow-Olsen, a total of DKK 2.3m, of which DKK 0.3m relates to the 2010 bonus programme.

Hans Henrik Andersen, a total of DKK 1.7m, of which DKK 0.2m relates to the 2010 bonus programme.

The pensionable age for Executive Board members is 70 years, but retirement at the age of 65 years is possible, after which the managing directors are entitled to pension benefits for 10 years equal to approximately 20% of their gross salary. The pension benefits period will be reduced by one year for each year the employment continues after the age of 65 years.

Executive Board members' employment is terminable by Totalkredit giving 12 months' notice and by either Executive Board member giving 3 or 12 months' notice, respectively. Upon resignation at Totalkredit A/S's request, they are entitled to termination benefits equal to 9-12 months' gross salary.

## Loans and advances to the Executive Board and Board of Directors

Mortgage loans, debt outstanding at the end of the financial year:

	2011	2010
Executive Board	-	-
Board of Directors	6	6
Management and related parties of Totalkredit's Parent Company	9	9

Loans were granted on the same loan and market terms as applied to other borrowers with Totalkredit A/S at the time of offering and disbursement of the loans.

## Salaries for risk-takers

Totalkredit has decided not to announce the salaries of individual risk-takers in addition to the Executive Board members', as this category includes only one person.

## Number of staff

Average number of staff for the financial year, full-time equivalents	120	124
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## Fees to auditors appointed by the Annual General Meeting, Deloitte

Total fees include:

Statutory audit of the Financial Statements	1	1
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# Notes

DKK MILLION

	2011	2010
<b>8. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES</b>		
Changes in provisions for loan impairment, individual	275	58
Changes in provisions for loan impairment, collective	66	45
Recognised losses for the year, net	214	126
Received on claims previously written off	(1)	0
<b>Total impairment losses on loans, advances and receivables</b>	<b>554</b>	<b>229</b>
Value adjustment of assets in temporary possession	70	36
Losses offset against commission payments to partner banks	(177)	(107)
<b>Total</b>	<b>447</b>	<b>158</b>
<b>Specification of provisions for loan impairment</b>		
Individual impairment provisions	393	278
Collective impairment provisions	311	245
<b>Total impairment provisions</b>	<b>704</b>	<b>523</b>
<b>Individual provisions for loan impairment</b>		
Impairment provisions, beginning of year	278	336
Impairment provisions for the year	338	200
Impairment provisions reversed	(63)	(143)
Value adjustment of properties repossessed	(12)	(16)
Impairment provisions recognised as lost	(148)	(99)
<b>Impairment provisions, year-end</b>	<b>393</b>	<b>278</b>
<b>Collective provisions for loan impairment</b>		
Impairment provisions, beginning of year	245	199
Impairment provisions for the year	66	55
Impairment provisions reversed	0	(9)
<b>Impairment provisions, year-end</b>	<b>311</b>	<b>245</b>

# Notes

DKK MILLION

	2011	2010
<b>8. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES (continued)</b>		
<b>Individual impairment provisions for properties repossessed</b>		
Impairment provisions, beginning of year	60	25
Transfer from properties not repossessed	12	16
Impairment provisions for the year	71	41
Impairment provisions reversed	(1)	(6)
Impairment provisions recognised as lost	(46)	(16)
<b>Impairment provisions, year-end</b>	<b>96</b>	<b>60</b>
<p>The 2010 figures for individual impairment provisions have been restated. New impairment provisions for the year and reversed within the year are now reversed under "Impairment provisions for the year". Consequently, "Impairment provisions reversed" only pertains to provisions included in the balance at the beginning of the year, and "Impairment provisions recognised as lost" only pertain to provisions included in the balance at the beginning of the year. "Recognised losses for the year, net" pertains to the part of the loss exceeding any impairment provisions at the beginning of the year as well as losses incurred within the year.</p> <p>Of total individual impairment provisions for mortgage loans, about 8% may be attributed to loans in arrears but not referred for collection and about 85% to loans with arrears referred to collection. The remaining 7% are attributable to estates in bankruptcy or estates of deceased persons.</p>		
<b>Specification of loans and advances</b>		
Loans and advances subject to individual impairment	2,172	1,468
Impairment provisions	393	278
<b>Loans and advances after impairment provisions</b>	<b>1,779</b>	<b>1,190</b>
Loans and advances subject to collective impairment	27,646	19,641
Impairment provisions	311	245
<b>Loans and advances after impairment provisions</b>	<b>27,335</b>	<b>19,396</b>
<p>Loans and advances subject to collective impairment includes loans in the rating categories 0, 1 and 2 as well as non-performing loans for which no individual impairment provisions have been made. This constitutes a change compared with 2010, when all rating categories were subject to collective impairment. The change does not affect collective impairments, merely "Loans and advances subject to collective impairment", which has been restated according to estimate. Loans by rating categories appear from note 36.</p>		
<b>9. TAX</b>		
Tax calculated on profit for the year	187	298
Change in deferred tax	0	0
Adjustment of tax assessed for previous years	0	0
<b>Total</b>	<b>187</b>	<b>298</b>
Current tax rate, %	25.0	25.0
Non-deductible costs, %	0.0	0.1
<b>Effective tax rate, %</b>	<b>25.0</b>	<b>25.1</b>

