

# Annual Report 2016



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## COMPANY AND MANAGEMENT DETAILS

### COMPANY DETAILS

Totalkredit A/S  
Kalvebod Brygge 1-3  
DK-1780 Copenhagen V  
Tel +45 44 55 54 00  
CVR no 21 83 22 78  
Financial year: 1 January – 31 December 2016  
Municipality of registered office: Copenhagen  
Website: totalkredit.dk  
Stock exchange announcements etc are available at Totalkredit's website: totalkredit.dk and at nykredit.com/press.

### DATE OF APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved on 7 February 2017.

### EXTERNAL AUDITORS

Deloitte Statsautoriseret Revisionspartnerselskab  
Weidekampsgade 6  
DK-2300 Copenhagen S

### DIRECTORSHIPS AND EXECUTIVE POSITIONS

#### BOARD OF DIRECTORS

##### **Michael Rasmussen, Chairman**

Group Chief Executive, Nykredit Realkredit A/S

Year of birth: 1964

Joined the Board on 18 March 2014

Managing Director of:

Foreningen Nykredit\*\*\*

Nykredit Realkredit A/S

Nykredit Holding A/S

Chairman of:

Nykredit Bank A/S

FinansDanmark\*\*

Investeringsfonden for Udviklingslande (IFU)

FinansDanmark\*\*\*

Director of:

Nykredits Fond\*\*\*

Copenhagen Business School\*\*

Creditkassens Jubilæumsfond\*\*\*

##### **Claus E. Petersen, Deputy Chairman**

Chief Executive Officer, Den Jyske Sparekasse

Year of birth: 1961

Joined the Board on 20 March 2012

Chairman of:

DJS Leasing A/S

Finanshuset Farsø Pantebrevsselskab A/S

Foreningen Lokale Pengeinstitutter

PRAS A/S

Director of:

Den Jyske Sparekasses Støttefond

Det Private Beredskab\*\*\*

FinansDanmark

HN Invest Tyskland 1 A/S

Nykredit Holding A/S

Spar Pantebrevsinvest A/S

Værdiansættelsesrådet

FR I af 16. September 2015 A/S

##### **Petter Blondeau**

Chief Executive Officer, Fynske Bank

Year of birth: 1959

Joined the Board on 5 November 2012

Director of:

FinansDanmark

Finanssektorens Uddannelsescenter

Leasing Fyn Bank A/S

Leasing Fyn Svendborg A/S

Foreningen Lokale Pengeinstitutter

FR I af 16. September 2015 A/S

PRAS A/S

Regional Invest Fyn A/S

Poulsgade 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

Nykredit Realkredit 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

Diba A/S

Deputy Chairman of:

Landsdækkende Banker

Director of:

PRAS A/S

BI Holding A/S

FinansDanmark  
DLR Kredit A/S  
Musikhuset Esbjerg Fond  
FR I af 16. September 2015 A/S  
Sydbank Sønderjyllands Fond  
Sydbank Fonden  
Komiteen for God Selskabsledelse

**David Hellemann\*\***

Group Managing Director, Nykredit Realkredit A/S

Date of birth: 5 December 1970  
Joined the Board on 1 September 2016

Managing Director:  
Nykredit Realkredit A/S\*\*  
Nykredit Holding A/S\*\*

Chairman of:  
Nykredit Ejendomme A/S\*\*  
APS LS nr. 909\*\*\*

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 Uddannelsescenter\*\*

**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  
Nykredit Realkredit A/S

Chairman of:  
Ejendomsselskabet Kalvebod A/S

Deputy Chairman of:  
Nykredit Bank A/S

Director of:  
FinansDanmark  
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  
Nykredit Realkredit A/S

Chairman of:  
Nykredit Leasing A/S  
Nykredit Mægler A/S  
Bolighed A/S  
Swipp ApS\*\*\*  
Swipp Holding ApS\*\*\*

Director of:  
Nykredit Bank A/S  
Niels Brock (Copenhagen Business College)  
Grænsefonden  
FinansDanmark\*\*

Member of the committee of representatives of:  
Det Private Beredskab\*\*\*

**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  
Bankernes EDB Central

Deputy Chairman of:  
Finanssektorens Uddannelsescenter  
LR Realkredit A/S

Director of:  
Kooperationen  
Pension Danmark Holding A/S  
Pension Danmark Pensionsforsikringsaktieselskab  
PRAS A/S  
Regionale Bankers Forening

Member of the Executive Board of:  
Handels ApS Panoptikon

Member of the council of:  
AE (Arbejderbevægelsens Erhvervsråd)

Special adviser – Østre Landsret

**Anne Christiansen\***

Senior Project Consultant

**Merete Nilausen\* \*\*\***

Senior Project Consultant

**Michael Holm Jensen\***

Function Manager

**Jari Loch Jensen\***

Senior Adviser

**Martin Rasborg Thomsen\* \*\***

Project Manager

**EXECUTIVE BOARD**

**Troels Bülow-Olsen, Managing Director**

Joined the Executive Board on 1 October 2007

Director of:

Nykredit Mægler A/S

**Camilla Holm, Managing Director**

Joined the Executive Board on 1 October 2015

\* Staff-elected member

\*\* Joined in 2016

\*\*\* Resigned in 2016

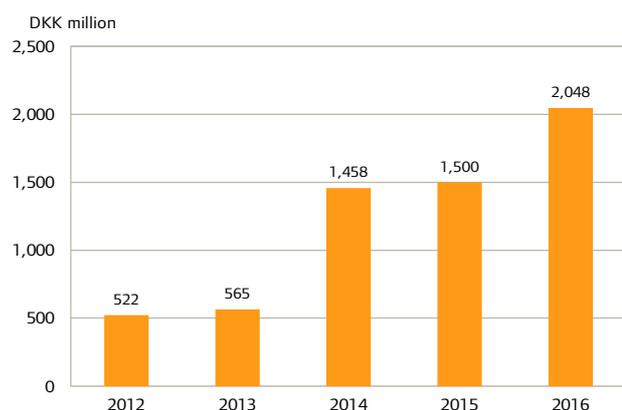
# FINANCIAL HIGHLIGHTS

DKK million

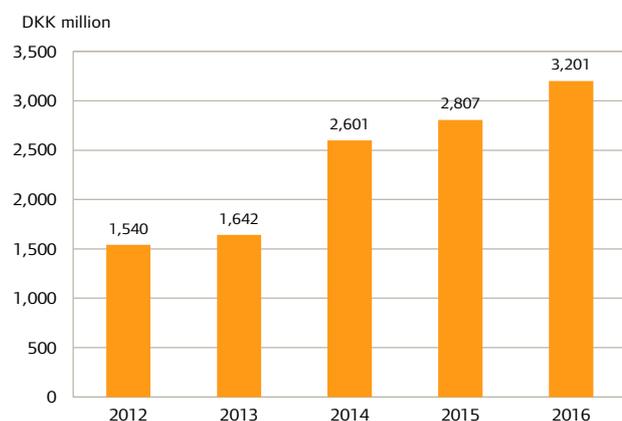
	2016	2015	2014	2013	2012
<b>CORE EARNINGS AND RESULTS FOR THE YEAR</b>					
<b>Core income</b>					
- business operations	3,341	2,993	2,829	1,957	1,753
- senior secured debt	(98)	(156)	(220)	(313)	(234)
- interest expenses for subordinated debt	(52)	(41)	(52)	(51)	(65)
- securities	10	11	44	49	86
<b>Income from core business</b>	<b>3,201</b>	<b>2,807</b>	<b>2,601</b>	<b>1,642</b>	<b>1,540</b>
Operating costs and depreciation	604	547	388	397	371
Other operating expenses	69	1	-	-	-
<b>Profit from core business before impairment losses</b>	<b>2,528</b>	<b>2,259</b>	<b>2,213</b>	<b>1,245</b>	<b>1,169</b>
Impairment losses on mortgage lending	47	446	406	567	528
<b>Profit from core business</b>	<b>2,482</b>	<b>1,813</b>	<b>1,807</b>	<b>678</b>	<b>641</b>
Investment portfolio income	146	148	125	76	56
<b>Profit before tax</b>	<b>2,628</b>	<b>1,961</b>	<b>1,932</b>	<b>754</b>	<b>697</b>
Tax	579	461	474	189	175
<b>Profit for the year</b>	<b>2,048</b>	<b>1,500</b>	<b>1,458</b>	<b>565</b>	<b>522</b>
<b>SUMMARY BALANCE SHEET</b>					
	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
<b>Assets</b>					
Receivables from credit institutions	19,341	15,850	23,607	16,263	20,942
Mortgage loans at fair value	599,943	570,443	555,777	540,670	522,980
Bonds and equities	69,364	62,843	91,795	79,357	85,235
Remaining assets	1,878	2,381	3,574	3,534	3,240
<b>Total assets</b>	<b>690,527</b>	<b>651,517</b>	<b>674,753</b>	<b>639,824</b>	<b>632,397</b>
<b>Liabilities and equity</b>					
Payables to credit institutions	647,073	606,415	609,964	565,734	547,012
Bonds in issue at fair value	11,162	18,368	36,229	46,568	58,516
Remaining liabilities	5,631	6,121	8,347	8,766	8,679
Subordinated debt	6,000	2,000	3,100	3,100	3,100
Equity	20,661	18,613	17,113	15,655	15,090
<b>Total liabilities and equity</b>	<b>690,527</b>	<b>651,517</b>	<b>674,753</b>	<b>639,824</b>	<b>632,397</b>
<b>FINANCIAL RATIOS</b>					
Profit for the year as % pa of average equity	10.4	8.4	8.9	3.7	3.6
Profit from core business before impairment losses as % pa of average equity	12.9	12.6	13.5	8.1	8.1
Costs as % of core income	18.9	19.4	14.9	24.2	24.1
Impairment losses for the year, %	0.0	0.1	0.1	0.1	0.1
Total capital ratio, %	28.7	23.5	20.9	21.3	22.2
Common Equity Tier 1 capital ratio, %	22.2	21.1	18.2	17.8	18.4
Internal capital adequacy requirement, %	10.4	11.3	10.6	10.2	10.6
Average number of staff, full-time equivalents	132	120	118	129	123

## 2016 – IN BRIEF

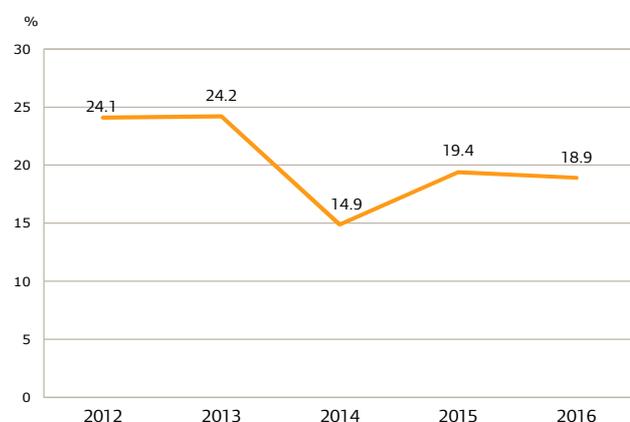
### Profit for the year



### Total income from core business



### Costs as % of core income



## RESULTS

Profit from core business was satisfactory and came to DKK 2,482m, up DKK 669m, or 37%, on 2015.

Profit before tax was DKK 2,628m against DKK 1,961m in 2015 and profit after tax was DKK 2,048m against DKK 1,500m in 2015.

The earnings increase was driven by an increase in core income from business operations of DKK 348m, or 12%, a decline in expenses relating to senior secured debt of DKK 58m, and an increase in operating costs of DKK 57m. Impairment losses on loans and advances remained low, down DKK 399m on the previous year.

Investment portfolio income fell by DKK 2m to DKK 146m.

