

Annual Report 2014



**MANAGEMENT AND COMPANY INFORMATION****FINANCIAL HIGHLIGHTS**

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Management and company information

BOARD OF DIRECTORS

Michael Rasmussen, Chairman

Group Chief Executive, Nykredit Realkredit A/S

Year of birth: 1964

Joined the Board on 18 March 2014

Chief Executive Officer of:

Foreningen Nykredit

Nykredit Holding A/S

Chairman of:

Nykredit Bank A/S

Investeringsfonden for Udviklingslande (IFU)

Association of Danish Mortgage Banks

Director of:

Nykredits Fond

Creditkassens Jubilæumsfond

Claus E. Petersen, Deputy Chairman

Chief Executive Officer, Den Jyske Sparekasse

Year of birth: 1961

Joined the Board on 2 March 2012

Chairman of:

DJS Leasing A/S

Finanshuset Farsø Pantebrevsselskab A/S

Foreningen Lokale Pengeinstitutter

PRAS A/S

Director of:

Amanah Kredit A/S

Den Jyske Sparekasses Støttefond

Det Private Beredskab

Danish Bankers Association

HN Invest Tyskland 1 A/S

Nykredit Holding A/S

Spar Pantebrevsinvest A/S

Værdiansættelsesrådet

Petter Blondeau

Chief Executive Officer, Fynske Bank

Year of birth: 1959

Joined the Board on 5 November 2012

Director of:

Danish Bankers Association

Finanssektorens Uddannelsescenter

Frisensgårdsvej A/S

Leasing Fyn Bank A/S

Leasing Fyn Svendborg A/S

Foreningen Lokale Pengeinstitutter

Poulsgade A/S

PRAS A/S

Regional Invest Fyn A/S

Strandbygade A/S

Sparekassekollegiet A/S

Kim Duus

Group Managing Director, Nykredit Realkredit A/S

Year of birth: 1956

Joined the Board on 19 August 2009

Managing Director of:

Nykredit Holding A/S

Chairman of:

Nykredit Portefølje Administration A/S

Director of:

Nykredit Bank A/S

Karen Frøsig

Chief Executive Officer, Sydbank A/S

Year of birth: 1958

Joined the Board on 13 May 2008

Chairman of:

Bogføringsforeningen Bankdata

Ejendomsselskabet af 1. juni 1986 A/S

Regionale Bankers Forening

Deputy Chairman of:

PRAS A/S

Director of:

BI Holding A/S

DLR Kredit A/S

Danish Bankers Association

Musikhuset Esbjerg

Søren Holm

Group Managing Director, Nykredit Realkredit A/S

Year of birth: 1956

Joined the Board on 19 August 2009

Managing Director of:

Nykredit Holding A/S

Chairman of:

Ejendomsselskabet Kalvebod A/S

Deputy Chairman of:

Nykredit Bank A/S

Director of:

JN Data A/S

Association of Danish Mortgage Banks

VP Securities A/S

**Anders Jensen**

Group Managing Director, Nykredit Realkredit A/S

Year of birth: 1965

Joined the Board on 1 October 2014

Managing Director of:

Nykredit Holding A/S

Director of:

Nykredit Bank A/S

DSEB (Danish Society for Education and Business)

Niels Brock (Copenhagen Business College)

Swipp Holding ApS

4T af 1. oktober 2012 Drift ApS

Gert Jonassen

Chief Executive Officer, Arbejdernes Landsbank A/S

Year of birth: 1959

Joined the Board on 27 March 2007

Chairman of:

AL Finans A/S

Foreningen Bankernes EDB Central

Deputy Chairman of:

Bluegarden A/S

Bluegarden Holding A/S

Finanssektorens Uddannelsescenter

LR Realkredit A/S

Director of:

Kooperationen

PensionDanmark Holding A/S

PensionDanmark A/S

PRAS A/S

Regionale Bankers Forening

Member of the Executive Board:

Handels ApS Panoptikon

Member of the council:

AE (Arbejderbevægelsens Erhvervsråd)

Special adviser – Østre Landsret

Observer – JN Data A/S

Bente Overgaard

Group Managing Director, Nykredit Realkredit A/S

Year of birth: 1964

Joined the Board on 18 March 2014

Managing Director of:

Nykredit Holding A/S

Chairman of:

Nykredits Afviklingspensionskasse

Nykredit Ejendomme A/S

Deputy Chairman of:

JN Data A/S

Director of:

Nykredit Bank A/S

Bankernes EDB Central a.m.b.a.

E-nettet A/S

Finanssektorens Arbejdsgiverforening (FA)

Finanssektorens Uddannelsescenter

ØresundsInstitutet

Member of the committee of representatives of:

Ejendomsforeningen Danmark

Anne Christiansen*

Project Consultant

Merete Nilausen*

Senior Project Consultant

Jari Loch Jensen*

Senior Adviser

Michael Holm Jensen*

Senior Adviser

* Staff-elected member

EXECUTIVE BOARD**Troels Bülow-Olsen, Managing Director**

Joined the Executive Board on 1 October 2007

Director of:

Nykredit Mægler A/S

Allan Rømer, Managing Director

Joined the Executive Board on 1 August 2013

Company information

Totalkredit A/S

Kalvebod Brygge 1-3

DK-1780 Copenhagen V

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 and at nykredit.com/press.



Financial highlights

DKK million

	2014	2013	2012	2011	2010
Core earnings and profit for the year					
Core income from					
- business operations	2,829	1,957	1,753	1,316	1,437
- junior covered bonds	(220)	(313)	(234)	(91)	(34)
- securities	(8)	(2)	21	156	123
Total	2,601	1,642	1,540	1,381	1,526
Operating costs, depreciation and amortisation	388	397	371	367	420
Core earnings before impairment losses	2,213	1,245	1,169	1,014	1,106
Impairment losses on loans and advances	406	567	528	447	158
Core earnings after impairment losses	1,807	678	641	567	948
Investment portfolio income	125	76	56	182	237
Profit before tax	1,932	754	697	749	1,185
Tax	474	189	175	187	298
Profit for the year	1,458	565	522	562	887
Summary balance sheet, year-end					
Assets					
Receivables from credit institutions	23,607	16,263	20,942	14,565	18,111
Mortgage loans at fair value	555,608	540,670	522,980	480,993	455,846
Bonds at fair value	91,795	79,357	85,235	86,512	81,540
Remaining assets	3,743	3,534	3,240	4,327	4,894
Total assets	674,753	639,824	632,397	586,397	560,391
Liabilities and equity					
Payables to credit institutions	609,964	565,734	547,012	480,544	443,630
Bonds in issue at fair value	36,229	46,568	58,516	78,328	90,193
Subordinated debt – Tier 2 capital	3,100	3,100	3,100	3,100	2,600
Remaining liabilities	8,347	8,767	8,679	10,607	10,712
Equity	17,113	15,655	15,090	13,818	13,256
Total liabilities and equity	674,753	639,824	632,397	586,397	560,391
Financial ratios					
Profit for the year as % of average equity pa	8.9	3.7	3.6	4.1	6.9
Core earnings before impairment losses as % of average equity pa	11.3	4.4	4.4	4.2	7.4
Costs as % of core income	14.9	24.2	24.1	26.6	27.5
Impairment losses for the year, %	0.1	0.1	0.1	0.1	0.0
Total capital ratio, %	20.9	21.3	22.2	18.8	22.9
Common Equity Tier 1 capital ratio, %	18.2	17.8	18.4	15.6	19.3
Internal capital adequacy requirement, %	10.6	10.2	10.6	10.3	12.1



Management's Review

RESULTS

Totalkredit recorded a profit before tax of DKK 1,932m against DKK 754m in 2013. Profit after tax came to DKK 1,458m against DKK 565m in 2013.

Profit for 2014 included growth in income from business operations as well as reduced net interest expenses for junior covered bonds and impairment losses on loans and advances.

Core earnings before impairment losses

Core income from business operations amounted to DKK 2,829m against DKK 1,957m in 2013. The rise was chiefly due to administration margin increases as well as reduced commission expenses as a result of Jyske Bank's exit from the Totalkredit partnership.

Administration margin income and activity income were up by DKK 795m and DKK 179m, respectively, compared with 2013.

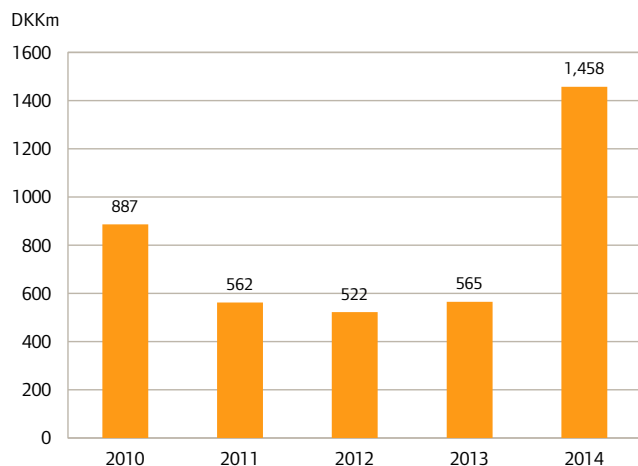
Net interest expenses for junior covered bonds issued to fund supplementary collateral for SDO-funded lending came to DKK 220m against DKK 313m the year before.

Core income from securities was a loss of DKK 8m against a loss of DKK 2m in 2013. The return on the investment portfolio calculated on the basis of the Danish central bank's lending rate declined by DKK 5m from 2013 to 2014, as the average lending rate declined from 0.23% in 2013 to 0.20% in 2014. The item also includes interest payable on subordinated debt, which came to DKK 52m in 2014.

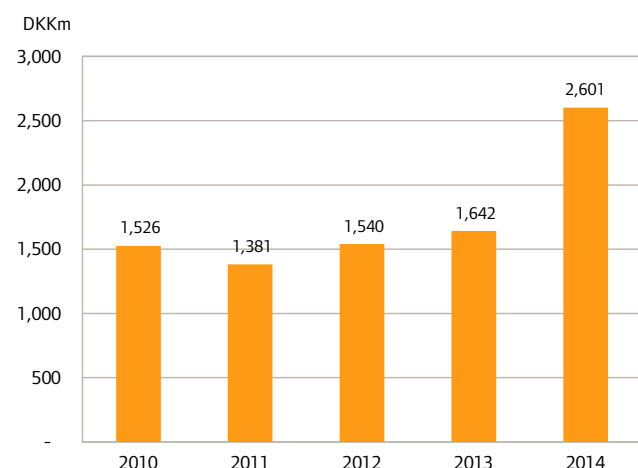
Operating costs, depreciation and amortisation were DKK 388m against DKK 397m in 2013. The decline was chiefly attributable to reduced marketing costs.