# Notes

DKK MILLION

	2011	2010
<b>10. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS</b>		
Receivables from credit institutions	14,565	18,111
<b>Total</b>	<b>14,565</b>	<b>18,111</b>
<b>11. LOANS AND ADVANCES</b>		
Loans, advances and other receivables at fair value	481,046	455,957
Loans, advances and other receivables at amortised cost	47	54
<b>Total</b>	<b>481,093</b>	<b>456,011</b>
<b>Loans, advances and other receivables at fair value</b>		
Mortgage loans	480,881	455,792
Arrears and outlays	166	164
<b>Total</b>	<b>481,046</b>	<b>455,957</b>
<b>Mortgage loans</b>		
Balance, beginning of year, nominal value	455,104	431,357
New loans	70,173	110,927
Ordinary principal payments	(3,734)	(4,417)
Prepayments and extraordinary principal payments	(47,977)	(82,763)
<b>Balance, year-end, nominal value</b>	<b>473,566</b>	<b>455,104</b>
Loans transferred relating to properties in temporary possession	(134)	(89)
Adjustment for interest rate risk	8,086	1,218
<b>Adjustment for credit risk</b>		
Individual impairment provisions	(326)	(196)
Collective impairment provisions	(311)	(245)
<b>Balance, year-end, fair value</b>	<b>480,881</b>	<b>455,792</b>
2011 saw a clarification of the determination method for measurement of mortgage loans at fair value. The clarification is attributable to the determination of the estimated value of the credit risk of the non-distressed part of the portfolio. The clarification has had no significant impact on reported amounts.		
<b>Arrears and outlays</b>		
Arrears before impairment provisions	138	155
Outlays before impairment provisions	95	91
Provisions for arrears and outlays	(67)	(82)
<b>Total</b>	<b>166</b>	<b>164</b>



# Notes

DKK MILLION

	2011	2010
<b>11. LOANS AND ADVANCES (continued)</b>		
Mortgage arrears up to and including the September 2011 due date, for which no provisions have been made, amounted to DKK 0m.		
<b>Loans, advances and other receivables at amortised cost</b>		
Mortgage loans	47	54
<b>Total</b>	<b>47</b>	<b>54</b>
Measured at fair value, the item amounted to DKK 47m at end-2011 against DKK 54m at end-2010.		
<b>Mortgage loans</b>		
Balance, beginning of year, nominal value	54	82
Ordinary principal payments	0	0
Prepayments and extraordinary principal payments	(7)	(28)
<b>Balance, year-end, nominal value</b>	<b>47</b>	<b>54</b>
<b>Mortgage loans by property category at nominal value</b>		
Loans and advances as %, year-end		
Owner-occupied dwellings, %	95	95
Holiday homes, %	5	5
<b>Total</b>	<b>100</b>	<b>100</b>
<b>Number of loans, end of financial year</b>	<b>469,718</b>	<b>454,316</b>
<b>Mortgage loan guarantees provided by banks:</b>		
Supplementary guarantees in addition to mortgages on property	8,091	7,721
Statutory guarantees for interim loans	9,195	11,669
Guarantees for loans disbursed before obtaining a registered mortgage	16,857	36,810
<b>Total</b>	<b>34,143</b>	<b>56,200</b>