### Profit from core business before impairment losses

Core income from business operations amounted to DKK 3,341m against DKK 2,993m in 2015.

Administration margin income rose by DKK 581m to DKK 5,169m in part due to the administration margin adjustment on 1 July 2016 as well as growing loan portfolios.

Other net core income fell by DKK 233m.

Net interest expenses relating to senior secured debt issued as supplementary collateral for SDO-funded lending came to DKK 98m against DKK 156m the year before.

Interest expenses from subordinated debt were DKK 52m against DKK 41m in 2015. The return on the investment portfolio calculated on the basis of the Danish central bank's lending rate was DKK 10m in 2016 against DKK 11m in 2015.

Operating costs and depreciation were DKK 604m against DKK 547m in 2015. The rise was in part attributable to higher payroll costs due to an increase in the average number of staff from 120 to 132, resulting from higher advisory activity following Jyske Bank's exit from the Totalkredit partnership. Add to this, changes in intercompany settlements as Totalkredit accounts for an increasing proportion of the Group's overall activities, including higher IT development costs in relation to new products etc.

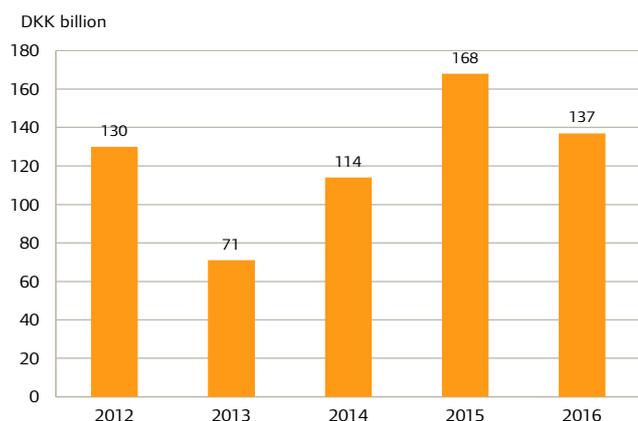
Totalkredit's contribution to the Danish Resolution Fund for 2016 was DKK 69m, of which DKK 66m was an intercompany settlements corresponding to the part of the Group charge relating to Totalkredit's share of the joint funding.

Totalkredit's profit from core business before impairment losses was DKK 2,528m against DKK 2,259m in 2015.

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### Gross new lending

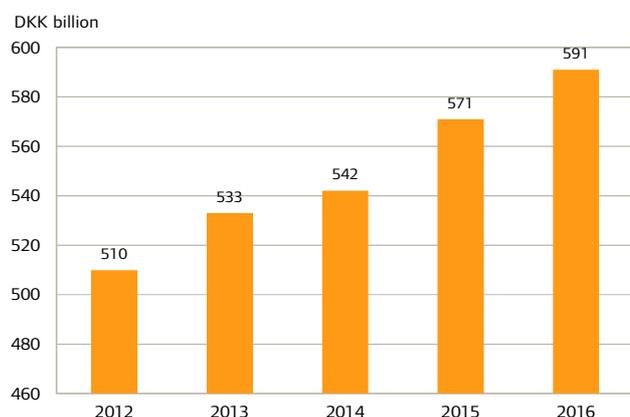
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### Mortgage lending, year-end, nominal value

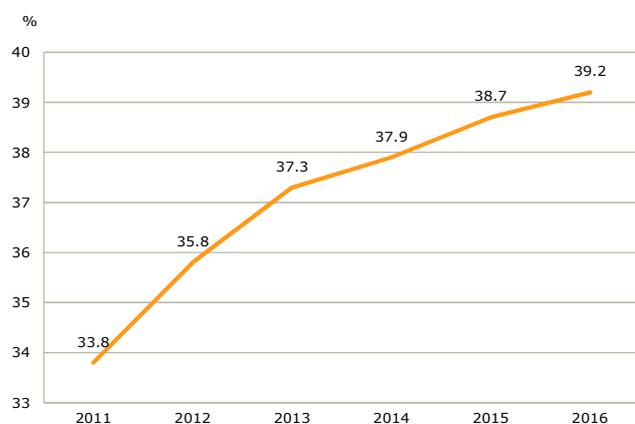
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### Totalkredit's share of Danish mortgage lending

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### Impairment losses on loans and advances

2016 saw a rise in property prices in large parts of Denmark, and we now see a positive development in write-offs as well as impairments in general, resulting in lower impairment level in 2016.

Impairment losses on loans and advances amounted to DKK 47m against DKK 446m in 2015.

Individual impairment provisions declined by DKK 87m from DKK 347m in 2015 to DKK 260m in 2016.

The largest positive earnings impact came from collective impairment provisions, which declined by DKK 311m from 2015 to 2016. In 2016 total collective impairment provisions fell by DKK 213m, primarily attributable to the positive trend in the Danish housing market throughout the year.

Write-offs fell by DKK 120m in 2016 to DKK 547m against DKK 667m the year before. Of this amount DKK 240m and DKK 277m, respectively, were covered by the partner banks, corresponding to 43.9% against 41.5% in 2015.

Impairment provisions totalled DKK 1,130m, equal to 0.19% of loans and advances. At end-2015, this ratio was 0.23%.

Total individual impairment provisions stood at DKK 554m at end-2016 against DKK 553m at the beginning of the year. Collective impairment provisions totalled DKK 576m against DKK 789m at the beginning of the year.

The arrears ratio measured as at the September due date, 75 days past due, was 0.18% against 0.20% at the same time in 2015.

In 2016 910 properties mortgaged by Totalkredit were sold by public auction. Totalkredit acquired 66 of these by foreclosure. 81 properties were sold in 2016, and at year-end the portfolio of properties acquired by foreclosure stood at 19 against 34 at the beginning of the year.

### Investment portfolio income

Investment portfolio income was DKK 146m against DKK 148m the year before.

### Tax

Tax calculated on profit for the year was DKK 579m, corresponding to an effective tax rate of 22.0%.

## Loans and advances

### Loan portfolio

Totalkredit is Denmark's largest private residential mortgage provider.

Measured at fair value, the loan portfolio was DKK 600bn against DKK 570bn at the beginning of the year. In 2016 Totalkredit's loan portfolio measured at nominal value grew by DKK 20bn to DKK 591bn. The loan portfolio for business customers accounted for DKK 0.6bn at end-2016.

Measured by the loan portfolio, Totalkredit's market share rose to 39.2% from 38.7% at the beginning of the year.

A breakdown by loan type shows that the share of interest-only loans in the loan portfolio fell from 54.3% to 53.0%. The share of variable-rate loans fell from 58.7% to 56.8%. Of these loans, 9.8% had interest rate caps against 12.1% at end-2015.

Geographically, approximately 63% of the loan portfolio is in Jutland and on Funen and other Danish islands, 24% 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, determined as the top part of the loan amount for each property, came to 70% against 71% at the beginning of the year.

### Lending activity

Totalkredit's gross new lending was approximately DKK 137bn, of which around DKK 23bn was loans offered through Nykredit Realkredit A/S.

### Parent loans

At end-2016 loans raised with Nykredit Realkredit A/S for the purpose of providing supplementary collateral totalled DKK 11.0bn against DKK 12.9bn at the beginning of the year.

Further, Totalkredit has raised loans in the form of subordinated debt totalling DKK 6.0bn. In 2016 new subordinate

<b>Totalkredit</b>		
<b>Capital and capital adequacy</b>	2016	2015
DKK million		
Credit risk	83,965	80,761
Market risk	3,708	3,331
Operational risk	4,624	3,775
<b>Total risk exposure amount</b>	<b>92,296</b>	<b>87,867</b>
Equity	20,661	18,613
Common Equity Tier 1 (CET1) capital deductions	(132)	(21)
<b>Common Equity Tier 1 capital</b>	<b>20,528</b>	<b>18,591</b>
Subordinated debt	6,000	2,000
Subordinated debt deductions	(13)	120
<b>Own funds</b>	<b>26,516</b>	<b>20,711</b>
CET1 capital ratio, %	22.2	21.1
Total capital ratio, %	28.7	23.5
Internal capital adequacy requirement (Pillar I and Pillar II), %	10.4	11.3

loan capital of DKK 4.0bn was raised.

## CAPITAL AND CAPITAL ADEQUACY

At end-2016, own funds totalled DKK 26.5bn, and the risk exposure amount (REA) was DKK 92.3bn, corresponding to a total capital ratio of 28.7%.

The Common Equity Tier 1 (CET1) capital came to DKK 20.5bn, corresponding to a CET1 capital ratio of 22.2% at end-2016.

Under the Basel I transitional rules, the capital requirement was DKK 18.8bn, equal to a minimum total capital ratio of 20.4%. The Basel I transitional rules have been extended to 2017 inclusive. By then, the European Commission must submit its proposed future minimum requirements.

Required own funds are the minimum capital required, in Management's judgement, to cover all significant risks. At end-2016, required own funds totalled DKK 9.6bn. The internal capital adequacy requirement is calculated as the required own funds as a percentage of REA. At end-2016, Totalkredit's internal capital adequacy requirement was 10.4%.

## RESULTS RELATIVE TO FORECASTS

In connection with the presentation of the Q3 Interim Report 2016, Totalkredit forecast a profit from core business of around DKK 1.9bn-2.1bn.

Profit from core business was DKK 2.5bn, corresponding to an increase of DKK 0.4bn relative to the high end of our guidance. The rise was mainly attributable to fewer impairment losses on loans and advances than expected, while income from core business was only slightly better than expected. Capacity costs were in line with expectations.

## OUTLOOK FOR 2017

Totalkredit expects income from business operations to improve moderately in 2017 compared with 2016, while costs of capital will increase due to new Additional Tier 1 capital raised in 2016. Income from core business is thus expected to be just below the 2016 level.

Operating costs are expected to be in line with 2016.

Expected impairments a rise based on an assumption of higher and more normalised impairment levels.

All in all, profit from core business is expected to be lower compared with 2016.

## **CREDIT RATINGS**

The lending activities of Totalkredit and Nykredit Realkredit, Totalkredit's Parent, are jointly funded. Due to the joint funding, Totalkredit and Nykredit Realkredit use the same bond series to fund identical loans. Nykredit Realkredit issues the requisite bonds through capital centres which are rated AAA by Standard & Poor's. The covered bonds issued by Totalkredit through Capital Centre C are also rated AAA by Standard & Poor's. The capital centre is not open for new lending.

## **OTHER**

### **Nykredit Group plans stock exchange listing**

Nykredit's Board of Directors and Committee of Representatives have decided to prepare for a stock exchange listing of Nykredit Holding A/S.

One reason for listing Nykredit on the stock exchange is for Nykredit as a SIFI to gain access to the capital markets, including to be able to raise additional share capital in coming years, as capital requirements must be expected to increase significantly due to new international regulation. Add to this the already significant variations in capital requirements under the current legislation due in part to property price and economic trends, but also to the fact that the authorities may amend the capital requirements in some areas.

### **KundeKroner**

KundeKroner is a customer benefits programme, which will award discounts to Totalkredit and Nykredit customers.

KundeKroner was introduced to Totalkredit customers in 2016.

Totalkredit decided to make the first KundeKroner payouts to personal customers in 2016. Our customers will get a discount on their four annual administration margin payments, beginning with the payment date of 30 September 2017.

### **Price adjustments at Totalkredit**

As of 1 July 2016, the administration margins for all existing and new Totalkredit loans were raised. This administration margin rise was the result of the capital requirements already adopted and also aims to ensure a more limited use of interest-only loans and loans with frequent refinancing. Customers with long-term fixed-rate repayment loans will thus experience the smallest increase.

### **Totalkredit partnership now also includes business mortgages**

Having offered mortgage loans to homeowners for more than 25 years, the Totalkredit partnership has now entered the business mortgage market.