Totalkredit's core earnings before impairment losses were DKK 2,213m against DKK 1,245m in 2013.

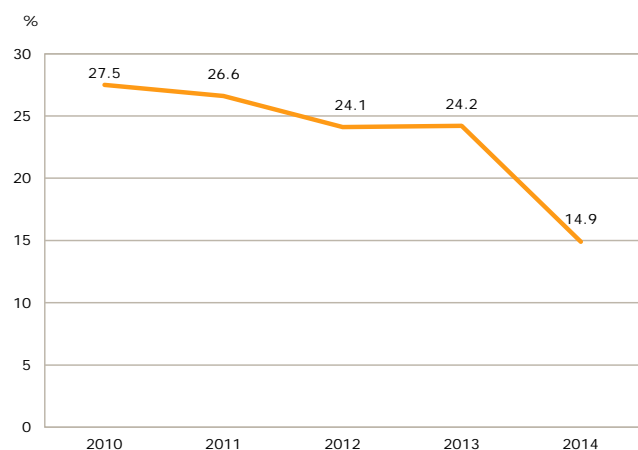
Profit for the year



Total core income

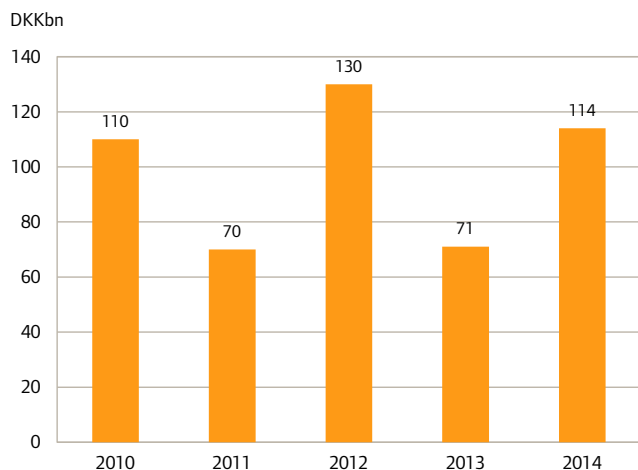


Costs as % of core income

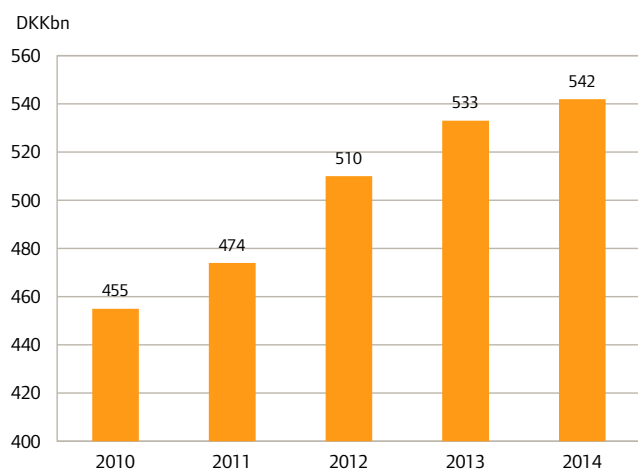




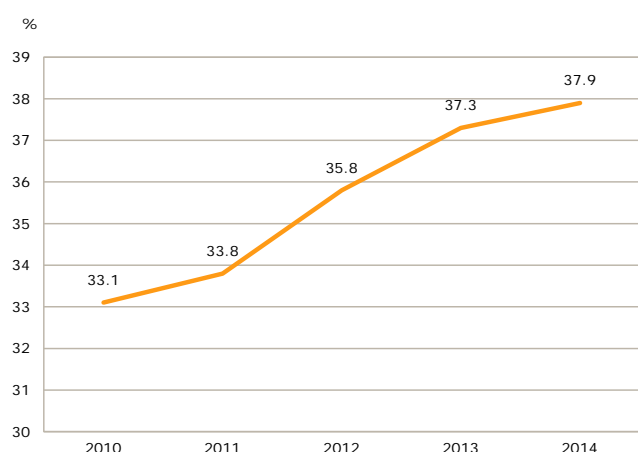
Gross new lending



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 406m against DKK 567m in 2013, or 0.07% of loans and advances compared with 0.11% in 2013.

Losses incurred totalled DKK 631m in 2014, of which DKK 270m, or 42.8%, was covered by the partner banks.

Impairment provisions totalled DKK 1,236m, equal to 0.22% of loans and advances.

Individual impairment provisions stood at DKK 545m at end-2014 against DKK 472m at the beginning of the year.

Collective impairment provisions came to DKK 691m at end-2014 against DKK 702m at the beginning of the year.

The arrears ratio measured as at the September due date, 75 days past due, was 0.23% against 0.21% at the same time in 2013.

In 2014 965 properties mortgaged by Totalkredit were sold by public auction. 125 of these were acquired by Totalkredit. 131 properties were sold in 2013, and at year-end the portfolio of acquired properties stood at 41 against 47 at the beginning of the year.

Investment portfolio income

Investment portfolio income was DKK 125m against DKK 76m the year before.

Tax

Tax calculated on profit for the year was DKK 474m, equal to an effective tax rate of 24.5%.

Loans and advances

Loan portfolio

Totalkredit is Denmark's largest private residential mortgage provider.

Measured at fair value, the loan portfolio was DKK 556bn against DKK 541bn at the beginning of the year. In 2014 Totalkredit's loan portfolio measured at nominal value grew by DKK 9bn to DKK 542bn.

Totalkredit's market share of Danish residential mortgage lending rose to 37.9% from 37.3% at the beginning of the year.

Measured by loan type, the share of interest-only loans in the loan portfolio dropped from 58.8% to 58.4%. The share of variable-rate loans dropped from 69.1% to 65.6%. Of these loans 24% had interest rate caps.

Geographically, approximately 65% of the loan portfolio is in Jutland, on Funen and other Danish islands, 22% is in the capital region and Northern Sealand and the remaining 13% is on the rest of Sealand.

The average LTV ratio of the loan portfolio came to 76% against 77% at the beginning of the year.

*Lending activity*

In 2014 Danish mortgage banks' gross new lending for private residential property rose about 59% compared with 2013. The higher activity level was primarily due to increased refinancing activity into fixed-rate loans.

Totalkredit's gross new lending was approximately DKK 114bn, of which around DKK 25bn was loans offered through Nykredit Realkredit A/S.

Parent company loan

At end-2014 loans raised with Nykredit Realkredit A/S for the purpose of providing supplementary collateral totalled DKK 19.3bn against DKK 27.1bn at the beginning of the year.

Further, Totalkredit A/S has raised loans in the form of subordinated capital totalling DKK 3.1bn.

Capital and capital adequacy

At end-2014, own funds totalled DKK 19.5bn and the risk exposure amount (REA) was DKK 93.4bn, corresponding to a total capital ratio of 20.9%.

The Common Equity Tier 1 (CET1) capital came to DKK 17.0bn, corresponding to a CET1 capital ratio of 18.2% at end-2014.

Under the Basel I transitional rules, the capital requirement was DKK 17.9bn, equal to a total capital ratio of 19.2%. The Basel I transitional rules have been extended to 2017 inclusive. By then, the European Commission must submit its proposed future minimum requirements.

The internal capital adequacy requirement (ICAAP) is calculated on the basis of the required own funds, which is the minimum capital required, in Management's judgement, to cover all significant risks. At end-2014, required own funds totalled DKK 9.9bn, equal to an internal capital adequacy requirement of 10.6%.

Results relative to forecasts

Total profit for 2014 exceeded expectations.

Expectations for 2014 did not include the cancellation of the commission payments to Jyske Bank resulting from the bank's exit from the Totalkredit partnership in mid-March 2014. Gross new lending exceeded expectations. As a result, core income from business operations exceeded the level expected at the beginning of the year.

Operating costs were on a level with expectations.

Loan impairments were lower than expected, primarily due to reduced collective impairment provisions.

OUTLOOK FOR 2015

Lending activity is expected to remain on a level with 2014. The implemented price rises effective from 1 January 2015 will have a positive impact on core income from business operations.

Operating costs are expected to increase due to increased activity and higher IT expenses.

Impairment losses on loans and advances are expected to increase slightly.

In total, core earnings after impairment losses in the region of DKK 1,350m-1,500m are expected.

Total results will depend on trends in the housing and financial markets.

**Totalkredit
Capital and capital adequacy**

DKK million	2014	2013
Credit risk	87,427	82,155
Market risk	2,912	2,476
Operational risk	3,049	3,077
Total REA	93,388	87,708
Equity	17,113	15,655
CET1 capital deductions	(82)	(34)
CET1 capital	17,031	15,621
Tier 2 capital	2,480	3,100
Tier 2 capital deductions	29	(32)
Own funds	19,540	18,689
CET1 capital ratio, %	18.2	17.8
Total capital ratio, %	20.9	21.3
Internal capital adequacy requirement (Pillar I and Pillar II), %	10.6	10.2



OTHER

New product and new price structure

At the end of August, Totalkredit launched a new product and a new price structure.

The new product is a variable-rate loan, "F-kort", with interest rate re-set every six months. F-kort loans are linked to the Cita rate, but are funded by bonds with longer maturities.

In recent years, credit rating agencies and regulators in Denmark and the EU have pointed out that the large annual bond sales should be reduced so as to best secure the sale of bonds. Remortgaging from adjustable-rate mortgages (ARMs) with 1-year or 2-year interest rate reset (F1-F2 loans) to other products will contribute to meeting the requirements of credit rating agencies and regulators, including the upcoming Supervisory Diamond.

This is the background for Totalkredit's launch of F-kort and the new price structure.

The new price structure, effective from 1 January 2015, increases administration margin rates on interest-only (IO) loans and on ARMs with 1-year or 2-year interest rate reset (F1-F2 loans). There are no changes to the administration margins on fixed-rate loans, ARMs with 3-year to 10-year interest rate reset (F3-F10 loans) or capped floating-rate repayment loans (RenteMax). The administration margin on the new "F-kort" loan will be fixed in line with those of F3-F10 loans.

Furthermore, Totalkredit increased the price spreads on F1-F2 loans to 0.30 point. The price spread on F3-F10 loans and other variable-rate loans will be raised to 0.20 point. The new price spreads will apply to loans subject to interest rate reset as from 1 January 2015.

Totalkredit continues to be very competitive in the market, and Totalkredit has the lowest administration margins for most of new loans.

As the first mortgage bank, Totalkredit launched a fixed-rate bond loan with a coupon rate of 2% in December 2014. The new loan types and the new price structure are expected to lead to a marked change in the Group's issuance structure. This will ensure compliance with the requirements of credit rating agencies and the Danish FSA.