# Notes

DKK MILLION

	2011	2010
<b>12. BONDS AT FAIR VALUE</b>		
- Self-issued mortgage bonds	91	194
- Other mortgage bonds	86,512	81,540
- Government bonds	0	0
<b>Total</b>	<b>86,603</b>	<b>81,734</b>
Self-issued mortgage bonds offset against issued bonds	(91)	(194)
<b>Total bonds</b>	<b>86,512</b>	<b>81,540</b>
<b>Of which:</b>		
Drawn bonds	59	64
Bonds stemming from prepaid immediate prepayments at par and proceeds from the issue of fixed-price agreements	17,420	12,140
Pre-issuance of bonds in connection with the refinancing of adjustable-rate mortgage loans	32,536	42,354
<b>13. OTHER PROPERTY, PLANT AND EQUIPMENT</b>		
Total cost, beginning of year	4	4
Additions	0	0
Disposals	1	0
<b>Total cost, year-end</b>	<b>3</b>	<b>4</b>
Depreciation, beginning of year	3	3
Depreciation for the year	1	1
Reversal of depreciation	1	1
<b>Depreciation, year-end</b>	<b>3</b>	<b>3</b>
<b>Carrying amount, year-end</b>	<b>0</b>	<b>1</b>
<b>Write-off on equipment for the year</b>	<b>0</b>	<b>0</b>
<b>14. ASSETS IN TEMPORARY POSSESSION</b>		
Debt outstanding, year-end	74	64
Outlays	106	11
Impairment provisions, year-end	(65)	(36)
<b>Total</b>	<b>115</b>	<b>39</b>
<b>15. OTHER ASSETS</b>		
Positive market value of derivative financial instruments	4	1
Interest and commission receivable on loans and advances	2,310	1,991
Interest receivable from bonds and credit institutions	1,710	2,651
Other	76	39
<b>Total</b>	<b>4,100</b>	<b>4,682</b>





# Notes

DKK MILLION

	2011	2010
<b>16. PAYABLES TO CREDIT INSTITUTIONS AND ISSUED BONDS</b>		
<b>PAYABLES TO CREDIT INSTITUTIONS</b>		
Payables to credit institutions, other payables	27	20
Payables to Nykredit Realkredit A/S	18,623	10,024
Mortgage loan funding through Nykredit Realkredit A/S	461,894	433,586
<b>Total</b>	<b>480,544</b>	<b>443,630</b>
<b>Of which mortgage loan funding through Nykredit Realkredit A/S:</b>		
Balance, beginning of year, nominal value	432,093	397,958
Additions	187,517	211,778
Drawings and prepayments	(146,071)	(159,079)
Prepayments and extraordinary principal payments	(18,439)	(18,564)
<b>Balance, year-end, nominal value</b>	<b>455,100</b>	<b>432,093</b>
Fair value adjustment	6,794	1,493
<b>Total</b>	<b>461,894</b>	<b>433,586</b>
<b>ISSUED BONDS</b>		
Mortgage bonds issued against mortgages on real property		
Balance, beginning of year, nominal value	90,663	108,708
Additions	0	0
Drawings and prepayments	(7,992)	(10,946)
Prepayments and extraordinary principal payments	(5,543)	(7,099)
<b>Balance, year-end, nominal value</b>	<b>77,128</b>	<b>90,663</b>
Set-off, self-issued mortgage bonds	(91)	(194)
Fair value adjustment	1,291	(276)
<b>Total</b>	<b>78,328</b>	<b>90,193</b>
Of which pre-issuance	-	-
Bonds drawn for redemption at the next creditor payment date	2,408	4,552

## Notes

DKK MILLION

Changes in the fair value of issued covered bonds (ROs and SDOs) attributable to changes in Totalcredit's own credit risk can be determined on the basis of changes in option-adjusted spreads (OAS) against government bonds or on the basis of changes in spreads against equivalent ROs from other Danish issuers.

Determined relative to other issuers, no changes in fair value – in 2011 or since issuance – have been attributable to Totalcredit's own credit risk, as there are no measurable price differences between bonds with identical characteristics from different issuers.

Determined relative to government bonds, the yield spread between government bonds and covered bonds widened in 2011 causing a drop in the fair value of issued bonds of DKK 3bn attributable to Totalcredit's own credit risk. Since 2008 spread widenings between government bonds and covered bonds have resulted in a fair value decline of approximately DKK 7bn attributable to Totalcredit's own credit risk. Equity and results have, however, not been affected by the changes in fair value, as the value of mortgage loans has changed accordingly.