From April 2016, all partner banks could offer Totalkredit business mortgages. Totalkredit business mortgages are offered to the segments office and retail, residential rental as well as industry and trades.

### **Change in Totalkredit's Board of Directors and in Nykredit's Group Executive Board**

Bente Overgaard resigned from the Executive Board of the Nykredit Group and the Board of Directors of Totalkredit in H1/2016.

In connection with the reorganisation, David Hellemann joined the Group Executive Board as Group Managing Director, responsible for Totalkredit and the CFO/COO areas of the entire Nykredit Group. At the same time, David Hellemann also joined the Boards of Directors of Totalkredit and Nykredit Bank.

Merete Nilausen has decided to retire and has therefore resigned her position as staff-elected member of the Board of Directors of Totalkredit A/S as at 19 August 2016. Alternate Martin Rasborg Thomsen has joined as new staff-elected member of the Board of Directors.

## **BUSINESS CONCEPT**

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

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

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

Risk hedging of private residential mortgage loans is subject to agreement with the partner banks. Under the agreement, incurred losses corresponding to the cash part of a loan exceeding 60% of the mortgageable value at the time of granting are offset against future commission payments from Totalkredit to the partner banks.

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

## **EVENTS SINCE THE BALANCE SHEET DATE**

No significant events have occurred in the period up to the presentation of the Annual Report 2016 which affect Totalkredit's financial position.

## **ORGANISATION AND DELEGATION OF RESPONSIBILITIES**

The Board of Directors of Totalkredit is responsible for defining limits to and monitoring Totalkredit's risks 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 delegated 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 undertakes the day-to-day responsibilities and tasks of the Executive Board in the capital, funding, liquidity and market risk areas according to guidelines approved by the Boards of Directors. The Committee has a governance mandate in these areas, at group as well as at company level. The Committee's remit covers Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S.

The Risk Committee, which is charged with overseeing the overall risk profile and capital requirements of the Nykredit Group in order to (1) assist the managements of Foreningen Nykredit (the Nykredit Association) and Nykredit Holding A/S in overseeing – and (2) assist the managements of Nykredit Realkredit, Totalkredit and Nykredit Bank in ensuring – compliance with current legislation and practice in the area in question.

### **Corporate social responsibility**

Totalkredit follows the corporate social responsibility policy of the Nykredit Group. For information on the Nykredit Group's corporate social responsibility and Nykredit's statutory disclosure, please refer to CR Fact Book 2016 at [nykredit.com/CRfactbook](http://nykredit.com/CRfactbook).

For more information on Nykredit, please see the CSR publication "Nykredit – Engaging with Society" and our website.

Information on corporate governance in the Nykredit Group is available at [nykredit.com/corporategovernanceuk](http://nykredit.com/corporategovernanceuk).

### **The under-represented gender**

Totalkredit has worked actively to increase the proportion of women in management, with particular focus on recruiting female managers to top-level management. Totalkredit's Board of Directors has also adopted a policy for board diversity.

Female representation on Totalkredit's Board of Directors is 11%. The defined target for end-2017 is 25%.

### **Board committees**

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

The boards serve all the companies of Nykredit that are required to appoint such boards. In addition to Nykredit Realkredit A/S, this concerns Totalkredit A/S and Nykredit Bank A/S.

### **Audit Board**

Generally, the Nykredit Group Audit Board only reviews audit and accounting in Nykredit Realkredit A/S and Nykredit Holding A/S. However, this applies to topics of importance to the presentation of Totalkredit's financial statements.

The principal tasks of the Audit Board are to inform the Boards of Directors of Nykredit Realkredit A/S and Nykredit Holding A/S of the results of the statutory audit, to oversee the financial reporting process and the effectiveness of Nykredit's internal control systems, internal audit and risk management, to oversee the statutory audit of the financial statements, to monitor and verify the independence of the auditors, and to be responsible for the procedure for selecting and submitting a recommendation for the appointment of auditors.

In 2016, the Audit Board consisted of Anders C. Obel, Chief Executive Officer (Chairman), Merete Eldrup, Chief Executive Officer, Per W. Hallgren, Chief Executive Officer, and Bent Naur, former Chief Executive Officer, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting. Per W. Hallgren, Chief Executive Officer, has been appointed Chairman of the Audit Board in respect of the Annual Report 2017.

The Audit Board held four meetings in 2016.

#### **Remuneration Board**

The principal tasks of the Remuneration Board are to qualify proposals for remuneration prior to consideration by the Board of Directors and to make recommendations in respect of Nykredit's remuneration policy, including guidelines on incentive pay, for the approval of the Board of Directors. Moreover, the Remuneration Board makes proposals for remuneration of the Board of Directors and the Group Executive Board. Finally, the Remuneration Board ensures that the information in the Annual Report about remuneration of the Board of Directors and the Group Executive Board is correct, fair and satisfactory.

The Remuneration Board consists of Steffen Kragh, Chief Executive Officer (Chairman), Merete Eldrup, Chief Executive Officer, Nina Smith, Professor, who are all members of the Board of Directors elected by the General Meeting, and Leif Vinther, Chairman of Staff Association and staff-elected member of the Board of Directors of Nykredit Realkredit A/S.

The Remuneration Board held three meetings in 2016.

Remuneration of risk-takers is stated in note 7 of these financial statements.

#### **Nomination Board**

The Nomination Board is tasked with making recommendations to the Board of Directors on the nomination of candidates for the Board of Directors and 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, reporting to the Board of Directors, is overall responsible for the skills profiles of the Board of Directors and the Executive Board and the continuous evaluation of their work and results.

The Nomination Board consists of Steffen Kragh, Chief Executive Officer (Chairman), Merete Eldrup, Chief Executive Officer, and Nina Smith, Professor, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting.

The Nomination Board held three meetings in 2016.

#### **Risk Board**

The task of the Risk Board is to monitor Nykredit's overall risk profile and strategy, including to assess the long-term capital requirement and the capital policy. It also assesses products, business model, remuneration structure and incentives as well as risk models and basis of methodology, etc. The Risk Board assists the Board of Directors in overseeing that the risk appetite laid down by the Board of Directors is implemented correctly in the organisation.

The Risk Board serves the companies of Nykredit that are required to appoint such a board. In addition to Nykredit Realkredit A/S, this concerns Totalkredit A/S and Nykredit Bank A/S.

The Risk Board consists of Merete Eldrup, Managing Director (Chairman), Michael Demnitz, Chief Executive Officer, Anders C. Obel, Chief Executive Officer, and Bent Naur, former Chief Executive Officer, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting. Per W. Hallgren, Chief Executive Officer, joins as member of the Risk Board for the financial year 2017.

The Risk Board held four meetings in 2016.

## 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. To ensure flexibility and leeway in the Group, capital is to the widest extent possible concentrated in the Parent, Nykredit Realkredit A/S. Contributing capital to the subsidiaries as required is a central element of the Group's capital policy. Every effort is made to ensure that Totalkredit is adequately capitalised within the Group.

Totalkredit's own funds include Common Equity Tier 1 (CET1) capital, Tier 2 capital and Additional Tier 1 capital. At end-2016, CET1 capital was DKK 20.5bn after deductions, Additional Tier 1 capital was DKK 4.0bn and Tier 1 capital amounted to DKK 2.0bn. Own funds thus amounted to DKK 26.5bn after deductions against DKK 20.7 at end-2015. With a total REA of DKK 92.3bn, the corresponding total capital ratio was 28.7% and the CET1 capital ratio was 22.2% at end-2016.

To support the capitalisation of Totalkredit A/S, in November 2016 Nykredit Realkredit A/S contributed DKK 4bn to Totalkredit in the form of Additional Tier 1 capital. The capital increase should be viewed in light of the expected introduction in the EU of a minimum leverage ratio (LR) requirement of 3% of total assets for all credit institutions, including Totalkredit. In future this requirement is expected to become the new binding regulatory requirement for Totalkredit. Thus, the capital contribution will serve to secure Totalkredit's capital position and the build-up of an adequate capital buffer.

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. Required own funds are 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 capital.

Pillar I capital covers credit risk, market risk and operational risk. The Pillar I capital is identical to the statutory capital requirement. Pillar II capital covers other risk, including a capital charge reflecting the uncertainty of the models used by Totalkredit to determine the capital requirement. Generally, the charge applied equals 10% of the risks calculated.

Besides capital to cover other risk, Pillar II also comprises a capital charge to provide for an increased capital requirement during an economic downturn. The capital requirement during an economic downturn is determined by means of stress tests.

At end-2016, required own funds came to DKK 9.6bn against DKK 9.9bn at end-2015. Of this amount, Pillar I accounted for DKK 7.4bn and Pillar II accounted for DKK 2.2bn.

The internal capital adequacy requirement is calculated as the required own funds as a percentage of REA. The internal capital adequacy requirement was 10.4% at end-2016 against 11.3% at end-2015. To this must be added the SIFI requirement, which was 0.8 percentage point in 2016.

Under the Basel I transitional rules, the capital requirement was DKK 18.8bn, equal to a minimum total capital ratio of 20.4%, which is unchanged from end-2015. The Basel I transitional rules have been extended to 2017 inclusive.

Totalkredit's board of directors oversees the establishment of adequate risk management procedures and monitors risks through the Risk Board. The Executive Board ensures that risks are managed, mitigated and controlled and it monitors risks through the Group Risk Committee. Risk management is based on the Three Lines of Defence model.

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. Legislation sets an upper ceiling for the mortgaging of properties, and there are statutory requirements for loans secured by mortgages in real estate. The result is a substantial level of security and consequently limited losses.

Mortgage lending and the matching funding are regulated by the balance principle. The balance principle limits the financial risk Totalkredit may assume in relation to lending and funding.

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 negligible interest rate, foreign exchange and liquidity risk on its mortgage lending and the underlying funding. Liquidity and market risk is further reduced by the Danish act regulating refinancing risk, which ensures mortgage loan refinancing in special situations. As a result, Totalkredit's lending mainly involves credit risk.

## 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 parties with whom Nykredit has contracted. Counterparty risk, which is the risk of loss if a counterparty defaults on its obligations under financial instruments, is an element of credit risk.
- 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 resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk also includes IT, legal and model risks.
- 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 the holding of adequate capital, while liquidity risk is mitigated through a sufficient stock of liquid assets.

The determination of REA is to ensure that adequate capital is held to withstand potential losses resulting from credit, market and operational risks. New liquidity measures are to ensure that credit institutions hold sufficient liquid assets to fulfil future payment obligations.

### 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 approval and is presented with the Company's largest credit applications for approval or briefing on a current basis.

Loans secured by mortgages on 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 and the portfolio targets set out in the credit policy. Group Risk reports credit risk at portfolio level.

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 loss realised within the LTV range of 60-80% based on the cash value of the property at the time a loan is issued is covered by supplementary security provided by the partner banks. This security is mainly in the form of Totalkredit's right to offset any losses in the above LTV range against the commission payable to the partner banks. Since June 2014 a minor part of the right of set-off has been replaced by a loss guarantee provided by the partner bank. Part of the loan portfolio – the so-called high-risk properties – is secured by loss guarantees covering the LTV range of 40-80% 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:

- PD: Probability of Default is the probability of a customer defaulting on an obligation to Totalkredit.
- LD: Loss Given Default is the expected loss rate of an exposure in case of a customer's default.
- EAD: Exposure at Default is the estimated value of an exposure at the time of default, including any drawn part of a credit commitment.

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

The PDs of individual customers are converted into ratings from 0 to 10, 10 being the highest rating. Exposures in default are classified separately. Customer ratings are used actively as part of the credit policy and customer assessment. Loans by rating category are shown in note 20.

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

The LGD calculations factor in any security, including the type of security (typically mortgages on real estate), its quality, and its ranking in the order of priority.