Nykredit designated a systemically important financial institution

In line with expectations, the Danish Financial Supervisory Authority (FSA) designated Nykredit Realkredit A/S as a systemically important financial institution (SIFI) in June. As a SIFI, Nykredit will be more closely monitored by the Danish FSA and will be subject to a higher capital requirement (SIFI buffer) of 2%.

Credit ratings

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

The covered bonds issued by Totalkredit through Capital Centre C are also rated AAA by Standard & Poor's. This capital centre is not open for new lending.

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 – as well as through Nykredit Realkredit A/S.

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

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

Risk is hedged by agreement with the partner banks. Under the agreement, incurred 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.

The partner banks receive fees for sales and risk management. In 2014 the fees totalled DKK 2,039m against DKK 1,915m in 2013.

EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR

Allan Rømer, Managing Director, has resigned from the Executive Board with effect from 1 March 2015. The Executive Board subsequently consists of Troels Bülow-Olsen.

Jyske Bank exited the Totalkredit partnership with effect from mid-March 2014. In June Jyske Bank instituted arbitration proceedings to determine the final terms for its exit from the Totalkredit partnership. After the close of the financial year, the dispute has been settled.

No other significant events have occurred in the period up to the presentation of the Annual Report which affect the financial position of Totalkredit.

ORGANISATION AND DELEGATION OF RESPONSIBILITIES

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

Totalkredit is subject to the Nykredit Group's coordinated risk management, and the Chief Risk Officer of Nykredit Realkredit A/S has been appointed Chief Risk Officer of Totalkredit A/S by the Board of Directors of Totalkredit A/S. Nykredit has appointed a number of group committees which are to perform specific tasks within selected fields. All the committees include one or more members of the Group Executive Board.

The most important committees relative to Totalkredit are:

The Asset/Liability Committee, which is charged with monitoring and coordinating the use of limited resources in the form of capital and liquidity, monitoring profitability at the business level and laying down internal limits.

The Risk Committee is charged with overseeing the overall risk profile and capital requirements of the Nykredit Group in order to assist (i) the managements of Foreningen Nykredit (the Nykredit Association) and Nykredit Holding A/S in overseeing – and (ii) the managements of Nykredit Realkredit, Totalkredit and Nykredit Bank in ensuring –



compliance with current legislation and practice in the area in question.

The under-represented gender

Totalkredit pursues an active strategy to increase the number of women in management with particular focus on recruiting female managers for the highest management levels. Totalkredit's Board of Directors has also adopted a policy for board diversity.

Female representation on Totalkredit's Board of Directors is 22%, which meets the defined target for end-2016 of 20%.

Totalkredit has an equal distribution of gender at other managerial levels.

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 Nykredit's internal control systems, internal audit and risk management as well as 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. One of the principal tasks of the Remuneration Board is to make recommendations in respect of Nykredit's remuneration policy, including guidelines on incentive pay, for the approval of the Board of Directors. Moreover, the Remuneration Board makes proposals for remuneration of the Committee of Representatives, the Board of Directors and the Executive Board. It also reviews and considers draft resolutions concerning staff bonus budgets and ensures 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

The Parent Company, Nykredit Realkredit A/S, has appointed a joint Nomination Board for all the companies of the Nykredit Group. The Nomination Board is tasked with drawing up recommendations for the Board of Directors on the nomination of candidates for the Committee of Representatives, the Board of Directors and the Executive Board. The Nomination Board is further tasked with setting targets for the under-represented gender on the Board of Directors and laying down a diversity policy for the Board of Directors. In addition, the Nomination Board, which is accountable to the Board of Directors, is overall responsible for the competency profiles and continuous evaluation of the work and results of the Board of Directors and the Executive Board.

Risk Board

With effect from 1 April 2014, the Parent Company, Nykredit Realkredit A/S, set up a Risk Board, which serves all companies in the Nykredit Group. The Risk Board is tasked with providing advice to the Board of Directors on the Nykredit Group's risk profile and current risk management.

For further details on the board committees, please refer to the Annual Report 2014 of the Nykredit Realkredit Group.

CAPITAL AND RISK MANAGEMENT

Capital management

As a subsidiary of Nykredit Realkredit A/S, Totalkredit is subject to the group's capital policy and management. As a result, capital is to the widest extent possible concentrated in the Parent Company, Nykredit Realkredit A/S, to ensure flexibility and leeway. Contributing capital to group companies as required is a central element of the Group's capital policy.

Totalkredit's own funds include Common Equity Tier 1 (CET1) capital and Tier 2 capital. At end-2014, CET1 capital was DKK 17.0bn after deductions and Tier 2 capital DKK 2.5bn after deductions. Own funds thus amounted to DKK 19.5bn. With a total risk exposure amount of DKK 93.4bn, the corresponding total capital ratio was 20.9% and the CET1 capital ratio 18.2%.

Pursuant to the Danish Financial Business Act, it is the responsibility of the Board of Directors and the Executive Board to ensure that Totalkredit has the required own funds. The required own funds is the minimum capital required, in Management's judgement, to cover all significant risks.

Required own funds consist of two components: Pillar I and Pillar II.

Pillar I comprises capital to cover credit risk, market risk and operational risk. At end-2014, Pillar I capital totalled DKK 7.5bn, which is the statutory capital requirement.

Pillar II comprises capital to cover other risk 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. Pillar II capital totalled DKK 2.4bn at end-2014.

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

The determination of required own funds involves a comparison of Totalkredit's own assessment of required own funds and the results obtained using the 8+ method. This ensures that Totalkredit uses the most conservative approach. At end-2014, required own funds came to DKK 9.9bn.

The internal capital adequacy requirement is calculated as required own funds as a percentage of REA and came to 10.6% at end-2014.

Risk management

The Danish mortgage system is regulated by the Danish Financial Business Act, the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act and the Danish Executive Order on bonds. Danish legislation provides limits to the mortgaging of properties. Combined with the principle of mortgages over real estate, the result is a substantial level of security and consequently limited losses.

Danish mortgage lending and the matching funding are also regulated by the balance principle, which limits any financial risk between lending and funding that Totalkredit may assume.

Danish mortgage banks may apply either the specific balance principle or the general balance principle. Totalkredit applies the general balance principle, but operates internally according to a set of rules that is considerably stricter than the specific balance principle.

Applying the general balance principle allows Totalkredit to sustain a smooth prepayment process for its customers, even in the rare situations where specific bonds may be less liquid.



In practice, the balance principle means that Totalkredit incurs only minor interest rate, foreign exchange and liquidity risk from its mortgage lending or its underlying funding. Liquidity and market risk has been reduced further by new Danish legislation that ensures the refinancing of mortgage loans in special situations. As a result, Totalkredit's lending mainly involves credit risk.

Totalkredit's risk management is the responsibility of the Board of Directors and the Executive Board and is a key element of the Company's day-to-day operations. Totalkredit values balanced risk management of the different types of risk and a strong capital structure. Totalkredit's internal control and risk management are designed to ensure effective management of relevant exposures.

Types of risk

Totalkredit distinguishes between four main types of risk. Each type of risk has its own special features, and risk management is structured accordingly.

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

Credit, market and operational risks are mitigated by holding adequate capital, while liquidity risk is mitigated through a sufficient liquidity position.

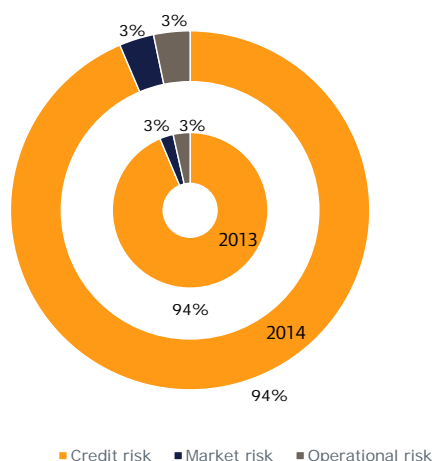
The determination of REA is to ensure that adequate capital is held to withstand potential losses. The new liquidity measures, LCR and NSFR, aim to ensure to a greater extent than previously that the institutions have sufficient liquid assets to satisfy creditor claims.

Credit risk

Credit risk denotes the risk of loss following the non-performance of payment obligations by counterparties.

The Board of Directors lays down the overall framework of credit granting and is presented with the Group's largest credit applications for approval or briefing on a current basis.

Risk exposure amount by risk type



Loans secured by mortgages over real estate with a mortgageable value of more than DKK 15m are subject to approval by the Board of Directors.

Group Credits is responsible for managing and monitoring credit risk in accordance with the guidelines laid down by the Board of Directors and the Executive Board. Group Credits 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. The partner banks usually also perform the statutory property valuations. Properties with a mortgageable value of more than DKK 6m are always valued by Totalkredit A/S.

Totalkredit and its 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

Totalkredit applies Nykredit's internal ratings-based (IRB) models in the determination of credit risk using three key parameters: Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The models used to determine PD and LGD are built on historical data allowing for periods of low as well as high business activity.

PDs are calibrated by weighting current data against data dating back to the early 1990s at a 40:60 ratio. The PD is determined for each individual customer on the basis of a customer's credit score and payment behaviour. 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. Loans in default fall outside the rating scale and constitute a separate category. Customer ratings are an important element of the credit policy and customer assessment. Loans by rating category are shown in note 21.

LGD ratios are calibrated so that the parameters reflect an economic downturn equal to the beginning of the 1990s. The LGD is determined for each customer exposure using internal approaches based on loss and default data. The calculations factor in any security such as mortgages over real estate and bank guarantees, including the type and quality of security and the ranking in the order of priority. Mortgage banking is characterised by low LGDs as the security provided by way of mortgages over real estate offers good protection against losses.

Risk exposure amount for credit risk

Risk exposures involving credit risk came to DKK 87.4bn at end-2014. Of this figure retail exposures amounted to DKK 70.6bn, credit institution exposures came to DKK 16.7bn and credit value adjustments (CVA) totalled DKK 0.1bn.

Since Totalkredit solely grants mortgage loans to personal customers, and the loans are evenly distributed throughout the country, no concentration risk is found in the loan portfolio.



Totalcredit has no single credit exposures exceeding 0.5% of own funds. The ten largest mortgage exposures totalled DKK 275m, or 1.4% of own funds.

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 private residential properties for all-year habitation, the LTV ratio may not exceed 80% of the property value and 60% for holiday homes.

The average LTV ratio of the loan portfolio was 75.9% at end-2014 against 76.6% at end-2013.

After disbursement of a loan, the loan-to-value (LTV) ratio will change with the amortisation of the loan and/or as a result of changes in the market value of the property or the underlying covered bonds.