	2011	2010
<b>17. OTHER LIABILITIES</b>		
Negative market value of derivative financial instruments	109	50
Interest payable on issued covered bonds, including bonds issued by Nykredit Realkredit for the funding of mortgage lending by Totalcredit	8,284	9,204
Other	2,085	1,444
<b>Total</b>	<b>10,478</b>	<b>10,698</b>

**18. SUBORDINATED DEBT**

Subordinated debt is financial liabilities in the form of subordinate loan capital which, in the case of the voluntary or compulsory liquidation of the company, is not repaid until the claims of ordinary creditors have been met. Nykredit Bank A/S is creditor on the loans. Subordinated debt is included in the capital base in accordance with the Executive Order on Calculation of Capital Base.

**Subordinate loan capital**

Nom DKK 2,600m. The loan falls due at par (100) on 24 June 2018. The loan carries an interest rate of 0.45% pa above 3M Cibur.

Nom DKK 500m. The loan falls due at par (100) on 1 December 2018. The loan carries an interest rate of 6.0% pa above 3M Cibur.

	2011	2010
<b>19. OFF-BALANCE SHEET ITEMS</b>		
<b>Guarantees</b>		
Financial guarantees	0	0
Total guarantees	0	0
<b>Other commitments</b>		
Other	12	12
Total other commitments	12	12
<b>Total off-balance sheet items</b>	<b>12</b>	<b>12</b>

# Notes

DKK MILLION

## 20. RELATED PARTY TRANSACTIONS AND BALANCES

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

Transactions are based on agreements, and no unusual transactions were made with related parties in 2011.

Agreements include intra-group funding, loan capital and supplementary collateral, referral commission, IT support and IT development, wage and staff administration, fund management and risk management, and other administrative tasks. Trading in goods and services between the parties took place on an arm's length or cost covering basis.

Major related party transactions in existence/entered into in 2011:

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

Totalkredit A/S has raised additional loans with Nykredit Realkredit A/S for the purpose of providing collateral in Totalkredit's capital centres. On 31 December 2011 these loans totalled DKK 18.6bn against DKK 10.0bn on 31 December 2010.

Totalkredit A/S has raised additional loans in the amount of DKK 0.5bn with Nykredit Realkredit A/S in the form of subordinated debt. At end-December 2011, Totalkredit had raised loans totalling DKK 3.1bn with Nykredit Realkredit A/S in the form of subordinated debt.

Totalkredit's mortgage lending is funded through an agreement concerning intra-group funding with Nykredit Realkredit A/S.

Transactions with the Parent Company Nykredit Realkredit A/S and its group enterprises:

	2011	2010
<b>Income statement</b>		
Interest income	727	857
Interest expenses	13,955	13,489
Fee and commission expenses	126	150
Value adjustments	(5,707)	(1,117)
Costs	165	227
<b>Assets</b>		
Receivables from credit institutions and central banks	11,645	8,793
Bonds at fair value	80,233	78,491
Other assets	9	10
<b>Liabilities and equity</b>		
Payables to credit institutions	480,538	443,630
Other liabilities	6,328	6,026
Supplementary capital	3,100	2,600

Transactions with Totalkredit's Board of Directors, Executive Board etc:

For information on transactions with the Board of Directors and the Executive Board, please refer to note 7.

# Credit risk

DKK MILLION

	2011	2010
Totalkredit's maximum credit exposure is comprised of selected balance sheet items and off-balance sheet items.		
<b>Total credit exposure</b>		
Receivables from credit institutions and central banks	14,565	18,111
Loans, advances and other receivables at fair value	481,046	455,957
Loans, advances and other receivables at amortised cost	47	54
Bonds at fair value	86,512	81,540
Other assets	4,100	4,682
Off-balance sheet items	12	12
<b>Total</b>	<b>586,282</b>	<b>560,356</b>

## Concentration risk

Pursuant to the Danish Financial Business Act, an exposure with any one customer or group of interconnected customers after statutory deductions must not exceed 25% of the capital base. Totalkredit had no exposures in 2010 or 2011 which exceeded this limit.

## Security

Lending and security are assessed on a current basis. On loan disbursement, the banks provide a guarantee for the loan until a mortgage with a clear title has been registered and Totalkredit has approved the mortgage loan. For further information on guarantees received for loans, please refer to note 11. Subsequent to the mortgage loan approval the loan is hedged, cf the mention in the Annual Report, page 3.

## Mortgage debt outstanding relative to estimated property values

DKK million	LTV (loan-to-value)						Total	LTV median*	LTV average**
	0-40	40-60	60-80	80-90	90-100	Over 100			
2011	268,108	110,370	78,260	17,192	5,146	2,130	481,206	36%	76%
2010	280,432	105,886	60,307	6,448	2,103	813	455,989	32%	68%

\*Determined as the mid-part of the debt outstanding relative to estimated property values.