The expected LGDs vary with economic trends. In periods of high business activity, default will often not lead to any loss, as the value of the security will typically exceed the value of the loan. This applies in particular to loans secured by mortgages on real estate. Conversely, more and greater losses would be expected during an economic downturn.

### Risk exposure amount for credit risk

Risk exposures for credit risk came to DKK 84.0bn at end-2016. Of this figure retail exposures amounted to DKK 68.7bn and credit institution exposures to DKK 12.1bn.

Totalkredit has no single credit exposures exceeding 0.5% of own funds. The ten largest mortgage exposures totalled DKK 330m at end-2016.

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

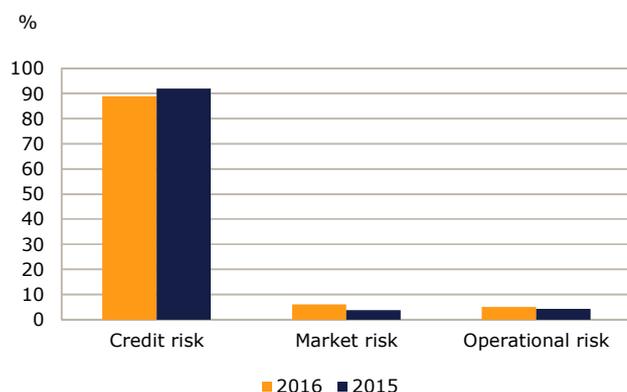
The LTV ratio expresses the debt outstanding relative to the estimated property value. At the time of granting, a mortgage loan must not exceed a certain proportion of the value of the mortgaged property pursuant to Danish legislation. The LTV ratio may not exceed 80% of the property value for private residential properties for all-year habitation and 60% for business properties and holiday homes.

After disbursement of a loan, the 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 mortgage loan.

The average LTV ratio of the loan portfolio was 70.4% at end-2016 against 70.7% at end-2015.

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).

### Risk exposure amount (REA) by risk type



At end-2016, Totalkredit required total supplementary collateral of DKK 17.0bn for the part of SDO-funded lending that exceeded LTV limits of DKK 13.3bn in total. At the beginning of the year, the requirement was DKK 17.0bn.

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

### Market risk

Totalkredit assumes various market risks through its business activities. Market risk reflects the risk of loss as a result of movements in financial markets and includes interest rate, foreign exchange, equity price, commodity price and volatility risks.

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

This leads mainly to interest rate and interest rate spread risk.

Totalkredit's market risk is determined for two purposes:

- Internal management of all positions involving market risk
- Determination of the risk exposure amount (REA) for market risk for use in the determination of capital adequacy.

Market risk is generally managed through the Board's market risk policy and the accompanying guidelines which set specific risk limits for the different types of risk.

The main principle of this policy is that market risk exposures must not significantly affect Totalkredit's total results. Totalkredit manages market risk by means of estimated losses in stress scenarios. Statistical as well as forward-looking stress scenarios are used to calculate the estimated losses.

The guidelines restrict Totalkredit's scope for assuming interest rate, interest rate spread and foreign exchange risks. Totalkredit may not assume other risks.

Compliance with risk limits set out in the guidelines is monitored daily and independently of the acting entities of the Group. Any breaches are reported to the Asset/Liability Committee (ALCO), the Board of Directors of Totalkredit or other Boards of Directors depending on the nature of such non-compliance.

### **Traditional risk measures for day-to-day internal management**

The traditional risk measures, such as interest rate, equity price, volatility and foreign exchange risks, 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. This could be a rise or fall in interest rates.

#### **Interest rate risk**

Interest rate risk is the risk of loss as a result of interest rate changes, and Totalkredit's interest rate risk is measured as the change in market value caused by a general interest rate increase of 1 percentage point. Totalkredit's interest rate exposure was DKK 111m at end-2016 against DKK 156m at end-2015.

#### **Interest rate spread risk**

The interest rate spread risk expresses loss as a consequence of an interest rate spread widening between covered bonds and swap rates. The interest rate spread risk of Totalkredit's portfolio of covered bonds amounted to DKK 640m at end-2016.

This means that Totalkredit would lose DKK 640m on its portfolio of covered bonds if the spread between covered bond yields and swap rates widened by 1 percentage point.

#### **Foreign exchange risk**

In 2016 Totalkredit's most significant foreign exchange positions were in EUR. At end-2016, the exposure was DKK 2m against DKK 13m at end-2015.

Totalkredit has only limited foreign exchange positions in other currencies.

#### **Volatility risk**

Volatility risk is measured as the change in market value resulting from an increase in volatility of 1 percentage point, increased volatility implying a loss on Nykredit's part.

Totalkredit's interest rate volatility risk is assumed through portfolios of bonds with an option element, eg callable covered bonds.

At end-2016, Totalkredit's interest rate volatility risk was a negative DKK 0.07m against DKK 0.45m at end-2015.

Overall, Totalkredit's interest rate risk is very limited.

#### **Other risks**

On refinancing, the borrower obtains a loan rate reflecting the yield of the bonds sold. With a view to reducing customers' refinancing risk, Totalkredit has spread its refinancing auctions over the year. The Danish refinancing act, which ensures continued refinancing of mortgage loans under special circumstances, also aims to mitigate the refinancing risk.

### **Risk exposure amount for market risk**

Totalkredit applies the standardised approach to determine market risk exposures. Market risk exposures totalled DKK 3.7bn at end-2016 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. Operational risk also includes IT, legal and model risks.

Totalkredit is continuously working to create a risk culture where the awareness of operational risk is a natural part of everyday work. The objective is to support and develop an organisation where mitigation and management of operational risks are an integral part of both the day-to-day business activities and the long-term planning. Operational risk must be limited continually taking into consideration the costs involved.

Given its nature and characteristics, operational risk is best mitigated and managed through the day-to-day business activities. The responsibility for the day-to-day management of operational risk is thus decentralised and lies with the individual business areas.

As part of operational risk management, operational risk events are systematically recorded, categorised and reported with a view to creating an overview of loss sources and gaining experience for sharing across the organisation.

In addition to the recording of actual events, Totalkredit is continuously working on identifying significant operational risks. Operational risk mapping provides a valuable overview of particularly risky processes and systems and therefore constitutes an excellent management tool.

Totalkredit determines the capital requirement for operational risk using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings for the past three years. REA for operational risk amounted to DKK 4.6bn in 2016.

### **Liquidity risk**

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

Totalkredit's 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. Overall, this is positive for Totalkredit's liquidity.

As a result of Totalkredit's large bond portfolio, the Company's liquidity is very high. The liquidity position ensures that Totalkredit 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 the accounting policies (note 1), to which reference is made.

### **INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS**

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

Totalkredit's internal controls and risk management relating to the financial reporting process have been 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. Nykredit's Management regularly reviews items in respect of which estimates may have a material impact on the value of assets and liabilities.

The process is based on a number of fixed routines, including the planning process, which are prepared together with essential business units, management support functions and the Executive Board.

Prior to the process a number of meetings are held between Group Finance, internal and external auditors and, on an ad-hoc basis, specialists from, for instance, the Group's risk and credits areas. Significant accounting issues will be discussed at the meetings, including any changes to accounting policies or measurement principles and any new relevant legislation.

Group Finance, which includes the finance functions of Nykredit Realkredit, Totalkredit, Nykredit Bank and Nykredit Portefølje Administration, undertakes the Group's overall financial reporting and is responsible for ensuring that Group financial reporting complies with policies laid down and current legislation. Group Finance is also responsible for the day-to-day internal reporting in the Treasury and Markets areas.

Group Finance prepares monthly internal reports and performs budget control, which includes explaining the monthly, quarterly and annual results. Further, Group Finance is responsible for the Group's external annual and interim financial reporting.

#### **Control environment**

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

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

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

Furthermore, the Parent 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 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.

In connection with the preparation of financial statements, a number of standard 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, eg Risk, Compliance and IT Security.

# MANAGEMENT STATEMENT AND AUDIT REPORTS

## STATEMENT BY THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD ON THE ANNUAL REPORT

The Board of Directors and the Executive Board have today reviewed and approved the Annual Report 2016 of Totalkredit A/S.

The Financial Statements and the Management Commentary are 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 Financial Statements have been prepared in accordance with additional Danish disclosure requirements for issuers of listed bonds.

Copenhagen, 7 February 2017

### Executive Board

Troels Bülow-Olsen

Camilla Holm

In our opinion the Financial Statements give a true and fair view of the Company's assets, liabilities, equity and financial position at 31 December 2016 and of the results of the Company's operations for the financial year 2016.

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

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

### Board of Directors

Michael Rasmussen,  
Chairman

Claus E. Petersen,  
Deputy Chairman

Petter Blondeau

Anne Christiansen\*

Kim Duus

Karen Frøsig

David Hellemann

Søren Holm

Anders Jensen

Michael Holm Jensen\*

Gert Jonassen

Jari Loch Jensen\*

Martin Rasborg Thomsen\*

\*Staff-elected member

## INTERNAL AUDITORS' REPORT

### Opinion

In our opinion, the Financial Statements of Totalkredit A/S give a true and fair view of the Company's assets, liabilities, equity and financial position at 31 December 2016 and of the results of its operations for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Business Act.

Further, in our opinion, the Company's risk management, compliance function, business procedures and internal control established in all material areas and risk areas have been organised and are working satisfactorily.

### Basis for opinion

We have audited the Financial Statements of Totalkredit A/S for the financial year 1 January – 31 December 2016. The Financial Statements are prepared in accordance with the Danish Financial Business Act.

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 with International Standards on Auditing concerning planning and performing of audits.

We conducted a review of the risk management, compliance function, business procedures and internal control of the Company in all material areas and risk areas.

We planned and performed the audit to obtain reasonable assurance that the Financial Statements are free from material misstatement. We participated in the audit of all material areas and risk areas.

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

### Statement on the Management Commentary

Management is responsible for the Management Commentary.

Our opinion on the Financial Statements does not cover the Management Commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the Management Commentary and, in doing so, consider whether the Management Commentary is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management Commentary provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management Commentary is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management Commentary.

Copenhagen, 7 February 2017

Claus Okholm  
Chief Audit Executive

Kim Stormly-Hansen  
Deputy Chief Audit Executive

## INDEPENDENT AUDITOR'S REPORT

### To the shareholder of Totalkredit A/S

#### Opinion

We have audited the Financial Statements of Totalkredit A/S for the financial year 1 January – 31 December 2016, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the Financial Statements give a true and fair view of the Company's assets, liabilities, equity and financial position at 31 December 2016 and of the results of its operations for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Business Act.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of this auditor's report.

We are independent of the Company in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for the financial year 1 January – 31 December 2016. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How the matters were addressed in our audit
<p><b>Loan impairment losses</b></p> <p>Determining impairment losses on loans and advances is subject to significant uncertainty and is highly based on management judgement. Due to the significance of such management judgement and the loan volumes of the Company, impairment losses on loans and advances are a key audit matter. Loans and advances amount to DKK 600,011m at 31 December 2016, and impairment losses thereon amount to DKK 47m in 2016.</p> <p>The principles for determining the impairment losses are described in the Summary of significant accounting policies, and Management has further described the management of credit risks and the review for impairment in notes 8 and 20.</p> <p>The most significant judgements requiring special audit attention are:</p> <ul style="list-style-type: none"><li>• Assessment of whether loans and advances are impaired</li><li>• Valuation of security, including properties in particular which form part of the determination of impairment losses</li><li>• Management estimates.</li></ul>	<p>Our audit comprised a review of relevant business procedures, test of controls and analysis of the amount of impairment losses.</p> <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"><li>• Challenging of the methods applied for the areas involving the highest degree of management judgement on the basis of our sector knowledge and experience, including a review of changes since last year</li><li>• Assessment of the changes in the assumptions for areas involving the highest degree of management judgement against trends in the sector as well as historical observations</li><li>• Challenging of management judgement with special focus on management consistency and objectivity</li></ul>

## Statement on the Management Commentary

Management is responsible for the Management Commentary.