If an LTV ratio of a loan exceeds the statutory maximum, supplementary collateral must be posted for loans funded through the issuance of covered bonds (SDOs).

At end-2014, Totalcredit required total supplementary collateral of DKK 23.2bn for the part of SDO-funded lending that exceeded LTV limits. At the beginning of the year, the requirement was DKK 25.3bn.

Totalcredit closely monitors the development in LTV ratios. To ensure sustainable capital and credit policies in the long term, scenario analyses and stress tests are used to assess the effects of significant price decreases in the housing market.

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).

Totalcredit's market risk primarily derives from its investment portfolio. Totalcredit mainly invests in Danish government and covered bonds issued in DKK and to a lesser extent in EUR.

The traditional measures for market risk are so-called portfolio sensitivity tests. They are used to calculate the effect on the value of a portfolio in case of changing market conditions.

Totalcredit'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 placing funds in bonds with varying interest rate risk using German government bond futures and DKK- and EUR-denominated interest rate swaps.

In 2014 the interest rate exposure target ranged from a gain of DKK 100 to a loss of DKK 300m. The average exposure was about DKK 62m. The maximum interest rate exposure was a loss of DKK 104m, and the minimum exposure was a gain of DKK 4m. Totalcredit's interest rate exposure was DKK 94m at end-2014.

Totalcredit's sensitivity to foreign exchange risk determined as the maximum loss at a change of +/-2.25% in EUR/DKK came to a loss of DKK 1.3m at end-2014 against DKK 2.4m at the beginning of the year.

On refinancing, the borrower obtains a loan rate reflecting the yields of the bonds sold. Refinancing risk is the risk of having to refinance debt in a period of high interest rates or unfavourable loan terms.

With a view to reducing its refinancing risk, Totalcredit has spread its refinancing auctions over the year. The new Danish refinancing legislation, which ensures continued refinancing of mortgage loans under special circumstances, cf above, also aims to mitigate the refinancing risk.

The standardised approach is used to determine market risk exposures. Market risk exposures came to DKK 2.9bn at end-2014 and were thus very limited.

Operational risk

Operational risk reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Due to the legislative framework of mortgage banking, the highly standardised mortgage products and extensive system support, Totalcredit's operational risk is considered limited.

Totalcredit 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.

Totalcredit's REA for operational risk is determined using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings for the past three years. To calculate REA, the capital requirement is divided by 8%. REA for operational risk amounted to DKK 3.0bn in 2014.

Liquidity risk

Liquidity risk reflects 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. This means that mortgage borrowers make their payments on or before the date on which bondholders receive their interest payments. Accordingly, mortgage lending and the funding thereof produce positive liquidity.

As a result of Totalcredit's large bond portfolio, the Company's liquidity is very high. The liquidity position ensures that Totalcredit has a sizeable buffer for cash flows driven by customer flows, loan arrears and regulatory liquidity requirements.

UNCERTAINTY AS TO RECOGNITION AND MEASUREMENT

The measurement of certain assets and liabilities is based on accounting estimates made by the company management.

The areas in which assumptions and estimates significant to the financial statements have been made include determination of the fair value of certain financial instruments, valuation of loans and advances as well as provisions.

Uncertainty as to recognition and measurement is described in detail in accounting policies (note 1), to which reference is made.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Board of Directors and the Executive Board of Totalcredit 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 control 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.

Financial reporting process

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. Totalkredit's Management regularly reviews items in respect of which estimates may have a material impact on the value of assets and liabilities.

Group Finance and the Business Partner area undertake the Company's total financial reporting. Group Finance is responsible for ensuring that financial reporting complies with current legislation.

Group Finance prepares monthly internal reports and performs budget control, which includes an explanation of the monthly, quarterly and annual development. Group Finance is responsible for the Company's external annual and interim financial reporting.

Control environment

Business procedures are laid down and controls are implemented for all material 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 approval of loans and other credit facilities
- Instructions for the approval of market risk limits.

Furthermore, the Parent Company has provided a number of policies and instructions, which have been implemented through 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 the business and financial development
- Review and approval of budgets and forecasts
- Review of annual and interim reports and other financial data
- Review of reports from the Chief Risk Officer
- Annual assessment of the risk of fraud.

Controls

The purpose of Totalkredit's controls is to ensure that policies and guidelines 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 the IT systems applied.

Furthermore, a number of fixed procedures and internal controls are performed to ensure that the financial statements provide a fair presentation in accordance with current legislation.

The controls are supported by central areas of the Parent Company, eg Capital & Risk Management, Compliance and IT Security.



Management statement and audit reports

The Board of Directors and the Executive Board have today reviewed and approved the Annual Report 2014 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 Financial Reports for Credit Institutions and Investment Firms, etc.

Further, the Annual Report has been prepared in accordance with additional Danish disclosure requirements for annual reports of issuers of listed bonds.

We are of the opinion that the Financial Statements give a fair presentation of the Company's assets, liabilities, equity and financial position at 31 December 2014 and of the results of the Company's operations and cash flows for the financial year 2014.

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 the material risk and uncertainty factors which may affect the Company.

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

Copenhagen, 5 February 2015

Executive Board

Troels Bülow-Olsen

Allan Rømer

Board of Directors

Michael Rasmussen,
Chairman

Claus E. Petersen,
Deputy Chairman

Petter Blondeau

Anne Christiansen

Kim Duus

Karen Frøsig

Søren Holm

Anders Jensen

Michael Holm Jensen

Jari Loch Jensen

Gert Jonassen

Merete Nilausen

Bente Overgaard



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 2014. The Financial Statements have been prepared in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

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 relevant to 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 2014 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2014 in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

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, 5 February 2015

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 2014, 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 and Danish disclosure requirements for issuers of listed bonds.

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 and Danish disclosure requirements for issuers of listed bonds. Management is also responsible for such internal control 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 control 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 control. 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 2014 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2014 in accordance with the Danish Financial Business Act and Danish disclosure requirements for issuers of listed bonds.

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, 5 February 2015

Deloitte
Statsautoriseret Revisionspartnerselskab

Anders O. Gjelstrup
State-Authorised Public Accountant

Per Rolf Larssen
State-Authorised Public Accountant



Statements of income and comprehensive income for 1 January – 31 December

DKK million

	Note	2014	2013
INCOME STATEMENT			
Interest income	2	17,693	16,871
Interest expenses	3	13,239	13,410
Net interest income		4,454	3,461
Fee and commission income	4	528	349
Fee and commission expenses	5	2,160	1,995
Net interest and fee income		2,822	1,815
Value adjustments	6	(96)	(97)
Other operating income		0	0
Staff and administrative expenses	7	388	397
Depreciation and impairment losses for property, plant and equipment	13	0	0
Impairment losses on loans, advances and receivables	8	406	567
Profit before tax		1,932	754
Tax	9	474	189
Profit for the year		1,458	565
STATEMENT OF COMPREHENSIVE INCOME			
Comprehensive income			
Profit for the year		1,458	565
Other comprehensive income		0	0
Comprehensive income for the year		1,458	565
Proposal for the distribution of profit			
Profit for the year		1,458	565
Total amount available for distribution		1,458	565
Transferred to equity		1,458	565
Total distribution		1,458	565



Balance sheet at 31 December

DKK million

	Note	2014	2013
ASSETS			
Cash balances and demand deposits with central banks		-	0
Receivables from credit institutions and central banks	10	23,607	16,263
Loans, advances and other receivables at fair value	11	555,777	540,751
Loans, advances and other receivables at amortised cost	11	42	36
Bonds at fair value	12	91,795	79,357
Other property, plant and equipment	13	0	0
Current tax assets		-	38
Deferred tax assets		2	2
Assets in temporary possession	14	29	28
Other assets	15	3,495	3,342
Prepayments		6	7
Total assets		674,753	639,824
LIABILITIES AND EQUITY			
Payables to credit institutions	16	609,964	565,734
Bonds in issue at fair value	16	36,229	46,568
Current tax liabilities		143	-
Other liabilities	17	8,200	8,762
Total payables		654,535	621,064
Provisions		6	6
Subordinated debt – Tier 2 capital	18	3,100	3,100
Equity			
Share capital		848	848
Reserves			
Undistributable reserve fund		1,646	1,646
Other reserves		14,619	13,161
Total equity		17,113	15,655
Total liabilities and equity		674,753	639,824
OFF-BALANCE SHEET ITEMS			
Guarantees	19	0	0
Other commitments		10	10
Total		10	10



Statement of changes in equity for 1 January – 31 December

DKK million

	Share capital	Undistributable reserve fund	Other reserves	Total
Equity, 1 January 2014	848	1,646	13,161	15,655
Profit for the year	-	-	1,458	1,458
Comprehensive income for the year	-	-	1,458	1,458
Equity, year-end	848	1,646	14,619	17,113
Equity, 1 January 2013	848	1,646	12,596	15,090
Profit for the year	-	-	565	565
Comprehensive income for the year	-	-	565	565
Equity, year-end	848	1,646	13,161	15,655

The share capital consists of 8,480,442 shares of DKK 100. There is only one share class. The entire share capital is owned by Nykredit Realkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.

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



Cash flow statement

DKK million

	2014	2013
Profit after tax for the year	1,458	565
Adjustment for non-cash operating items, depreciation and impairment losses		
Depreciation and impairment losses for property, plant and equipment	0	0
Impairment losses on loans and advances	406	567
Prepayments/deferred income, net	1	0
Tax calculated on profit for the year	474	189
Other adjustments	(2)	(50)
Total	878	706
Profit for the year adjusted for non-cash operating items	2,336	1,271
Change in working capital		
Loans and advances	(15,437)	(18,186)
Deposits and payables to credit institutions	44,230	18,722
Issued covered bonds	(10,340)	(11,947)
Other working capital	(714)	(190)
Total	17,739	(11,601)
Corporation tax paid, net	(294)	(226)
Cash flows from operating activities	19,782	(10,556)
Cash flows from investing and financing activities		
Investments	(12,437)	5,877
Total	(12,437)	5,877
Total cash flows	7,344	(4,679)
Cash and cash equivalents, beginning of year	16,263	20,942
Cash and cash equivalents, year-end	23,607	16,263



Notes

1. Accounting policies

General

The Annual Report 2014 has been prepared in accordance with the Danish Financial Business Act and the FSA Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. The Financial Statements are furthermore prepared in accordance with additional Danish disclosure requirements for 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 2013.

Changes to the Executive Order on the presentation of financial reports

In 2014 the Danish FSA issued a new Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

The changes result in requirements for disclosure of revenue and return on capital employed.

Otherwise, the implementation of the amended Executive Order on Financial Reports has not had any impact on the Company's results, other comprehensive income, balance sheet or equity.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSESSMENTS

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

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

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

Impairment of loans and advances involves significant estimates and assessments 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 and assessments.