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

## Mortgage debt outstanding relative to estimated property values, %

	LTV (loan-to-value)						Total
	0-40	40-60	60-80	80-90	90-100	Over 100	
2011	56	23	16	4	1	0	100
2010	62	23	13	1	0	0	100

## Credit risk (continued)

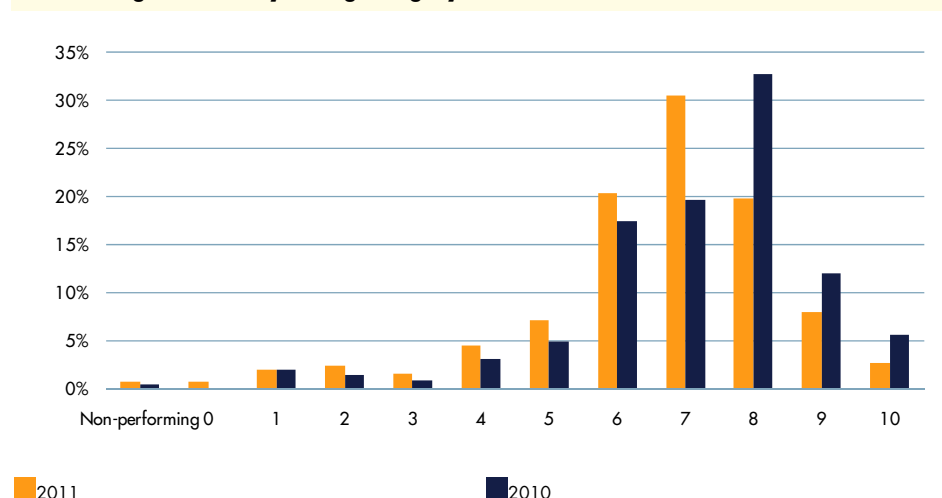
DKK MILLION

<b>Private residential mortgage lending</b>	2011	2010
<b>Mortgage lending</b>		
- bond debt outstanding	473,613	455,158
- number of loans	469,718	454,316
Bond debt outstanding by loans involving:		
- bank guarantees	45,347	66,423
- set-off agreement with banks	355,845	317,476
- no security	72,421	71,259
<b>Total</b>	<b>473,613</b>	<b>455,158</b>
<b>Bond debt outstanding by loan type</b>		
Fixed-rate loans		
- repayment loans	94,676	99,520
- interest-only loans	41,277	42,292
Adjustable-rate mortgage loans		
- repayment loans	61,789	56,359
- interest-only loans	161,664	142,584
Loans with interest rate caps		
- repayment loans	48,267	50,124
- interest-only loans	65,215	63,456
Loans without interest rate caps		
- repayment loans	682	769
- interest-only loans	43	54
<b>Total</b>	<b>473,613</b>	<b>455,158</b>
<b>Bond debt outstanding by geographical area</b>		
- Capital Region of Denmark	92,377	89,183
- Region Zealand	65,612	64,730
- North Denmark Region	70,341	67,062
- Central Denmark Region	131,568	125,093
- South Denmark Region	113,271	108,544
- Greenland	444	546
<b>Total</b>	<b>473,613</b>	<b>455,158</b>

# Credit risk (continued)

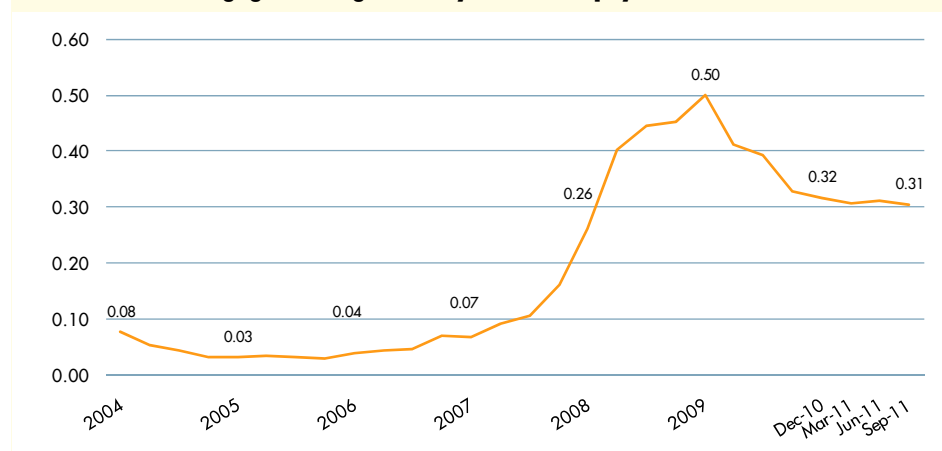
DKK MILLION

## Outstanding amounts by rating category



The breakdown shows the total outstanding amounts by rating category, reflecting the probability of a customer defaulting on its obligations to Totalkredit. 10 is the highest rating.