Our opinion on the Financial Statements does not cover the Management Commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the Management Commentary and, in doing so, consider whether the Management Commentary is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management Commentary provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management Commentary is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management Commentary.

## Management's responsibility for the Financial Statements

Management is responsible for the preparation of the Financial Statements that give a true and fair view in accordance with the Danish Financial Business Act.

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.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in the preparation of the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

## Auditors' responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud

or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with International Standards on Auditing and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in the preparation of the Financial Statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures in the notes, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, related safeguards.

From the matters communicated with Those Charged with Governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 7 February 2017

**Deloitte**

Statsautoriseret Revisionspartnerselskab  
CVR no 33 96 35 56

Anders O. Gjelstrup  
State-Authorised Public Accountant

Henrik Wellejus  
State-Authorised Public Accountant

# STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

DKK million

		2016	2015
<b>INCOME STATEMENT</b>			
Interest income	2	15,861	17,019
Interest expenses	3	10,465	12,025
<b>Net interest income</b>		<b>5,396</b>	<b>4,994</b>
Fee and commission income	4	525	719
Fee and commission expenses	5	2,743	2,774
<b>Net interest and fee income</b>		<b>3,178</b>	<b>2,939</b>
Value adjustments	6	166	15
Other operating income		2	0
Staff and administrative expenses	7	670	547
Other operating expenses		3	1
Impairment losses on loans, advances and receivables	8	47	446
<b>Profit before tax</b>		<b>2,628</b>	<b>1,961</b>
Tax	9	579	461
<b>Profit for the year</b>		<b>2,048</b>	<b>1,500</b>
<b>PROPOSAL FOR THE DISTRIBUTION OF PROFIT</b>			
Profit for the year		2,048	1,500
<b>Total amount available for distribution</b>		<b>2,048</b>	<b>1,500</b>
Retained earnings		2,048	1,500
<b>Total distribution</b>		<b>2,048</b>	<b>1,500</b>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>			
Comprehensive income			
Profit for the year		2,048	1,500
Other comprehensive income		-	-
<b>Comprehensive income for the year</b>		<b>2,048</b>	<b>1,500</b>

# BALANCE SHEET

DKK million

		2016	2015
<b>Assets</b>			
Receivables from credit institutions and central banks	10	19,341	15,850
Loans, advances and other receivables at fair value	11	599,943	570,443
Loans, advances and other receivables at amortised cost	11	68	45
Bonds at fair value	12	69,364	62,843
Current tax assets		35	-
Deferred tax assets		5	2
Assets in temporary possession	13	10	25
Other assets	14	1,754	2,302
Prepayments		7	7
<b>Total assets</b>		<b>690,527</b>	<b>651,517</b>
<b>Liabilities and equity</b>			
Payables to credit institutions and central banks	15	647,073	606,415
Bonds in issue at fair value	15	11,162	18,368
Current tax liabilities		-	26
Other liabilities	16	5,625	6,089
<b>Total payables</b>		<b>663,860</b>	<b>630,898</b>
Provisions for pensions and similar obligations		6	6
Subordinated debt	17	6,000	2,000
<b>Equity</b>			
Share capital		848	848
Reserves			
Series reserves		1,646	1,646
Other reserves		18,167	16,118
<b>Total equity</b>		<b>20,661</b>	<b>18,613</b>
<b>Total liabilities and equity</b>		<b>690,527</b>	<b>651,517</b>
<b>Off-balance sheet items</b>			
Other commitments	18	7	8
<b>Total</b>		<b>7</b>	<b>8</b>

# STATEMENT OF CHANGES IN EQUITY

DKK million

	Share capital	Series reserves	Retained earnings	Total
<b>Equity, 1 January 2016</b>	<b>848</b>	<b>1,646</b>	<b>16,119</b>	<b>18,613</b>
Profit for the year	-	-	2,048	2,048
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>2,048</b>	<b>2,048</b>
<b>Equity, 31 December 2016</b>	<b>848</b>	<b>1,646</b>	<b>18,167</b>	<b>20,661</b>
<b>Equity, 1 January 2015</b>	<b>848</b>	<b>1,646</b>	<b>14,619</b>	<b>17,113</b>
Profit for the year	-	-	1,500	1,500
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>1,500</b>	<b>1,500</b>
<b>Equity, 31 December 2015</b>	<b>848</b>	<b>1,646</b>	<b>16,119</b>	<b>18,613</b>

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

Totalkredit is included in the consolidated financial statements of this company and the consolidated financial statements of Foreningen Nykredit (the Nykredit Association), Kalvebod Brygge 1-3, Copenhagen, which owns 89.8% of Nykredit Realkredit A/S. The financial statements [in Danish] of Foreningen Nykredit may be obtained from Foreningen Nykredit.

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

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# NOTES

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## 1. ACCOUNTING POLICIES

### GENERAL

The Annual Report is prepared in accordance with the Danish Financial Business Act and the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. The Annual Report is 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 to the nearest whole million Danish kroner, the sum of individual figures and the stated totals may differ slightly.

In 2016 no changes were made to the FSA Executive Order on Financial Reports for Credit Institutions and Investment firms, etc. of importance to this Annual Report and the Financial Statements.

The accounting policies are unchanged compared with the Annual Report 2015.

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

#### Measurement of loans and advances – impairments

Impairment of loans and advances involves significant estimates and assessments in the quantification of the risk of not receiving all future payments. If it can be established 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.

## RECOGNITION AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

### 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 day 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 financial 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 as well as liabilities 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 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, senior secured debt (previously referred to as junior covered bonds or JCBs), 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 valuation 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 are funded by issuing listed covered bonds (ROs and SDOs) of uniform terms. Such mortgage loans may be prepaid by delivery of the underlying bonds.

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Totalkredit buys and sells self-issued covered bonds on a continuing basis as they constitute a significant part of the Danish money market.

If mortgage loans and covered bonds in issue 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 portfolio 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 portfolio 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 intercompany 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 senior secured debt in issue are measured at fair value based on listed prices or other generally accepted valuation methods based on observable inputs.

Realised and unrealised gains and losses arising from changes in the fair value are recognised in "Value adjustments" through profit or loss 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 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, Totalkredit assesses the probability of losses, and the 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 partly based on experience of 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 the 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 Totalkredit, 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 Totalkredit, and if the value of the liability can be measured reliably.

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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.

#### **Profit from core business and investment portfolio income**

The financial highlights in the Management Commentary presents Totalkredit's results in the form of Profit from core business and Investment portfolio income.

This presentation corresponds to the internal presentation which is regularly reported to Totalkredit's management and which in the opinion of Management best reflects the activities and earnings of the company.

Profit from core business mirror income from business with customers and core income from securities less operating costs, depreciation, amortisation and impairment losses including loan impairment. Net costs relating to senior secured debt are recognised as a separate item. Net costs relating to senior secured debt consist of the difference between the interest payable on the senior debt in issue and the interest receivable on assets in which the proceeds are invested at the time of issuance. Value adjustment of the senior secured debt in issue and the assets in which proceeds are invested is included in investment portfolio income.

Core income from securities includes the return Totalkredit 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.

Internal reporting and the presentation of financial highlights are based on Totalkredit's accounting policies for recognition and measurement. Profit (loss) before tax and Profit (loss) for the year thus correspond to equal items in the income statement.

#### **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. Totalkredit 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 adjustments are 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 commission similar to interest received and other income that form an integral part of the effective interest of the underlying instruments.

Interest expenses comprise interest and similar 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. Obligations related to Anniversary bonus, termination benefits as well as holiday pay/allowance obligations are recognised successively.

##### **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.

Based on the balance sheet liability method, deferred tax on all temporary differences between the carrying amounts and the tax base of an asset or liability is recognised.

Totalkredit is jointly taxed with Foreningen Nykredit. The Parent settles the total tax payable on the Nykredit Group's taxable income assessed for the year.

Current Danish corporation tax payable is distributed among the jointly taxed Danish companies relative to their taxable income (full distribution subject to refund for tax losses).

#### **ASSETS**

##### **Assets in temporary possession**

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

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

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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.

# NOTES

DKK million

	2016	2015
<b>2. INTEREST INCOME</b>		
Receivables from credit institutions and central banks	(29)	(25)
Loans, advances and other receivables	10,318	11,800
Administration margin (income)	5,169	4,588
Bonds		
- Self-issued bonds	3	13
- Other covered bonds	315	600
- Government bonds	12	-
Derivative financial instruments		
- Interest rate contracts	76	56
<b>Total</b>	<b>15,864</b>	<b>17,032</b>
Set-off of interest from self-issued bonds	(3)	(13)
<b>Total</b>	<b>15,861</b>	<b>17,019</b>
<b>3. INTEREST EXPENSES</b>		
Mortgage loan funding through Nykredit Realkredit A/S	10,173	11,564
Bonds in issue	242	433
Other payables to Nykredit Realkredit A/S	-	-
Subordinated debt	52	41
Other interest expenses	1	1
<b>Total</b>	<b>10,468</b>	<b>12,038</b>
Set-off of interest from self-issued bonds	(3)	(13)
<b>Total</b>	<b>10,465</b>	<b>12,025</b>
<b>4. FEE AND COMMISSION INCOME</b>		
Loan fees, new lending	296	443
Trading commission and other fees	230	276
<b>Total</b>	<b>525</b>	<b>719</b>
<b>5. FEE AND COMMISSION EXPENSES</b>		
Loan arrangement fees	250	484
Commission to loan arrangers	2,293	2,065
Other fees	199	225
<b>Total</b>	<b>2,743</b>	<b>2,774</b>
<b>6. VALUE ADJUSTMENTS</b>		
Mortgage lending	9,686	(11,793)
Bonds	292	6
Foreign exchange	1	1
Foreign exchange, interest rate and other contracts as well as derivative financial instruments	(225)	(188)
Other liabilities	98	196
Bonds in issue <sup>1</sup>	(9,686)	11,793
<b>Total</b>	<b>166</b>	<b>15</b>

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

# NOTES

DKK million

	2016	2015
<b>7. STAFF AND ADMINISTRATIVE EXPENSES</b>		
Remuneration of Board of Directors and Executive Board	6	6
Staff expenses	88	81
Other administrative expenses	576	460
<b>Total</b>	<b>670</b>	<b>547</b>
<b>Remuneration of Board of Directors and Executive Board</b>		
<b>Board of Directors:</b>		
Fees	1	1
<b>Executive Board:</b>		
Salaries	5	5
Pensions	0	0
<b>Total</b>	<b>4</b>	<b>5</b>
<b>Staff expenses:</b>		
Salaries	71	66
Pensions	7	7
Other social security expenses and charges	10	8
<b>Total</b>	<b>88</b>	<b>81</b>

## TERMS AND CONDITIONS APPLYING TO THE BOARD OF DIRECTORS

The Board of Directors comprises 13 members of which eight members receive fixed fees and a refund of any costs incurred in connection with board meetings. 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-2016, annual remuneration amounted to DKK 200,000 for the Chairman, DKK 150,000 for the Deputy Chairman and DKK 100,000 for other Board members. The members of the Board of Directors are listed on pages 3-5 of the Annual Report. The members of the Board of 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 2016 of Nykredit Realkredit A/S for the terms and conditions applying to its Executive Board. In addition, Claus E. Petersen received a fee of DKK 185,000 from Nykredit Holding A/S.