Furthermore, realisable values of security received and expected dividend payments from bankrupt estates are subject to a number of estimates. Reference is made to "Provisions for loan and receivable impairment" below for a detailed description. Loans and advances made up some 82% of the Company's assets at end-2014.

FINANCIAL INSTRUMENTS

Recognition and classification of financial instruments

Financial instruments, including derivative financial instruments, represented more than 95% of Totalkredit's assets as well as liabilities.

Recognition

Financial instruments are recognised on the settlement date. 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 in "Other assets"/"Other liabilities" in the balance sheet and set off against "Value adjustments" in the income statement.

Assets measured at amortised cost following initial recognition are not value adjusted between the trade date and the settlement date.

Financial assets or liabilities are derecognised when the right to receive or pay related cash flows has lapsed or been transferred, and Totalkredit has transferred all risks and returns related to ownership in all material respects.

Initially, financial instruments are recognised at fair value. Subsequent measurement particularly depends on whether the instrument is measured at amortised cost or at fair value.

Valuation and classification

Financial instruments are classified as follows:

- Loans, advances and receivables and other financial liabilities at amortised cost
- Financial assets and liabilities at fair value.

Loans, advances and receivables and other financial liabilities at amortised cost

Receivables from credit institutions and central banks, some loans, advances and other receivables as well as subordinated debt are included in this category.

Loans, advances and receivables are measured at amortised cost after initial recognition. For loans, advances and receivables, amortised cost equals cost less principal payments, provisions for losses and other accounting adjustments, including any fees and transaction costs that form part of the effective interest rate of the instruments. For liabilities, amortised cost equals the capitalised value using the effective interest method. Transaction costs are distributed over the life of the asset or liability.

Value adjustments due to credit risk are recognised in "Impairment losses on loans, advances and receivables".

Financial assets and liabilities at fair value

Totalkredit's bond portfolio, mortgage lending, derivative financial instruments, payables relating to intercompany funding via Nykredit Realkredit A/S, junior covered bonds, bonds in issue, etc, are included in this category.

After initial recognition, bonds are measured at fair value based on listed prices in an active market, generally accepted measurement methods based on market information or other generally accepted valuation methods.



It is assessed on an ongoing basis whether a market is considered active or inactive.

Totalkredit's portfolio of self-issued bonds is offset against bonds in issue (the liability), and interest receivable relating to self-issued bonds is offset against interest payable.

The fair values of derivative financial instruments are determined using generally accepted valuation methods based on market information and other generally accepted valuation methods. Positive and negative fair values of derivative financial instruments are recognised in "Other assets" or "Other liabilities".

Mortgage loans granted in accordance with Danish mortgage legislation have been funded by issuing listed covered bonds (ROs and SDOs) of uniform terms. Such mortgage loans may be prepaid by 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 timing difference 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 bonds in issue, 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 remaining term-to-maturity.

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

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, redemption and prepayment amounts to Nykredit Realkredit A/S which will transfer such payments to bond investors.

Mortgage loans funded with bonds issued by Nykredit Realkredit A/S are measured at fair value adjusted via the fair value option for market risk based on the value of the underlying bonds and any impairment provisions for credit risk. Totalkredit A/S applies the fair value option as such classification eliminates the accounting mismatch that would arise on using the general measurement provisions. Payables relating to inter-company funding via Nykredit Realkredit A/S are correspondingly measured at fair value, eliminating the accounting mismatch that would arise on using the general measurement provisions.

After initial recognition, covered bonds (ROs) and junior covered bonds in issue are measured at fair value based on listed prices or other generally accepted measurement methods based on observable inputs.

Realised and unrealised gains and losses arising from changes in the fair value are recognised in "Value adjustments" in the income statement for the period in which they arose. Value adjustments due to credit risk are recognised in "Impairment losses on loans, advances and receivables".

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 loan, individual impairment provisions are made for the loan.

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 the borrower will go bankrupt 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 effect on the size of expected future cash flows from the exposure/loan.

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

For lending where OEI is identified, individual impairment provisions are calculated using a statistical model. The statistical model is based on experiences with losses on similar loans.

Collective impairment provisions

Every quarter collective assessments are made of loans and advances for which no individual provisions have been made, and collective provisions for loan impairment are made where OEI is identified in one or more groups.

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 sum of contributions from a rating model and management judgement.

The rating model determines credit quality impairment based on the development in parameters from Totalkredit's internal ratings-based (IRB) models. Having been adjusted to the current economic climate and accounting rules, the parameters are based on cash flows until expiry of loan terms and the discounted present value of loss flows. The parameters are moreover adjusted for events resulting from changes in the economic climate not yet reflected in the rating model. Management judgement supplements the models by including up-to-date expert



opinions and expectations for the credit risk development of specific segments.

Impairment provisions in general

Provisions for loan impairment are taken to an allowance account and deducted from the relevant asset items. Write-offs and changes in loan impairment provisions for the year are 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.

Impairment losses deemed to be conclusive are recorded as written off.

RECOGNITION, MEASUREMENT AND PRESENTATION IN GENERAL

Recognition and measurement

Assets are recognised in the balance sheet if it is probable as a result of a previous event 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 as a result of a previous event that future economic benefits will flow from TotalCredit, and if the value of the liability can be measured reliably.

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 in the income statement 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, amortisation, impairment losses, provisions and reversals as a result of changed accounting estimates of amounts previously recognised in the income statement.

Core earnings and investment portfolio income

TotalCredit's financial highlights in the Management's Review are presented as core earnings and investment portfolio income, as Management finds that this presentation best reflects the activities and earnings of the Company.

Core earnings mirror income from customer-oriented business and core income from securities less operating costs, depreciation, amortisation and impairment losses on loans and advances. Net costs relating to junior covered bonds are recognised as a separate item. Net costs relating to junior covered bonds consist of the yield spread between the issued junior covered bonds and the assets in which the proceeds are invested at the time of issuance. Value adjustment of the issued junior covered bonds as well as the assets in which proceeds are invested are included in investment portfolio income.

Core income from securities includes the return TotalCredit would have obtained by placing its investment portfolios at a risk-free interest rate corresponding to the Danish central bank's average lending rate. Core income from securities also includes interest expenses relating to Tier 2 capital.

Investment portfolio income is the income exceeding risk-free interest obtained from investing in bonds and derivative financial instruments. Price spreads and interest margins relating to mortgage lending are 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 comprises interest due and accrued up to the balance sheet date.

Interest income comprises interest and similar income, including interest-like commission received and other income that forms an integral part of the effective interest rate of the underlying instruments.

Interest expenses comprise all interest-like expenses.

Fees and commissions

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

Other operating income

Other operating income comprises operating income not attributable to other income statement items.

Staff and administrative expenses

Staff expenses comprise wages and salaries as well as social security costs, pensions etc.

Tax

Tax for the year, consisting of current tax for the year and changes to deferred tax, is recognised in the income statement.

Current tax liabilities and current tax assets are recognised in the balance sheet as tax calculated on taxable income for the year adjusted for tax paid on account. The current tax for the year is calculated on the basis of the tax rates and rules prevailing on the balance sheet date.

Interest payable or deductible relating to voluntary payment of tax on account and interest payable or receivable on over-/underpaid tax is recognised in "Other interest income" or "Other interest expenses", as appropriate.

Deferred tax on all temporary differences between the carrying amounts and the tax bases of assets and liabilities is recognised using the balance sheet liability method.

ASSETS

Other property, plant and equipment

Equipment is measured at cost less accumulated depreciation and impairment losses. Cost includes the purchase price and costs directly related to the acquisition up to the time when the assets are ready for entry into service.

Depreciation is made on a straight-line basis over the expected useful lives of:

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

The residual values and useful lives of the assets are revalued at each balance sheet date. The carrying amount of an asset is written down to the recoverable amount if the carrying amount of the asset exceeds the estimated recoverable amount.

Gains and losses on the current replacement of property, plant and equipment are recognised in "Other operating income" or "Other operating expenses".

Assets in temporary possession

Assets in temporary possession include property, plant and equipment or groups thereof, for which:

- Totalkredit's possession is temporary only
- a sale is intended in the short term, and
- a sale is highly likely.

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.

Assets in temporary possession are measured at the lower of the carrying amount at the time of classification as assets in temporary possession and the fair value less selling costs.

LIABILITIES AND EQUITY

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 are measured at Management's best estimate of the amount considered necessary to honour 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 consists of financial liabilities in the form of subordinate loan capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.

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 balances and demand deposits with central banks" and "Receivables from credit institutions and central banks".

Notes

DKK million

	2014	2013
2. INTEREST INCOME		
Receivables from credit institutions	18	31
Loans and advances	12,787	12,747
Administration margin (income)	4,137	3,342
Bonds:		
- Self-issued covered bonds	15	12
- Other covered bonds	653	701
Derivative financial instruments:		
- Interest rate contracts	98	50
Other interest income	0	0
Total	17,708	16,883
Set-off of interest from self-issued covered bonds – note 3	(15)	(12)
Total	17,693	16,871
3. INTEREST EXPENSES		
Nykredit Realkredit A/S mortgage loan funding	12,254	12,168
Bonds in issue	948	1,203
Other payables to Nykredit Realkredit A/S	0	0
Subordinated debt	52	51
Other interest expenses	1	0
Total	13,254	13,422
Set-off of interest from self-issued covered bonds – note 2	(15)	(12)
Total	13,239	13,410
4. FEE AND COMMISSION INCOME		
Loan fees, new lending	329	221
Trading commission and other fees	199	128
Total	528	349
5. FEE AND COMMISSION EXPENSES		
Loan arrangement fees	301	177
Commission to loan arrangers	1,682	1,668
Trading commission and other fees	177	150
Total	2,160	1,995
6. VALUE ADJUSTMENTS		
Mortgage loans	5,751	4,095
Bonds	(39)	(198)
Foreign exchange	0	0
Foreign exchange, interest rate and other contracts as well as derivative financial instruments	53	389
Other liabilities	(110)	(288)
Bonds in issue, including bonds issued by Nykredit Realkredit A/S in connection with the funding of mortgage loans granted by Totalkredit A/S	(5,751)	(4,095)
Total	(96)	(97)