## Arrears ratio, mortgage lending – 75 days after the payment date



# Liquidity risk

DKK MILLION

	2011	2010
<b>By time-to-maturity</b>		
<b>Receivables from credit institutions</b>		
Demand deposits	4,665	10,361
Up to 3 months	8,800	7,100
Over 3 months and up to 1 year	1,100	650
<b>Total</b>	<b>14,565</b>	<b>18,111</b>
<b>Mortgage loans and arrears</b>		
Up to 3 months	1	1
Over 3 months and up to 1 year	22	9
Over 1 year and up to 5 years	1,010	1,154
Over 5 years	480,060	454,847
<b>Total, cf note 11</b>	<b>481,093</b>	<b>456,011</b>
<b>Mortgage loan funding through Nykredit Realkredit A/S</b>		
Up to 3 months	53,271	48,466
Over 3 months and up to 1 year	108,410	87,133
Over 1 year and up to 5 years	134,152	142,639
Over 5 years	166,061	155,348
<b>Total, cf note 16</b>	<b>461,894</b>	<b>433,586</b>
<b>Issued bonds</b>		
Up to 3 months	2,506	4,651
Over 3 months and up to 1 year	1,637	1,726
Over 1 year and up to 5 years	29,432	19,483
Over 5 years	44,843	64,527
<b>Total</b>	<b>78,419</b>	<b>90,387</b>
Set-off of self-issued bonds	(91)	(194)
<b>Total, cf note 16</b>	<b>78,328</b>	<b>90,193</b>

# Derivative financial instruments

DKK MILLION

By time-to-maturity	Up to 3 months		Over 3 months and up to 1 year		Over 1 year and up to 5 years		Total 2011	
	Nominal value	Net market value	Nominal value	Net market value	Nominal value	Net market value	Nominal value	Net market value
<b>Interest rate contracts</b>								
Forwards/futures, purchased	41,877	3	136	1			42,013	4
Forwards/futures, sold	32,161	(83)					32,161	(83)
Swaps					1,770	(25)	1,770	(25)
<b>Foreign exchange contracts</b>								
Forwards/futures, sold								
					<b>Market value of non-guaranteed contracts</b>		<b>Market value</b>	
					Positive	Negative	Positive	Negative
<b>Interest rate contracts</b>								
Forwards/futures, purchased					5	1	5	1
Forwards/futures, sold						83		83
Swaps						25		25
<b>Foreign exchange contracts</b>								
Forwards/futures, sold						0		0





# Financial highlights

DKK MILLION

<b>Financial highlights</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net interest and fee income	1,636	2,023	1,779	1,585	1,286
Value adjustments	(73)	(261)	200	(57)	32
Other operating income	0	2	0	2	1
Staff and administrative expenses	366	420	373	373	312
Depreciation and impairment losses for property, plant and equipment	1	1	1	2	2
Impairment losses on loans, advances and receivables	447	158	515	55	1
Tax	187	298	273	277	250
<b>Profit for the year</b>	<b>562</b>	<b>887</b>	<b>817</b>	<b>823</b>	<b>754</b>
<b>Summary balance sheet, year-end</b>					
<b>Assets</b>					
Receivables from credit institutions	14,565	18,111	16,112	16,283	11,647
Mortgage loans	480,928	455,846	430,710	390,451	349,278
Bonds	86,512	81,540	87,311	52,437	47,156
Other assets	4,392	4,894	3,762	2,167	1,833
<b>Total assets</b>	<b>586,397</b>	<b>560,391</b>	<b>537,895</b>	<b>461,338</b>	<b>409,914</b>
<b>Liabilities and equity</b>					
Payables to credit institutions	480,544	443,630	406,899	315,349	242,623
Issued bonds	78,328	90,193	104,789	121,243	145,401
Supplementary capital	3,100	2,600	2,600	3,600	3,600
Other liabilities	10,607	10,712	11,238	9,594	7,561
Equity	13,818	13,256	12,369	11,552	10,729
<b>Total liabilities and equity</b>	<b>586,397</b>	<b>560,391</b>	<b>537,895</b>	<b>461,338</b>	<b>409,914</b>
<b>Financial ratios</b>					
Total capital ratio, %*	18.8	22.9	20.2	26.7	9.5
Tier 1 capital ratio, %*	15.6	19.3	16.7	20.5	7.1
Return on equity before tax, %	5.5	9.2	9.1	9.9	10.7
Return on equity after tax, %	4.1	6.9	6.8	7.4	8.1
Income:cost ratio	1.92	3.05	2.23	3.56	4.19
Foreign exchange position, %	0.1	0.0	0.0	0.1	0.3
Total impairment provisions, %	0.1	0.1	0.1	0.1	0.0
Impairment losses for the year, %	0.1	0.0	0.1	0.1	0.0
Growth in loans and advances for the year, %	3.9	5.9	10.2	11.8	14.1
Loans and advances:equity (loan gearing)	34.8	34.4	34.8	33.8	32.6