### 2016

Members of the Board of Directors employed as Group Chief Executive or Group Managing Director of Nykredit Realkredit, received the following remuneration from Nykredit Realkredit (DKK '000)

	Michael Rasmussen	Kim Duus	Søren Holm	Anders Jensen	David Hellemann	Bente Overgaard	Total
Contractual salary	9,805	6,070	6,070	6,070	2,024	3,035	33,074
Pension contributions	2,270	-	-	1,396	466	698	4,830
<b>Total</b>	<b>12,075</b>	<b>6,070</b>	<b>6,070</b>	<b>7,466</b>	<b>2,490</b>	<b>3,733</b>	<b>37,903</b>
Defined benefit plans	-	1,717	1,717	-	-	-	3,434
Salary, pension and termination benefits in the period of notice	-	-	-	-	-	15,332	15,332
<b>Total expenses for accounting purposes/total earned income</b>	<b>12,075</b>	<b>7,787</b>	<b>7,787</b>	<b>7,466</b>	<b>2,490</b>	<b>19,065</b>	<b>56,070</b>
Various benefits	27	13	20	23	4	66	153

### 2015

Members of the Board of Directors employed as Group Chief Executive or Group Managing Director of Nykredit Realkredit, received the following remuneration from Nykredit Realkredit (DKK '000)

	Michael Rasmussen	Kim Duus	Søren Holm	Anders Jensen	David Hellemann	Bente Overgaard	Total
Contractual salary	9,805	6,070	6,070	6,070	-	6,070	34,085
Pension contributions <sup>1</sup>	2,270	-	-	1,396	-	1,396	5,062
Anniversary bonus	-	-	-	-	-	150	150
Compensation for waiving defined benefit pension plan	-	-	-	-	-	4,000	4,000
<b>Total</b>	<b>12,075</b>	<b>6,070</b>	<b>6,070</b>	<b>7,466</b>	<b>-</b>	<b>11,616</b>	<b>43,297</b>
Defined benefit plans	-	2,447	2,443	-	-	(8,705)	(3,815)
<b>Total expenses for accounting purposes/total earned income</b>	<b>12,075</b>	<b>8,517</b>	<b>8,513</b>	<b>7,466</b>	<b>-</b>	<b>2,911</b>	<b>39,482</b>
Various benefits	10	10	10	10	0	10	50

2016 2015

## 7. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

### Terms and conditions applying to the Executive Board

Members of the Executive Board receive a fixed salary. The Executive Board further participates in Nykredit's general bonus schemes for subsidiary management executives. The programme is discretionary, which means that bonuses are not guaranteed. The bonus awarded to subsidiary management executives is based on a bonus potential and distributed on a year-by-year basis. In 2016 fixed annual salaries and bonuses came to the following totals:

	Troels Bülw-Olsen	Camilla Holm	Total
Contractual salary	2,446	1,723	4,169
Pension contributions	100	193	293
Bonus	724	522	1,246
<b>Total</b>	<b>3,270</b>	<b>2,438</b>	<b>5,708</b>
Various benefits	18	13	31

	Troels Bülw-Olsen	Camilla Holm	Total
Contractual salary	2,395	399	2,794
Pension contributions	100	45	145
Bonus	793	450	1,243
<b>Total</b>	<b>3,288</b>	<b>894</b>	<b>4,182</b>
Various benefits	16	3	19

Troels Bülw-Olsen and Camilla Holm have not received remuneration for serving as members of the Board of Directors or the Executive Board of other companies of the Nykredit Group.

The pensionable age for members of the Executive Board is 70 years. For Troels Bülw-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. A provision of DKK 5.6m had been made at end-2016 against DKK 5.0m at end-2015 to cover pension obligations in respect of Troels Bülw-Olsen.

Executive Board members' employment contract is terminable by Totalkredit giving 12 months' notice and by the Executive Board members giving three months' notice. Upon resignation at Totalkredit A/S's request, Executive Board members are entitled to termination benefits equal to nine months' gross salary.

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

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

Executive Board	7	-
Board of Directors	34	29
Management and related parties of Totalkredit's Parent	-	1

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.

### Salaries for risk takers

The number of risk takers was an average 5.7 persons in 2016. Remuneration of risk takers amounted to DKK 5.4m in 2016, of which base salaries of DKK 5.2m, and variable remuneration of DKK 0.2m.

The expense is included in "Staff expenses".

### Number of staff

Average number of staff, full-time equivalents	132	120
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### Fees to Deloitte, auditors appointed by the General Meeting

Total fees include:	1	1
Statutory audit of the Financial Statements	1	1

# NOTES

DKK million

	2016	2015
<b>8. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES</b>		
Change in individual impairment provisions for loans and advances	275	327
Change in collective impairment provisions for loans and advances	(213)	98
Write-offs for the year	256	291
Recoveries on claims previously written off	(20)	(10)
<b>Total impairment losses on loans, advances and receivables</b>	<b>297</b>	<b>705</b>
Value adjustment of assets in temporary possession	16	29
Losses covered by security from partner banks	(240)	(277)
Value adjustment of claims previously written off	(26)	(10)
<b>Total</b>	<b>47</b>	<b>446</b>
<b>Specification of provisions for loan impairment</b>		
Individual impairment provisions	554	553
Collective impairment provisions	576	789
<b>Total impairment provisions</b>	<b>1,130</b>	<b>1,342</b>
<b>Individual impairment provisions</b>		
Impairment provisions, beginning of year	553	546
Impairment provisions for the year	454	464
Impairment provisions reversed	(146)	(138)
Value adjustment of acquired properties	(44)	(33)
Impairment provisions written off	(263)	(286)
<b>Impairment provisions, year-end</b>	<b>554</b>	<b>553</b>
<b>Collective impairment provisions</b>		
Impairment provisions, beginning of year	789	691
Impairment provisions for the year, net	(214)	98
<b>Impairment provisions, year-end</b>	<b>576</b>	<b>789</b>
<b>Individual impairment provisions for properties acquired by foreclosure</b>		
Impairment provisions, beginning of year	70	99
Transfer from non-acquired properties	44	33
Impairment provisions for the year	11	32
Impairment provisions reversed	(28)	(3)
Impairment provisions written off	(28)	(91)
<b>Impairment provisions, year-end</b>	<b>69</b>	<b>70</b>
Of total individual impairment provisions for mortgage loans, about 11% was attributable to loans in arrears but not referred to collection and about 61% to loans in arrears referred to collection. The remaining 28% was attributable to estates in bankruptcy or estates of deceased persons.		
<b>Specification of loans and advances</b>		
Loans and advances subject to individual provisioning	3,450	2,943
Impairment provisions	554	553
<b>Loans and advances after impairment</b>	<b>2,895</b>	<b>2,390</b>
Loans and advances subject to collective provisioning	40,013	38,709
Impairment provisions	576	789
<b>Loans and advances after impairment</b>	<b>39,437</b>	<b>37,920</b>
<b>9. TAX</b>		
Current tax	580	461
Deferred tax	(2)	0
Adjustment of tax assessed for previous years	1	0
<b>Total</b>	<b>579</b>	<b>461</b>
Current tax rate, %	22.0	23.5
Non-deductible costs, %	(0.0)	0.0
<b>Effective tax rate, %</b>	<b>22.0</b>	<b>23.5</b>

# NOTES

DKK million

	2016	2015
<b>10. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS</b>		
Receivables from credit institutions	19,341	15,850
<b>Total</b>	<b>19,341</b>	<b>15,850</b>
<b>11. LOANS, ADVANCES AND OTHER RECEIVABLES</b>		
Loans, advances and other receivables at fair value	599,943	570,443
Loans, advances and other receivables at amortised cost	68	45
<b>Total</b>	<b>600,011</b>	<b>570,488</b>
<b>Loans, advances and other receivables at fair value</b>		
Mortgage lending	599,721	570,321
Receivables from lending secured on non-acquired properties	222	123
<b>Total</b>	<b>599,943</b>	<b>570,443</b>
<b>Mortgage lending</b>		
Balance, beginning of period, nominal value	570,806	541,715
New loans	137,047	170,286
Ordinary principal payments	(8,930)	(7,159)
Prepayments and extraordinary principal payments	(107,964)	(134,036)
<b>Balance, year-end, nominal value</b>	<b>590,959</b>	<b>570,806</b>
Loans transferred relating to properties in temporary possession	(32)	(48)
Adjustment for interest rate risk	9,849	746
<b>Adjustment for credit risk</b>		
Individual impairment provisions	(479)	(394)
Collective impairment provisions	(576)	(789)
<b>Balance, year-end, fair value</b>	<b>599,721</b>	<b>570,321</b>
<b>As collateral for loans and advances, Nykredit has received mortgages over real estate:</b>		
Arrears before impairment provisions	129	105
Outlays before impairment provisions	168	177
Impairment losses recognised in the arrears	(3)	(36)
Impairment losses recognised in the outlays	(72)	(123)
<b>Total</b>	<b>222</b>	<b>123</b>
Mortgage arrears up to and including the September 2016 due date, for which no provisions have been made, amounted to DKK 0.		
<b>Loans, advances and other receivables at amortised cost</b>		
Mortgage lending	16	19
Other loans and advances	52	26
<b>Total</b>	<b>68</b>	<b>45</b>
Measured at fair value, the item amounted to DKK 68m at end-Q4/2016 and DKK 45m at end-2015.		
<b>Mortgage lending</b>		
Balance, beginning of period, nominal value	19	27
Ordinary principal payments	0	0
Prepayments and extraordinary principal payments	(3)	(7)
<b>Balance, year-end, nominal value</b>	<b>16</b>	<b>19</b>

# NOTES

DKK million

	2016	2015
<b>11. LOANS, ADVANCES AND OTHER RECEIVABLES (CONTINUED)</b>		
<b>Mortgage loans by property category</b>		
Loans and advances as % at nominal value, year-end		
Owner-occupied dwellings	95%	95%
Commercial property	0%	0%
Holiday homes	5%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>
<b>Mortgage loans by property category</b>		
Number of loans, end of financial year	565,879	561,492
<b>For mortgage loans, the following bank guarantees have been provided:</b>		
Supplementary guarantees in addition to mortgages on real estate	23,980	18,767
Statutory guarantees for interim loans	16,644	14,117
Guarantees for loans disbursed before obtaining a registered mortgage	25,165	17,488
<b>Balance, year-end, nominal value</b>	<b>65,790</b>	<b>50,372</b>
<b>12. BONDS AT FAIR VALUE</b>		
Self-issued covered bonds	329	2,084
Other covered bonds	69,364	62,843
<b>Total</b>	<b>69,693</b>	<b>64,928</b>
Transferred to set-off against "Bonds in issue at fair value" – note 15	(329)	(2,084)
<b>Total bonds</b>	<b>69,364</b>	<b>62,843</b>
<b>13. ASSETS IN TEMPORARY POSSESSION</b>		
Debt outstanding, year-end	11	39
Outlays	28	22
Impairment provisions, year-end	(29)	(36)
<b>Total</b>	<b>10</b>	<b>25</b>
<b>14. OTHER ASSETS</b>		
Positive market value of derivative financial instruments	22	31
Interest and commission receivable on loans and advances	1,169	1,642
Interest receivable from bonds and credit institutions	533	596
Other assets	29	33
<b>Total</b>	<b>1,754</b>	<b>2,302</b>