Notes

DKK million

	2014	2013
7. STAFF AND ADMINISTRATIVE EXPENSES		
Remuneration of Board of Directors and Executive Board	7	6
Staff expenses	77	81
Other administrative expenses	304	310
Total	388	397
Remuneration of Board of Directors and Executive Board		
Board of Directors:		
Remuneration	1	1
Executive Board:		
Salaries	5	4
Pensions	1	1
Other social security expenses and charges	0	0
Total	6	5
Staff expenses:		
Salaries	63	66
Pensions	6	5
Other social security expenses and charges	8	10
Total	77	81
Terms and conditions applying to the Board of Directors		
<p>The 8 members of the Board of Directors receive fixed fees and a refund of any costs incurred in connection with board meeting attendance. No agreements have been made for pension plans, bonus schemes or special termination benefits for members of the Board of Directors elected by the General Meeting. At end-2014 annual remuneration amounted to DKK 200,000 for the Chairman, DKK 150,000 for the Deputy Chairman and DKK 100,000 for other Directors. The members of the Board of Directors are listed on pages 1-2 of the Annual Report. Directors employed with Nykredit Realkredit A/S receive no remuneration but as group chief executive and group managing directors they receive salaries from Nykredit Realkredit A/S. Reference is made to the Annual Report 2014 of Nykredit Realkredit A/S for the terms and conditions applying to the Executive Board.</p>		
Terms and conditions applying to the Executive Board		
<p>Executive Board members receive a fixed salary. The Executive Board further participates in Nykredit's general bonus schemes for subsidiary executives. The programme is discretionary, which means that subsidiary executives are not guaranteed a bonus. The amount paid to any subsidiary executive is based on a specified bonus potential and distributed annually. In 2014 fixed annual salaries and bonuses came to the following totals:</p> <p>Troels Bülow-Olsen receives a fixed annual salary of DKK 2.5m, in 2014 an extraordinary DKK 3.1m, of which one-off remuneration of DKK 0.6m. The 2014 bonus provision came to DKK 1.0m.</p> <p>Allan Rømer receives a fixed annual salary of DKK 1.5m and a 2014 bonus provision of DKK 0.1m.</p> <p>The pensionable age for members of the Executive Board is 70 years. For Troels Bülow-Olsen, retirement at the age of 65 years is possible, after which he is entitled to pension benefits for 10 years equal to 20% of his gross salary. The pension benefits period will be reduced by one year for each year his employment contract continues after the age of 65 years.</p> <p>Executive Board members' employment contract is terminable by Totalkredit giving 12 months' notice and by the Executive Board members giving 3 months' notice. Upon resignation at Totalkredit A/S's request, Executive Board members are entitled to termination benefits equal to 9 months' gross salary.</p>		
Loans to the Executive Board and Board of Directors		
Mortgage loans, debt outstanding at the end of the financial year:		
Executive Board	3	-
Board of Directors	28	14
Management and related parties of Totalkredit's Parent Company	-	15
<p>The loans were granted on the same loan and interest terms as applied to other borrowers with Totalkredit A/S at the time of offering and disbursement of the loans.</p>		
Salaries for risk-takers		
<p>Totalkredit has decided not to disclose the salaries of individual risk-takers, as this category includes only one person apart from the Executive Board members.</p>		
Number of staff		
Average number of staff, full-time equivalents	118	129
Fees to auditors appointed by the Annual General Meeting, Deloitte	1	1
Total fees include:		
Statutory audit of the Financial Statements	1	1



Notes

	2014	2013
8. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES		
Change in individual impairment provisions for loans and advances	376	312
Change in collective impairment provisions for loans and advances	(11)	256
Write-offs for the year, net	278	291
Recoveries on claims previously written off	(7)	(4)
Total impairment losses on loans, advances and receivables	635	855
Value adjustment of assets in temporary possession	46	50
Value adjustment of claims previously written off	(6)	(5)
Write-offs offset against commission payments to partner banks	(270)	(333)
Total	406	567
Specification of provisions for loan impairment		
Individual impairment provisions	545	472
Collective impairment provisions	691	702
Total impairment provisions	1,236	1,174
Individual impairment provisions		
Impairment provisions, beginning of year	472	458
Impairment provisions for the year	480	408
Impairment provisions reversed	(104)	(96)
Value adjustment of acquired properties	(41)	(37)
Impairment provisions written off	(261)	(261)
Impairment provisions, year-end	545	472
Collective impairment provisions		
Impairment provisions, beginning of year	702	446
Impairment provisions for the year, net	(11)	257
Impairment provisions, year-end	691	703
Individual impairment provisions for acquired properties		
Impairment provisions, beginning of year	104	128
Transfer from non-acquired properties	41	37
Impairment provisions for the year	50	55
Impairment provisions reversed	(4)	(4)
Impairment provisions written off	(92)	(111)
Impairment provisions, year-end	99	104
Of total individual impairment provisions for mortgage loans, about 17% is attributable to loans in arrears but not referred to collection and about 71% to loans in arrears referred to collection. The remaining 12% are attributable to estates in bankruptcy or estates of deceased persons.		
Specification of loans and advances		
Loans and advances subject to individual provisioning	2,300	1,947
Impairment provisions	545	472
Loans and advances after impairment provisions	1,755	1,475
Loans and advances subject to collective provisioning	31,975	29,475
Impairment provisions	691	703
Loans and advances after impairment provisions	31,284	28,772
9. TAX		
Tax calculated on profit for the year	474	189
Change in deferred tax	0	0
Adjustment of tax assessed for previous years	0	0
Total	474	189
Current tax rate, %	24.5	25.0
Non-deductible costs, %	0.0	0.1
Effective tax rate, %	24.5	25.1

Notes

	2014	2013
10. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS		
Receivables from credit institutions	23,607	16,263
Total	23,607	16,263
11. LOANS AND ADVANCES		
Loans, advances and other receivables at fair value	555,777	540,751
Loans, advances and other receivables at amortised cost	42	36
Total	555,819	540,787
Loans, advances and other receivables at fair value		
Mortgage loans	555,566	540,643
Arrears and outlays	212	108
Total	555,777	540,751
Mortgage loans		
Balance, beginning of year, nominal value	532,487	509,915
New loans	114,036	71,694
Ordinary principal payments	(6,448)	(6,113)
Prepayments and extraordinary principal payments	(98,360)	(43,009)
Balance, year-end, nominal value	541,715	532,487
Loans transferred relating to properties in temporary possession	(51)	(49)
Fair value adjustment	15,002	9,285
Adjustment for credit risk		
Individual impairment provisions	(409)	(378)
Collective impairment provisions	(691)	(702)
Balance, year-end, fair value	555,566	540,643
Arrears and outlays		
Arrears before impairment provisions	135	111
Outlays before impairment provisions	213	91
Provisions for arrears and outlays	(136)	(94)
Total	212	108
Mortgage arrears up to and including the September 2014 due date, for which no provisions have been made, amounted to DKK 0m.		
Loans, advances and other receivables at amortised cost		
Mortgage loans	27	27
Other loans and advances	15	9
Total	42	36
Measured at fair value, the item amounted to DKK 42m at end-2014 and DKK 36m at end-2013.		
Mortgage loans		
Balance, beginning of year, nominal value	27	31
Ordinary principal payments	0	0
Prepayments and extraordinary principal payments	0	(4)
Balance, year-end, nominal value	27	27



Notes

DKK million

	2014	2013
11. LOANS AND ADVANCES (continued)		
Mortgage loans by property category		
Loans and advances as % at nominal value, year-end		
Private residential properties	95	95
Holiday homes	5	5
Total	100	100
Number of loans, end of financial year	568,748	564,377
Mortgage loan guarantees provided by banks:		
Supplementary guarantees in addition to mortgages over real estate	7,971	8,126
Statutory guarantees for interim loans	11,584	10,240
Guarantees for loans disbursed before obtaining a registered mortgage	30,092	9,992
Total	49,647	28,358
12. BONDS AT FAIR VALUE		
- Self-issued covered bonds	2,880	2,293
- Other covered bonds	91,414	79,357
- Government bonds	380	-
Total	94,675	81,650
Set-off against "Bonds in issue at fair value" – note 16	(2,880)	(2,293)
Total bonds	91,795	79,357
Of which:		
Redeemed bonds	141	130
13. OTHER PROPERTY, PLANT AND EQUIPMENT		
Total cost, beginning of year	1	2
Additions	0	0
Disposals	1	1
Total cost, year-end	0	1
Depreciation, beginning of year	1	2
Depreciation for the year	0	0
Reversal of depreciation	1	1
Depreciation, year-end	0	1
Carrying amount, year-end	0	0
Write-off on acquisition of equipment for the year	0	0
14. ASSETS IN TEMPORARY POSSESSION		
Debt outstanding, year-end	35	22
Outlays	37	49
Impairment provisions, year-end	(43)	(43)
Total	29	28
15. OTHER ASSETS		
Positive market value of derivative financial instruments	74	166
Interest and commission receivable on loans and advances	2,186	2,051
Interest receivable from bonds and credit institutions	1,204	1,082
Other	31	43
Total	3,495	3,342



Notes

DKK million

	2014	2013
16. PAYABLES TO CREDIT INSTITUTIONS AND BONDS IN ISSUE		
Payables to credit institutions		
Payables to credit institutions, other payables	65	39
Payables to Nykredit Realkredit A/S concerning supplementary collateral for SDO-funded mortgage lending	19,294	27,129
Mortgage loan funding through Nykredit Realkredit A/S	590,605	538,567
Total	609,964	565,734
Of which mortgage loan funding through Nykredit Realkredit A/S		
Balance, beginning of year, nominal value	531,233	509,138
Additions	237,267	211,655
Redemptions and prepayments	(184,647)	(183,762)
Prepayments and extraordinary principal payments	(6,917)	(5,798)
Balance, year-end, nominal value	576,936	531,233
Fair value adjustment	13,669	7,334
Total	590,605	538,567
Bonds in issue at fair value		
Covered bonds issued against mortgages over real estate		
Balance, beginning of year, nominal value	46,909	56,366
Additions	-	-
Redemptions and prepayments	(6,963)	(7,472)
Prepayments and extraordinary principal payments	(2,170)	(1,985)
Balance, year-end, nominal value	37,776	46,909
Set-off of self-issued covered bonds	(2,880)	(2,293)
Fair value adjustment	1,333	1,952
Total	36,229	46,568
Bonds redeemed at next creditor payment date	3,949	1,254
Changes to the fair values of covered bonds (ROs and SDOs) attributable to TotalCredit's own credit risk can be determined relative to changes in option-adjusted yield spreads (OAS) versus government bonds or relative to changes in yield spreads versus equivalent covered bonds from other Danish mortgage lenders.		
Determined relative to other Danish mortgage lenders, the fair value has not been subject to changes attributable to TotalCredit's own credit risk in 2014 or since the issuance date, as there are no measurable price differences between bonds with identical properties from different mortgage lenders.		
The yield spread between government bonds and covered bonds widened in 2014 causing a decline in the fair value of bonds in issue of DKK 7bn 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 2bn attributable to TotalCredit's own credit risk. Equity and profit/loss have, however, not been affected by the changes in fair value, as the value of mortgage loans has changed correspondingly. The determination allows for both maturity and nominal holding, but is to some extent based on estimates.		
17. OTHER LIABILITIES		
Interest payable on issued covered bonds, including bonds issued by Nykredit Realkredit for the funding of mortgage lending by TotalCredit A/S	6,669	7,104
Negative market value of derivative financial instruments	58	168
Other	1,473	1,490
Total	8,200	8,762



Notes

18. SUBORDINATED DEBT

Subordinated debt consists of financial liabilities in the form of subordinate loan capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met. Nykredit Realkredit A/S is creditor on the loans. Subordinated debt that may be included in own funds totals DKK 2,480m.