\* As from 2008, the total capital and Tier 1 ratios are determined in accordance with the CRD

# Capital base and capital adequacy

DKK MILLION

	2011	2010
<b>Capital base</b>		
Tier 1 capital		
- Equity, year-end	13,818	13,256
- Capitalised tax assets	(2)	(1)
- Other deductions from Tier 1 capital	(279)	(87)
<b>Tier 1 capital after statutory deductions</b>	<b>13,537</b>	<b>13,168</b>
<b>Total supplementary capital</b>	<b>3,100</b>	<b>2,600</b>
Statutory deductions from capital base	(279)	(87)
<b>Total capital base after statutory deductions</b>	<b>16,358</b>	<b>15,681</b>
<b>Capital requirements</b>		
Credit risk	6,209	4,853
Market risk	475	375
Operational risk	264	241
<b>Total capital requirement<sup>1</sup></b>	<b>6,948</b>	<b>5,469</b>
<b>Total risk-weighted assets</b>	<b>86,849</b>	<b>68,367</b>
<b>Financial ratios</b>		
Tier 1 ratio, %	15.5	19.3
Total capital ratio, %	18.7	22.9
<sup>1</sup> The capital requirement is subject to a transitional rule under the Danish Executive Order on Capital Adequacy. The capital requirement must constitute at least 80% of the capital requirement determined under Basel I. At end-2011 the capital requirement under the transitional rules came to DKK 15.5bn.		
<b>Required capital base and capital adequacy requirement</b>		
<b>Pillar I – primary risk</b>		
Credit risk	6,479	5,814
Market risk	812	218
Operational risk	180	155
<b>Total Pillar I</b>	<b>7,471</b>	<b>6,187</b>
<b>Pillar II – other risk</b>		
Weaker economic climate	662	1,362
Other	813	755
<b>Total Pillar II</b>	<b>1,475</b>	<b>2,117</b>
<b>Total required capital base</b>	<b>8,946</b>	<b>8,305</b>
Total risk-weighted assets	86,849	68,367
<b>Internal capital adequacy requirement (ICAAP), %</b>	<b>10.3</b>	<b>12.1</b>
For a more detailed description of the determination of the capital base and the internal capital adequacy requirement, please refer to the report Risk and Capital Management 2011, available at <a href="http://nykredit.com/reports">nykredit.com/reports</a> .		