# NOTES

DKK million

	2016	2015
<b>15. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS</b>		
Payables to credit institutions	95	128
Payables to Nykredit Realkredit A/S concerning supplementary collateral for SDO-funded mortgage lending	10,976	12,891
Payables to Nykredit Realkredit A/S concerning funding of mortgage lending	636,001	593,396
<b>Total</b>	<b>647,073</b>	<b>606,415</b>
<b>Of which payables to Nykredit Realkredit A/S concerning the funding of mortgage loans</b>		
Balance, beginning of period, nominal value	593,450	576,935
Additions	185,904	271,457
Redemptions and prepayments	(142,592)	(243,139)
Prepayments and extraordinary principal payments	(9,964)	(11,804)
<b>Balance, year-end, nominal value</b>	<b>626,799</b>	<b>593,450</b>
Fair value adjustment	9,203	(54)
<b>Total</b>	<b>636,001</b>	<b>593,396</b>
<b>Bonds in issue at fair value</b>		
<b>Covered bonds issued against mortgages on real estate</b>		
Balance, beginning of period, nominal value	19,651	37,776
Additions	-	-
Redemptions and prepayments	(8,538)	(16,123)
Prepayments and extraordinary principal payments	(269)	(2,002)
<b>Balance, year-end</b>	<b>10,845</b>	<b>19,651</b>
Set-off of self-issued bonds	(329)	(2,084)
Fair value adjustment	646	801
<b>Total</b>	<b>11,162</b>	<b>18,368</b>
Bonds redeemed at next creditor payment date	789	860
<p>Changes to the fair values of covered bonds (ROs and SDOs) attributable to Totalkredit's own credit risk can be determined based on changes in option-adjusted yield spreads (OAS) versus government bonds or based on changes in yield spreads versus equivalent covered bonds from other Danish mortgage lenders.</p> <p>Determined relative to other Danish mortgage lenders, the fair value has not been subject to changes attributable to Totalkredit's own credit risk in 2016 or since the issuance date, as there are no measurable price differences between bonds with identical properties from different mortgage lenders.</p> <p>The yield spread between government bonds and covered bonds tightened in 2016 causing a rise in the fair value of issued bonds of about DKK 3.5bn attributable to Totalkredit's own credit risk. Since 2008 spread widenings between government bonds and covered bonds have resulted in a fair value decline attributable to Totalkredit's own credit risk of approximately DKK 8.7bn. The determination allows for both maturity and nominal holding, but is to some extent based on estimates.</p>		
<b>16. OTHER LIABILITIES</b>		
Interest payable on covered bonds in issue, including bonds issued by Nykredit Realkredit A/S for the funding of mortgage lending by Totalkredit A/S	4,812	5,171
Negative market value of derivative financial instruments	43	63
Other	771	855
<b>Total</b>	<b>5,625</b>	<b>6,089</b>

# NOTES

DKK million

	2016	2015
<b>17. SUBORDINATED DEBT</b>		
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 totalled DKK 6,000m against DKK 2,000m at 31 December 2015.		
<b>Subordinate loan capital</b>		
Nominal DKK 2,000m raised on 21 December 2015. The loan falls due at par (100) on 1 January 2026 and carries an interest rate of 2.1% above 3M Cibor.	2,000	2,000
<b>Total subordinate loan capital</b>	<b>2,000</b>	<b>2,000</b>
<b>Additional Tier 1 capital</b>		
Nominal DKK 4,000m raised on 9 December 2016. The loan is perpetual and carries an interest rate of 5.0% pa above 3M Cibor	4,000	-
<b>Total Additional Tier 1 capital</b>	<b>4,000</b>	<b>-</b>
<b>Total subordinated debt</b>	<b>6,000</b>	<b>2,000</b>
No costs were incurred in connection with the redemption or raising of subordinate loan capital. Measured at fair value, subordinated debt amounted to DKK 6,000m.		
<b>18. OFF-BALANCE SHEET ITEMS</b>		
<b>Other commitments</b>		
Other liabilities	7	8
<b>Total</b>	<b>7</b>	<b>8</b>
<b>Additional contingent liabilities</b>		
Totalkredit participates in the Danish resolution scheme, implying that a resolution fund must be built up at sector level (banks and mortgage lenders etc), the purpose of which is to issue guarantees and provide loans etc to credit institutions in connection with restructuring and resolution measures.		
The Resolution Fund was established on 1 July 2015 and must amount to at least 1% of the sector's covered deposits. The Resolution Fund will be based on annual contributions from the participating businesses and must be in place by end-2024. Totalkredit's contribution to the Danish Resolution Fund came to about DKK 3m in 2016 and DKK 1m in 2015. Totalkredit further pays Nykredit Realkredit an amount corresponding to the part of the Group's contribution attributable to joint funding. The amount totalled about DKK 66m in 2016.		
The Company is jointly taxed in Denmark with Foreningen Nykredit as the administration company. Pursuant to the Danish Corporation Tax Act, the Company is liable for income taxes etc payable by the jointly taxed companies as of the financial year 2013 and for any obligations to withhold tax at source on interest, royalties and dividends of these companies as of 1 July 2012. The total known net obligation to the Danish tax authorities (SKAT) of jointly taxed companies is stated in the Financial Statements of Foreningen Nykredit.		

# NOTES

DKK million

2016 2015

## 19. RELATED PARTY TRANSACTIONS AND BALANCES

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

Transactions with Nykredit are based on agreements, and no unusual related party transactions occurred in 2016.

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

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

Significant related party transactions prevailing/entered into in 2016 include:

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

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

Totalkredit A/S has raised loans with Nykredit Realkredit A/S serving as collateral in Totalkredit's capital centres. On 31 December 2016, these loans totalled DKK 11.0bn against DKK 12.9bn on 31 December 2015.

Totalkredit A/S has raised loans with Nykredit Realkredit A/S in the form of subordinated debt. At end-2016, Totalkredit had raised loans totalling DKK 6.0bn with Nykredit Realkredit A/S in the form of subordinated debt.

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

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

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

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

Nykredit Bank A/S may transfer secured homeowner loans to Totalkredit A/S. In 2016, Totalkredit received secured homeowner loans of DKK 1.2bn from Nykredit Bank A/S.

### Income statement

Interest income	173	382
Interest expenses	10,225	11,605
Fee and commission expenses	469	416
Value adjustments	(9,744)	11,448
Costs	454	329

### Asset items

Receivables from credit institutions and central banks	17,895	15,676
Bonds at fair value	34,973	42,014
Other assets	361	539

### Liability items

Payables to credit institutions	647,049	606,373
Other liabilities	4,265	4,774
Tier 2 capital	6,000	2,000

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 Executive Board.

# NOTES

DKK million

	2016	2015
<b>20. CREDIT RISK</b>		
<b>Total credit exposure</b>		
Receivables from credit institutions and central banks	19,341	15,850
Loans, advances and other receivables at fair value	599,943	570,443
Loans, advances and other receivables at amortised cost	68	45
Bonds at fair value	69,364	62,843
Other assets	1,754	2,302
Off-balance sheet items	7	8
<b>Total</b>	<b>690,477</b>	<b>651,491</b>
<b>Mortgage loans</b>		
- Bond debt outstanding	570,976	570,825
- Number of loans	565,879	561,492
Bond debt outstanding by loans involving:		
- bank guarantees	61,364	49,156
- guarantee and set-off agreement with partner banks	230,152	161,379
- set-off agreement with partner banks	162,715	215,302
- no security	136,745	144,988
<b>Total</b>	<b>590,976</b>	<b>570,825</b>
<b>Bond debt outstanding by loan type</b>		
Fixed-rate loans		
- repayment loans	170,480	154,250
- interest-only loans	83,008	81,387
Adjustable-rate mortgage loans (ARMs)		
- repayment loans	64,326	68,245
- interest-only loans	161,181	172,088
Money market-linked loans		
Loans with interest rate caps		
- repayment loans	28,294	29,766
- interest-only loans	29,594	39,139
Loans without interest rate caps		
- repayment loans	17,079	8,560
- interest-only loans	37,012	17,390
<b>Total</b>	<b>590,976</b>	<b>570,825</b>
<b>Bond debt outstanding by region</b>		
- Capital Region of Denmark	139,685	131,867
- Sealand Region	75,750	73,792
- North Denmark Region	88,197	85,194
- Central Denmark Region	153,549	150,320
- South Denmark Region	133,630	129,459
- Greenland	165	193
<b>Total</b>	<b>590,976</b>	<b>570,825</b>

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## 20. CREDIT RISK (CONTINUED)

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 Company'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. The LTV ratio may not exceed 80% for owner-occupied dwellings for all-year habitation and 60% for business properties and holiday homes.

Totalkredit and its partner banks have agreed that any loss realised within the LTV range of 60-80% based on the cash value of the property at the time a loan is issued is covered by supplementary security provided by the partner banks. This security is mainly in the form of Totalkredit's right to offset any losses in the above LTV range against the commission payable to the partner banks. Since June 2014 a minor part of the right of set-off has been replaced by a loss guarantee provided by the partner bank. Part of the loan portfolio – the so-called high-risk properties – is secured by loss guarantees covering the LTV range of 40-80% based on the cash value of the property.

Totalkredit's credit risks are further described on pages 14-15 of the Management Commentary.

Totalkredit's maximum credit exposure comprises selected balance sheet and off-balance sheet items.

## 20. CREDIT RISK (CONTINUED)

### Concentration risk

Pursuant to the Danish Financial Business Act, an exposure to any one customer or group of interconnected customers must not, after deduction for highly secure claims, exceed 25% of eligible capital. Totalkredit had no exposures in 2016 or 2015 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 14.

### Mortgage debt outstanding relative to estimated property values

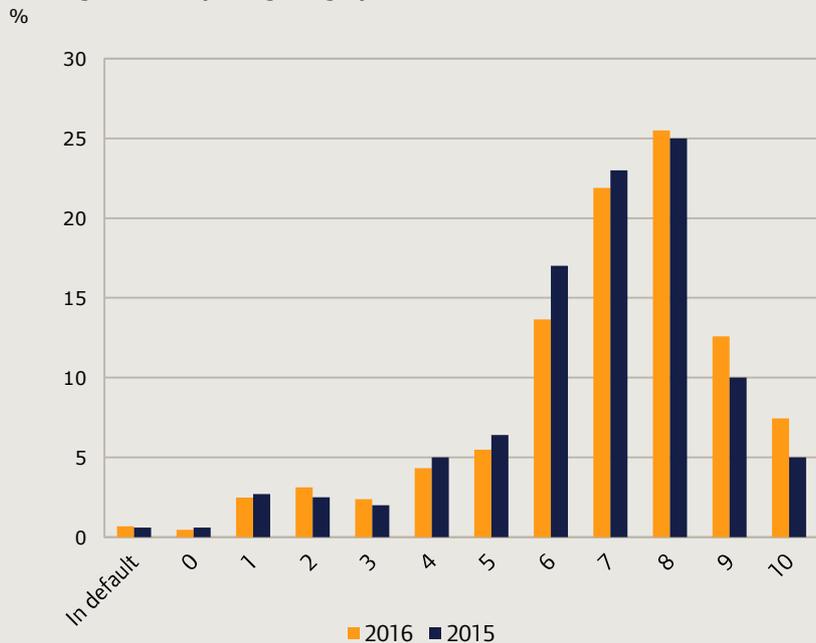
DKK million	LTV (loan-to-value), %						Over 100	Total	LTV average
	0-40	40-60	60-80	80-90	90-100				
2016	358,500	141,911	83,854	9,116	3,631	2,744	599,755	70%	
2015	340,416	135,105	78,271	9,386	4,006	3,137	570,321	71%	

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

Relative distribution, %	LTV (loan-to-value), %						Over 100	Total
	0-40	40-60	60-80	80-90	90-100			
2016	60	24	14	2	1	-	100	
2015	60	24	13	1	1	1	100	

**20. CREDIT RISK (CONTINUED)**

**Outstanding amounts by rating category**



Loans and advances totalling DKK 1,021m has OEI (objective evidence of impairment), but impairment provisions amounted to DKK 0.

**Arrears ratio, mortgage lending – 75 days past due**



# NOTES

DKK million

2016 2015

## 21. 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 and volatility risks, etc). Totalkredit's market risk primarily derives from its investment portfolio. Totalkredit mainly invests in Danish government and covered bonds issued in DKK and to a lesser extent covered bonds issued in EUR.