Subordinate loan capital

Nom DKK 2,600m. The loan falls due at par (100) on 24 June 2018 and 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 and carries an interest rate of 6.0% pa above 3M Cibur.

Measured at fair value, the two loans total DKK 3,100m.

19. OFF-BALANCE SHEET ITEMS

Guarantees

Financial guarantees

2014

2013

0

0

Total guarantees

0

0

Other commitments

Other liabilities

10

10

Total other commitments

10

10

Total off-balance sheet items

10

10

Other contingent liabilities

In June 2014, Jyske Bank instituted arbitration proceedings against Totalkredit. The dispute has been settled after the close of the financial year.

At 31 December 2014, Jyske Bank had referred customers to Totalkredit corresponding to lending of DKK 61bn. In compliance with the partnership agreement, Totalkredit has paid commission to Jyske Bank and offset losses incurred on the customer portfolio on a current basis.

As from mid-March, Totalkredit considered Jyske Bank to have exited the partnership and consequently ceased its current payments to the bank. Net payments would have come to DKK 200m had Jyske Bank not exited the partnership.

Notes

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 with Nykredit are based on agreements, and no unusual related party transactions occurred in 2014.

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

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

Significant related party transactions prevailing/entered into in 2014 include:

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

Totalkredit A/S raised loans with Nykredit Realkredit A/S serving as collateral in Totalkredit's capital centres.

On 31 December 2014, these loans totalled DKK 19.3bn against DKK 27.1bn on 31 December 2013.

Totalkredit A/S has raised loans with Nykredit Realkredit A/S in the form of subordinated debt. At end-December 2014, 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 intercompany funding with Nykredit Realkredit A/S, specified in note 16.

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

	2014	2013
Income statement		
Interest income	418	470
Interest expenses	12,289	12,316
Fee and commission expenses	306	219
Value adjustments	(6,365)	(3,998)
Costs	187	166
Assets		
Receivables from credit institutions and central banks	22,704	14,494
Bonds at fair value	66,907	63,412
Other assets	974	1,003
Liabilities and equity		
Payables to credit institutions	609,970	565,729
Other liabilities	6,097	6,465
Tier 2 capital	3,100	3,100

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

Reference is made to note 7 for information on transactions with the Board of Directors and the Executive Board.

Notes

DKK million

	2014	2013
21. CREDIT RISK		
Credit risk denotes the risk of loss following the non-performance of payment obligations by counterparties.		
The Board of Directors lays down the overall framework of credit granting and is presented with the Group's largest credit applications for approval or briefing on a current basis. Loans secured by mortgages over real estate with a mortgageable value of more than DKK 15m are subject to approval by the Board of Directors.		
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 private residential properties for all-year habitation, the LTV ratio may not exceed 80% of the property value and 60% for holiday homes.		
Totalkredit and its 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.		
Totalkredit's credit risks are further described on page 9 of the Management's Review.		
Totalkredit's maximum credit exposure comprises selected balance sheet and off-balance sheet items.		
Total credit exposure		
Receivables from credit institutions and central banks	23,607	16,263
Loans, advances and other receivables at fair value	555,777	540,751
Loans, advances and other receivables at amortised cost	42	36
Bonds at fair value	91,795	79,357
Other assets	3,495	3,342
Off-balance sheet items	10	10
Total	674,726	639,759
Private residential mortgage lending		
Mortgage loans		
- Bond debt outstanding	541,742	532,514
- Number of loans	568,748	564,377
Bond debt outstanding by loans involving:		
- bank guarantees	60,463	39,998
- set-off agreement with partner banks	334,782	358,062
- no security	146,497	134,454
Total	541,742	532,514
Bond debt outstanding by loan type		
Fixed-rate loans		
- repayment loans	116,362	100,963
- interest-only loans	70,026	63,806
Adjustable-rate mortgage loans (ARMs)		
- repayment loans	75,288	78,554
- interest-only loans	194,761	194,008
Money market-linked loans		
Loans with interest rate caps		
- repayment loans	33,109	39,367
- interest-only loans	50,538	55,367
Loans without interest rate caps		
- repayment loans	758	449
- interest-only loans	900	-
Total	541,742	532,514
Bond debt outstanding by region		
- Capital Region of Denmark	118,302	112,120
- Sealand Region	71,043	70,388
- North Denmark Region	80,923	79,098
- Central Denmark Region	145,920	147,053
- South Denmark Region	125,325	123,585
- Greenland	229	270
Total	541,742	532,514

Notes

DKK million

21. CREDIT RISK (continued)

Concentration risk

Pursuant to the Danish Financial Business Act, an exposure with any one customer or group of interconnected customers must not, after deduction for highly secure claims, exceed 25% of own funds. Totalkredit had no exposures in 2014 or 2013 which exceeded this limit.

Collateral security received

Loans, advances and collateral security provided are subject to regular valuation and assessment. On loan disbursement, the partner banks will provide a guarantee for a loan until a mortgage free from any adverse endorsements has been registered and Totalkredit has approved the mortgage loan. Reference is made to note 11 for further information on guarantees received for loans. Subsequent to the mortgage loan approval, loans are hedged for risk purposes, cf the mention on page 31.

Mortgage debt outstanding relative to estimated property values

DKK million

	LTV (loan-to-value)						Total	LTV average
	0-40	40-60	60-80	80-90	90-100	Over 100		
2014	310,668	128,545	87,371	16,050	6,928	6,004	555,566	76%
2013	300,382	124,614	84,825	16,714	7,417	6,691	540,643	77%

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

Mortgage debt outstanding relative to estimated property values, %

DKK million

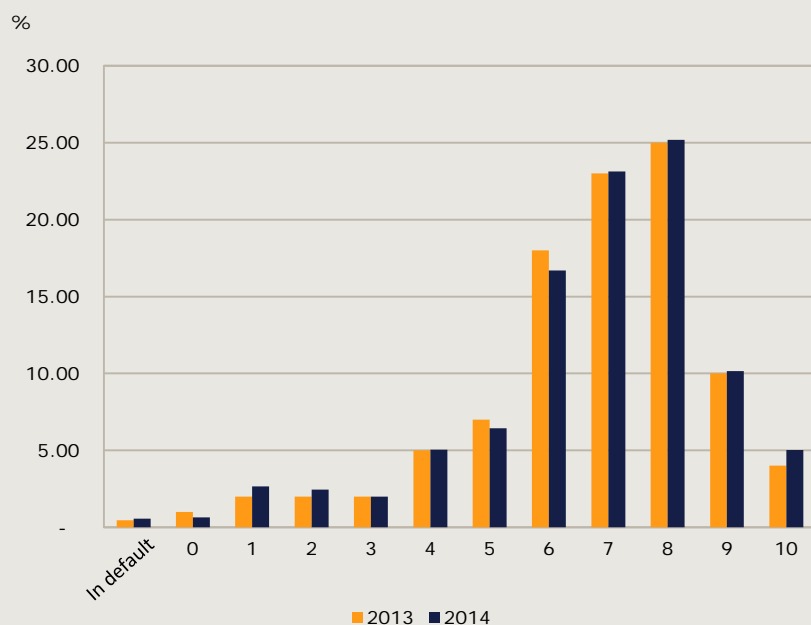
	LTV (loan-to-value)						Total
	0-40	40-60	60-80	80-90	90-100	Over 100	
2014	56	23	16	3	1	1	100
2013	56	23	16	3	1	1	100