## Series financial statements \*

DKK MILLION

	Total kredit in General	Capital Centre PRL	Capital Centre C	Capital Centre D	Capital Centre E	Capital Centre F	Capital Centre H	Capital Centre I	Total
<b>Income statement</b>									
Income from loans and advances	0	0	383	347	1,385	66	62	10	2,253
Interest, net	69	0	60	24	197	29	0	0	378
Administrative expenses	(261)	0	(227)	(91)	(747)	(110)	2	0	(1,435)
Loan losses and provisions for loan impairment	0	0	(63)	(134)	(146)	(5)	(95)	(5)	(447)
Tax	48	0	(38)	(37)	(172)	5	8	(1)	(188)
<b>Profit (loss) for the year</b>	<b>(144)</b>	<b>0</b>	<b>114</b>	<b>110</b>	<b>516</b>	<b>(15)</b>	<b>(24)</b>	<b>4</b>	<b>562</b>
<b>Balance sheet – assets</b>									
Mortgage loans	35	2	75,360	60,149	229,478	7,748	103,016	5,304	481,093
Other assets	59	1	6,330	16,006	72,785	1,411	8,157	645	105,396
<b>Total assets</b>	<b>94</b>	<b>3</b>	<b>81,691</b>	<b>76,156</b>	<b>302,263</b>	<b>9,159</b>	<b>111,174</b>	<b>5,949</b>	<b>586,489</b>
<b>Balance sheet – liabilities and equity</b>									
Payables to credit institutions	-	-	-	73,922	286,862	8,173	106,042	5,518	480,517
Issued mortgage bonds	39	2	78,377	-	-	-	-	-	78,419
Other liabilities	10	0	986	1,031	6,549	198	1,767	95	10,636
Subordinated debt	13	0	433	403	1,579	50	589	33	3,100
Equity	31	1	1,894	800	7,274	738	2,776	304	13,818
<b>Total liabilities and equity</b>	<b>94</b>	<b>3</b>	<b>81,691</b>	<b>76,156</b>	<b>302,263</b>	<b>9,159</b>	<b>111,174</b>	<b>5,949</b>	<b>586,489</b>
Inflow and outflow of funds, net	(2,544)	0	(186)	10	516	(315)	2,776	304	562
The difference between the balance sheet of the Annual Report and the series financial statements may be specified as follows:									
Assets in the Annual Report									586,397
Assets in the series financial statements									586,489
<b>Difference, specified as follows</b>									<b>(92)</b>
Self-issued bonds have been offset against the liability item "Issued bonds"									(91)
Interest receivable from self-issued bonds has been offset against "Other liabilities"									(1)
<b>Total</b>									<b>92</b>

\* The series financial statements have been presented in accordance with the Danish Executive Order on series financial statements of mortgage banks, no 872 of 20 November 1995. Complete series financial statements at individual series level may be obtained from Totalkredit A/S.

## Loan arranging banks

Alm. Brand Bank	A/S Møns Bank	Totalbanken A/S
A/S Arbejdernes Landsbank	A/S Nordfyns Bank	Tønder Bank A/S
BankNordik	Nordjyske Bank A/S	Vestfyns Bank A/S
Bodum-Ydby Sparekasse	A/S Nørresundby Bank	vestjyskBank A/S
Borbjerg Sparekasse	Refsnæs Sparekasse	A/S Vinderup Bank
Broager Sparekasse	Ringkjøbing Landbobank A/S	Vistoft Sparekasse
Brørup Sparekasse	Rise Spare- og Lånekasse	Vorbasse-Hejnsvig Sparekasse
Danske Andelskassers Bank	Rønde og Omegns Sparekasse	Vordingborg Bank A/S
Den Jyske Sparekasse	Salling Bank A/S	Østjydsk Bank A/S
DiBa Bank Aktieselskab	A/S Skjern Bank	Aarhus Lokalbank A/S
Djurslands Bank A/S	Spar Nord Bank A/S	
Dragsholm Sparekasse	Spar Salling	
Dronninglund Sparekasse	Sparbank A/S	
Fanø Sparekasse	Sparekassen Balling	
Faster Andelskasse	Sparekassen Bredebro	
Flømløse Sparekasse	Sparekassen Djursland	
Folkesparekassen	Sparekassen Farsø	
Frørup Andelskasse	Sparekassen for Arts Herred	
Frøs Herreds Sparekasse	Sparekassen for Nørre Nebel og Omegn	
Frøslev-Møllerup Sparekasse	Sparekassen Faaborg A/S	
Fælleskassen	Sparekassen Himmerland A/S	
Hals Sparekasse	Sparekassen Hobro	
Handelsbanken	Sparekassen Hvetbo A/S	
Hunstrup-Østerild Sparekasse	Sparekassen i Skals	
Hvidbjerg Bank Aktieselskab	Sparekassen Kronjylland	
Jyske Bank A/S	Sparekassen Limfjorden	
Klim Sparekasse	Sparekassen Lolland	
Kongsted Sparekasse	Sparekassen Sjælland	
Kreditbanken A/S	Sparekassen Thy	
Langå Sparekasse	Sparekassen Vendsyssel	
Lollands Bank A/S	Sparekassen Østjylland	
Lægernes Pensions Bank	Svendborg Sparekasse A/S	
Lån og Spar Bank A/S	Sydbank A/S	
MERKUR, Den Almennyttige Andelskasse	Søby Sparekasse	
Middelfart Sparekasse	Sønderhå-Hørsted Sparekasse	

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