Notes

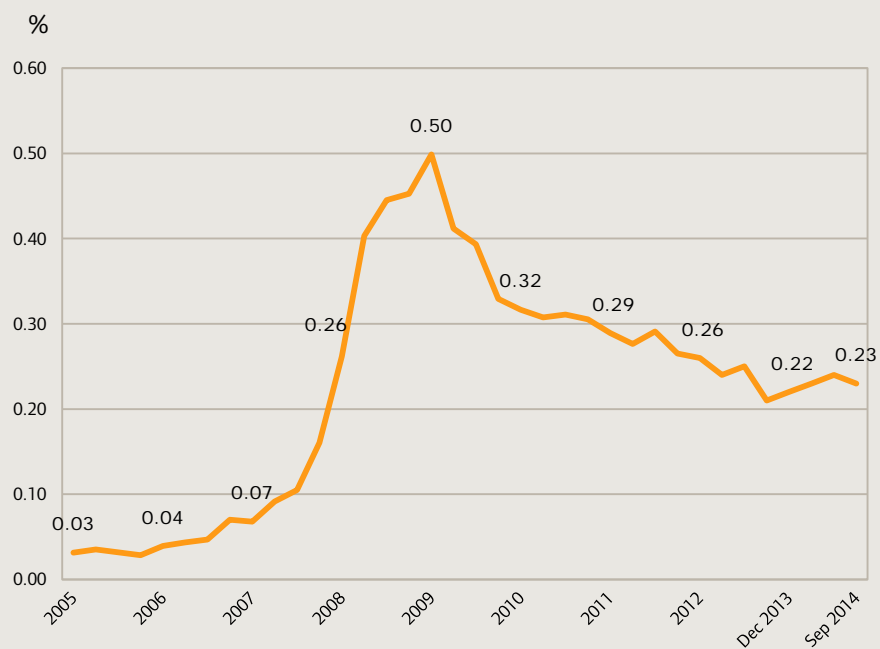
DKK million

21. CREDIT RISK (continued)

Outstanding amounts by rating category



Arrears ratio, mortgage lending – 75 days past due date





Notes

DKK million

	2014	2013
22. 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).		
Totalcredit's market positions are primarily related to its investment portfolio. Totalcredit mainly invests in Danish government and covered bonds issued in DKK and to a lesser extent in EUR.		
Interest rate risk is the risk of loss as a result of interest rate changes, and Totalcredit's interest rate exposure 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 placing funds in bonds with different interest rate risks using German government bond futures and DKK- and EUR-denominated interest rate swaps. In 2014 the interest rate exposure target ranged from a gain of DKK 100m to a loss of DKK 300m.		
The average interest rate exposure was about DKK 62m. The maximum interest rate exposure was a loss of DKK 104m, and the minimum exposure was a gain of DKK 4m. Totalcredit's interest rate exposure was DKK 94m at end-2014.		
Foreign exchange risk determined as the greatest loss at a change of +/-2.25% in EUR/DKK amounted to a loss of DKK 1.3m at end-2014 against DKK 2.4m at the beginning of the year.		
Totalcredit's market risks are further described on page 10 of the Management's Review.		
23. LIQUIDITY RISK		
Liquidity risk reflects 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. This means that mortgage borrowers make their payments on or before the date on which bondholders receive their interest payments. Accordingly, mortgage lending and the funding thereof produce positive liquidity.		
As a result of Totalcredit's large bond portfolio, the Company's liquidity is very high. The liquidity position ensures that Totalcredit has a sizeable buffer for cash flows driven by customer flows, loan arrears and regulatory liquidity requirements.		
By time-to-maturity		
Receivables from credit institutions		
Demand deposits	7,357	963
Up to 3 months	13,600	11,900
Over 3 months and up to 1 year	2,650	3,400
Total, cf note 10	23,607	16,263
Mortgage loans and arrears		
Up to 3 months	3,072	2,989
Over 3 months and up to 1 year	5,735	5,580
Over 1 year and up to 5 years	40,665	39,566
Over 5 years	506,305	492,616
Total, cf note 11	555,777	540,751
Mortgage loan funding through Nykredit Realkredit A/S		
Up to 3 months	54,828	41,602
Over 3 months and up to 1 year	140,995	126,824
Over 1 year and up to 5 years	202,120	208,446
Over 5 years	192,662	161,695
Total, cf note 16	590,605	538,567
Bonds in issue at fair value		
Up to 3 months	9,633	1,316
Over 3 months and up to 1 year	824	1,565
Over 1 year and up to 5 years	11,998	23,368
Over 5 years	16,654	22,612
Total	39,109	48,861
Set-off of self-issued bonds	(2,880)	(2,293)
Total, cf note 16	36,229	46,568

DKK million

[illegible]



Notes

DKK million

	2014	2013	2012	2011	2010
25. FINANCIAL HIGHLIGHTS					
Net interest and fee income	2,822	1,815	1,900	1,636	2,023
Value adjustments	(96)	(97)	(304)	(73)	(261)
Other operating income	0	0	1	0	2
Staff and administrative expenses	388	397	371	366	420
Depreciation and impairment losses for property, plant and equipment	0	0	0	1	1
Impairment losses on loans, advances and receivables	406	567	528	447	158
Tax	474	189	175	187	298
Profit for the year	1,458	565	522	562	887
SUMMARY BALANCE SHEET, YEAR-END					
ASSETS					
Receivables from credit institutions	23,607	16,263	20,942	14,565	18,111
Mortgage loans	555,608	540,670	522,980	480,993	455,846
Bonds at fair value	91,795	79,357	85,235	86,512	81,540
Remaining assets	3,743	3,534	3,240	4,327	4,894
Total assets	674,753	639,824	632,397	586,397	560,391
LIABILITIES AND EQUITY					
Payables to credit institutions	609,964	565,734	547,012	480,544	443,630
Bonds in issue	36,229	46,568	58,516	78,328	90,193
Tier 2 capital	3,100	3,100	3,100	3,100	2,600
Remaining liabilities	8,347	8,767	8,679	10,607	10,712
Equity	17,113	15,655	15,090	13,818	13,256
Total liabilities and equity	674,753	639,824	632,397	586,397	560,391
FINANCIAL RATIOS					
Total capital ratio, %	20.9	21.3	22.2	18.8	22.9
Common Equity Tier 1 capital ratio, %	18.2	17.8	18.4	15.6	19.3
Return on equity before tax, %	11.8	4.9	4.8	5.5	9.2
Return on equity after tax, %	8.9	3.7	3.6	4.1	6.9
Income:cost ratio	3.4	1.78	1.78	1.92	3.05
Foreign exchange position, %	0.3	0.7	0.0	0.1	0.0
Total impairment provisions, %	0.2	0.2	0.2	0.1	0.1
Impairment losses for the year, %	0.1	0.1	0.1	0.1	0.0
Growth in loans and advances for the year, %	1.7	4.4	7.7	3.9	5.9
Loans and advances:equity (loan gearing)	32.5	34.5	34.7	34.8	34.4
Return on capital employed, %	0.2	0.1	0.1	0.1	0.2

Totalcredit has no branches or subsidiaries and only Danish activities. Totalcredit's revenue came to DKK 18,221 m in 2014. Totalcredit has not received any government aid.

Capital and capital adequacy

DKK million

	2014	2013
Own funds		
Equity, year-end	17,113	15,655
Difference between expected losses and impairment losses	(128)	(32)
Other deductions	(56)	(2)
Transitional adjustment of deductions	102	-
Common Equity Tier 1 capital	17,031	15,621
Tier 2 capital (incl transitional adjustments)	2,480	3,100
Tier 2 deductions	80	(32)
Transitional adjustment of deductions	(51)	-
Set-off of excess deduction	-	-
Own funds	19,540	18,689
Capital requirement		
Credit risk	6,994	6,573
Market risk	233	198
Operational risk	244	246
Total capital requirement	7,471	7,017
Total capital requirement subject to transitional rule¹	17,916	17,203
Total risk exposure amount	93,388	87,708
Financial ratios		
Common Equity Tier 1 capital ratio, %	18.2	17.8
Total capital ratio, %	20.9	21.3
¹ The capital requirement is determined subject to a transitional rule in accordance with the transitional provisions of the EU's Capital Requirements Regulation (CRR). The capital requirement must constitute at least 80% of the capital requirement determined under Basel I.		
Required own funds and internal capital adequacy requirement		
Pillar I – primary risks		
Credit risk	6,994	6,806
Market risk	233	239
Operational risk	244	183
Total Pillar I	7,471	7,227
Pillar II – other risks		
Weaker economic climate	1,311	904
Other factors	1,071	813
Total Pillar II	2,382	1,717
Total required own funds	9,853	8,945
Total risk exposure amount	93,388	87,708
Internal capital adequacy requirement, %	10.6	10.2
Capital and capital adequacy have been determined in accordance with Regulation (EU) No 575/2013 of the European Parliament and the Council of 26 June 2013 (the Capital Requirements Regulation) as well as the Danish transitional rules laid down by the Danish FSA.		
The statements as at 31 December 2014 are based on the then applicable rules of the Danish Financial Business Act. The layout has been adjusted to reflect the new presentation format. For a more detailed description of the determination of the capital base and the internal capital adequacy requirement, reference is made to the report Risk and Capital Management 2014, available at nykredit.com/reports .		

Series financial statements*

DKK million

	Totalkredit in General	Capital Centre PRL	Capital Centre C	Capital Centre D	Capital Centre E	Capital Centre F	Capital Centre G	Capital Centre H	Capital Centre I	Capital Centre 1	Total
Income statement											
Income from lending	0	0	290	230	1,188	40	148	2,103	96	42	4,137
Interest, net	1	0	24	33	28	8	30	50	15	10	200
Administrative expenses	0	0	(132)	(92)	(598)	(14)	(53)	(1,058)	(38)	(14)	(1,999)
Impairment losses on loans and advances	0	0	(42)	(74)	(89)	0	(10)	(187)	(4)	0	(406)
Tax	(1)	0	(34)	(24)	(130)	(8)	(28)	(223)	(17)	(9)	(474)
Profit for the year	1	0	105	72	400	26	87	686	53	28	1,458
Balance sheet – assets											
Mortgage loans	12	1	29,006	25,804	195,161	9,691	11,618	268,639	9,207	6,682	555,820
Other assets	108	1	12,954	6,551	40,434	1,607	2,310	54,121	2,399	1,333	121,819
Total assets	120	1	41,959	32,355	235,596	11,298	13,928	322,760	11,606	8,015	677,639
Balance sheet – liabilities and equity											
Payables to credit institutions	-	-	-	28,757	229,146	10,381	11,363	313,101	10,131	7,020	609,900
Issued covered bonds	13	1	39,096	-	-	-	-	-	-	-	39,109
Remaining liabilities	0	0	347	298	2,545	120	153	4,708	134	111	8,417
Subordinated debt	13	0	433	403	1,579	50	-	589	-	33	3,100
Equity	93	1	2,083	2,897	2,325	747	2,412	4,362	1,342	851	17,113
Total liabilities and equity	120	1	41,959	32,355	235,596	11,298	13,928	322,760	11,606	8,015	677,639
Inflow and outflow of funds, net											
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											674,753
Assets in the series financial statements											677,639
Difference specified as follows:											(2,885)
Self-issued bonds have been offset against the liability item "Bonds in issue"											
Interest receivable from self-issued bonds has been offset against "Other liabilities"											(5)
Total											(2,885)

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



Loan arranging credit institutions

Alm. Brand Bank	Salling Bank
Arbejdernes Landsbank	Saxo Privatbank
BankNordik	Skjern Bank
Borbjerg Sparekasse	Spar Nord Bank
Broager Sparekasse	Sparekassen Balling
Danske Andelskassers Bank	Sparekassen Bredebro
Den Jyske Sparekasse	Sparekassen Djursland
Djurslands Bank	Sparekassen for Nørre Nebel og Omegn
Dragsholm Sparekasse	Sparekassen Fyn
Dronninglund Sparekasse	Sparekassen Kronjylland
Fanø Sparekasse	Sparekassen Sjælland
Faster Andelskasse	Sparekassen Thy
Flemløse Sparekasse	Sparekassen Vendsyssel
Folkesparekassen	Sydbank
Frørup Andelskasse	Søby Sparekasse
Frøs Herreds Sparekasse	Sønderhå-Hørsted Sparekasse
Frøslev-Møllerup Sparekasse	Totalbanken
Fynske Bank	vestjyskBANK
Fælleskassen	Vorbasse-Hejnsvig Sparekasse
Hals Sparekasse	Østjyds Bank
Handelsbanken	
Hvidbjerg Bank Aktieselskab	
Jutlander Bank	
Klim Sparekasse	
Kreditbanken	
Københavns Andelskasse	
Langå Sparekasse	
Lollands Bank	
Lægernes Pensions Bank	
Lån og Spar Bank	
MERKUR, Den Almennyttige Andelskasse	
Middelfart Sparekasse	
Møns Bank	
Nordfyns Bank	
Nordjyske Bank	
Nykredit Realkredit	
Nørresundby Bank	
Pensam Bank	
Refsnæs Sparekasse	
Ringkjøbing Landbobank	
Rise Sparekasse	
Rønde Sparekasse	