Interest rate risk is the risk of loss as a result of interest rate changes, and Totalkredit's interest rate risk is measured as the change in market value caused by a general interest rate increase of 1 percentage point in respect of bonds and financial instruments. Interest rate risk is managed by investing in bonds with varying interest rate risk and by using German government bond futures and DKK- and EUR-denominated interest rate swaps. In 2016 the target for interest rate exposure ranged from a gain of DKK 100m to a loss of DKK 300m.

At end-2016 the interest rate risk was DKK 111m against DKK 156m at end-2015. The interest rate exposure is in DKK and EUR.

In 2016 Totalkredit's most significant foreign exchange positions were in EUR. At end-2016, the exposure was DKK 2m against DKK 13m at end-2015.

Totalkredit's market risks are further described on page 15 of the Management Commentary.

## 22. 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. Therefore, mortgage lending and the funding thereof produce positive liquidity.

As a result of Totalkredit's large bond portfolio, the Company's liquidity is very high. The liquidity position ensures that Totalkredit 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	5,016	3,750
Up to 3 months	11,400	10,800
Over 3 months and up to 1 year	2,925	1,300
<b>Total, cf note 10</b>	<b>19,341</b>	<b>15,850</b>

#### Mortgage loans and arrears

Up to 3 months	3,604	3,137
Over 3 months and up to 1 year	9,601	8,950
Over 1 year and up to 5 years	60,712	55,100
Over 5 years	526,025	503,256
<b>Total, cf note 11</b>	<b>599,943</b>	<b>570,443</b>

#### Payables to credit institutions

Demand deposits	95	128
Up to 3 months	38,290	26,644
Over 3 months and up to 1 year	96,020	97,657
Over 1 year and up to 5 years	259,398	244,383
Over 5 years	253,270	237,603
<b>Total, cf note 15</b>	<b>647,073</b>	<b>606,415</b>

#### Bonds in issue at fair value

Up to 3 months	789	6,440
Over 3 months and up to 1 year	497	589
Over 1 year and up to 5 years	2,521	3,155
Over 5 years	7,684	10,268
<b>Total</b>	<b>11,491</b>	<b>20,452</b>
Set-off of self-issued bonds	(329)	(2,084)
<b>Total, cf note 15</b>	<b>11,162</b>	<b>18,368</b>

# NOTES

DKK  
million

<b>23. DERIVATIVE FINANCIAL INSTRUMENTS</b>									
	<b>Up to 3 months</b>		<b>Over 3 months and up to 1 year</b>		<b>Over 1 year and up to 5 years</b>		<b>Total 2016</b>		
	Nominal value	Net market value	Nominal value	Net market value	Nominal value	Net market value	Nominal value	Net market value	
<b>By time-to-maturity</b>									
<b>Interest rate contracts</b>									
Forward contracts/futures, purchased	5,845	4	142	1			5,987	5	
Forward contracts/futures, sold	15,222	(23)	24	-			15,246	(23)	
Unsettled spot transactions	3,633	(2)	-	-			3,633	(2)	
					<b>Market value of non-guaranteed contracts</b>		<b>Market value</b>		
					Positive	Negative	Positive	Negative	
<b>Interest rate contracts</b>									
Forward contracts/futures, purchased					15	11	15	11	
Forward contracts/futures, sold					7	30	7	30	
Unsettled spot transactions					-	2	-	2	

# NOTES

DKK million

	2016	2015	2014	2013	2012
<b>24. FIVE-YEAR FINANCIAL HIGHLIGHTS</b>					
<b>Summary income statement</b>					
Net interest income	5,396	4,994	4,454	3,461	3,192
Net fee income	(2,218)	(2,055)	(1,632)	(1,646)	(1,292)
<b>Net interest and fee income</b>	<b>3,178</b>	<b>2,939</b>	<b>2,822</b>	<b>1,815</b>	<b>1,900</b>
Value adjustments	166	15	(96)	(97)	(304)
Other operating income	2	0	0	0	1
Staff and administrative expenses	670	547	388	397	371
Other operating expenses	3	1	-	-	-
Impairment losses on loans, advances and receivables	47	446	406	567	528
<b>Profit before tax</b>	<b>2,628</b>	<b>1,961</b>	<b>1,932</b>	<b>754</b>	<b>697</b>
Tax	579	461	474	189	175
<b>Profit for the year</b>	<b>2,048</b>	<b>1,500</b>	<b>1,458</b>	<b>565</b>	<b>522</b>
<b>SUMMARY BALANCE SHEET, YEAR-END</b>					
	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
<b>Assets</b>					
Cash balances and receivables from credit institutions and central banks	19,341	15,850	23,607	16,263	20,942
Mortgage loans	599,943	570,443	555,777	540,670	522,980
Bonds and equities	69,364	62,843	91,795	79,357	85,235
Remaining assets	1,878	2,381	3,574	3,534	3,240
<b>Total assets</b>	<b>690,527</b>	<b>651,517</b>	<b>674,753</b>	<b>639,824</b>	<b>632,397</b>
<b>Liabilities and equity</b>					
Payables to credit institutions and central banks	647,073	606,415	609,964	565,734	547,012
Bonds in issue	11,162	18,368	36,229	46,568	58,516
Remaining liabilities	5,631	6,121	8,348	8,767	8,679
Subordinated debt	6,000	2,000	3,100	3,100	3,100
Equity	20,661	18,613	17,113	15,655	15,090
<b>Total liabilities and equity</b>	<b>690,527</b>	<b>651,517</b>	<b>674,753</b>	<b>639,824</b>	<b>632,397</b>
Return on equity after tax, %	10.4	8.4	8.9	3.7	3.6
Return on equity before tax, %	13.4	11.0	11.8	4.9	4.8
Loans and advances:equity	29.0	30.7	32.5	34.5	34.7
Growth in loans and advances for the year, %	3.5	5.4	1.7	4.4	7.7
Impairment losses for the year, %	0.0	0.1	0.1	0.1	0.1
Total capital ratio, %	28.7	23.5	20.9	21.3	22.2
Common Equity Tier 1 capital ratio, %	22.2	21.1	18.2	17.8	18.4
Income:cost ratio	4.7	3.0	3.4	1.8	1.8
Foreign exchange position, %	0.0	0.2	0.3	0.7	0.0
Total impairment provisions, %	0.2	0.2	0.2	0.2	0.2
Loans and advances:equity (loan gearing)	29.0	30.7	32.5	34.5	34.7
Return on capital employed, %	0.3	0.2	0.2	0.1	0.1

# NOTES

DKK million

	2016	2015
<b>25. CAPITAL AND CAPITAL ADEQUACY</b>		
<b>Own funds</b>		
Equity, year-end	20,661	18,613
Difference between expected losses and impairment losses	(206)	(21)
Other deductions	(9)	(13)
Transitional adjustments	82	13
<b>Common Equity Tier 1 capital</b>	<b>20,528</b>	<b>18,591</b>
Additional Tier 1 capital	4,000	-
Additional Tier 1 capital deductions	-	-
Transitional adjustment of deductions	(41)	-
Set-off of excess deductions	-	-
<b>Total Additional Tier 1 capital after deductions</b>	<b>3,959</b>	<b>-</b>
Tier 2 capital	2,000	2,000
Tier 2 capital additions/deductions	70	126
Transitional adjustment of deductions	(41)	(6)
Set-off of excess deductions	-	-
<b>Own funds</b>	<b>26,516</b>	<b>20,711</b>
<b>Capital requirement</b>		
Credit risk	6,717	6,461
Market risk	297	266
Operational risk	370	302
<b>Total capital requirement</b>	<b>7,384</b>	<b>7,029</b>
<b>Total capital requirement subject to transitional rule<sup>1</sup></b>	<b>18,800</b>	<b>17,998</b>
<b>Total risk exposure amount</b>	<b>92,296</b>	<b>87,867</b>
<b>Financial ratios</b>		
Common Equity Tier 1 capital ratio, %	22.2	21.1
Total capital ratio, %	28.7	23.5
<sup>1</sup> The capital requirement is determined subject to a transitional rule in accordance with the transitional provisions of the EU's Capital Requirements Regulation. The capital requirement must constitute at least 80% of the capital requirement determined under Basel I.		
<b>Required own funds and internal capital adequacy requirement</b>		
<b>Pillar I – primary risks</b>		
Credit risk	6,717	6,461
Market risk	297	266
Operational risk	370	302
<b>Total Pillar I</b>	<b>7,384</b>	<b>7,029</b>
<b>Pillar II – other risks</b>		
Weaker economic climate	1,097	1,416
Other factors	1,163	1,464
<b>Total Pillar II</b>	<b>2,260</b>	<b>2,880</b>
<b>Total required own funds</b>	<b>9,644</b>	<b>9,909</b>
<b>Total risk exposure amount</b>	<b>92,296</b>	<b>87,867</b>
<b>Internal capital adequacy requirement, %</b>	<b>10.4</b>	<b>11.3</b>

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

For a more detailed description of the determination of capital base and internal capital adequacy, reference is made to the report Risk and Capital Management 2016, available at [nykredit.dk/rappporter](http://nykredit.dk/rappporter).

# NOTES

## 26. FINANCIAL RATIOS, DEFINITIONS

<b>Total capital ratio, %</b>	Own funds divided by the total risk exposure amount
<b>Tier 1 capital ratio, %</b>	Tier 1 capital divided by the total risk exposure amount
<b>Return on equity before tax, %</b>	Profit (loss) before tax as a percentage of average equity
<b>Return on equity after tax, %</b>	Profit (loss) after tax as a percentage of average equity
<b>Income:cost ratio</b>	Income including profit (loss) from associates and Group enterprises divided by costs excluding tax
<b>Foreign exchange position, %</b>	Exchange rate indicator 1 divided by Tier 1 capital
<b>Loans and advances:equity</b>	Loans and advances divided by equity (year-end) Loans and advances include loans and advances at fair value and loans and advances at amortised cost
<b>Total impairment provisions, %</b>	Total impairment provisions at year-end divided by loans and advances
<b>Impairment losses for the year, %</b>	Impairment losses for the period divided by loans and advances plus guarantees plus impairment provisions
<b>Growth in loans and advances for the year, %</b>	Change in loans and advances divided by loans and advances at the beginning of the year
<b>Return on capital employed, %</b>	Profit (loss) for the year/period divided by total assets

The financial ratios have been calculated in accordance with the Danish FSA's guidelines for reporting purposes.

## OTHER FINANCIAL RATIOS

<b>Profit (loss) from core business before impairment losses as % pa of average equity (financial highlights p. 6)</b>	Profit from core business before impairment losses as % of average equity
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# SERIES FINANCIAL STATEMENTS

DKK million

<b>2016</b>	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
<b>Income statement</b>											
Income from lending	-	-	85	148	1,802	93	110	2,807	41	87	5,172
Interest, net	2	-	40	56	61	15	46	108	26	17	370
Administrative expenses	(1)	-	(58)	(97)	(976)	(54)	(74)	(1,526)	(30)	(52)	(2,868)
Impairment losses on loans and advances	-	-	(2)	(6)	(12)	-	(1)	(24)	-	-	(47)
Tax	(1)	-	(14)	(22)	(192)	(12)	(18)	(300)	(8)	(11)	(579)
<b>Profit for the year</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>78</b>	<b>682</b>	<b>42</b>	<b>64</b>	<b>1,065</b>	<b>28</b>	<b>40</b>	<b>2,048</b>
<b>Balance sheet – assets</b>											
Mortgage loans	6	-	10,543	11,346	253,892	13,630	7,231	290,791	2,934	9,637	600,011
Remaining assets	123	1	4,060	7,514	29,811	834	3,377	42,124	2,002	1,000	90,844
<b>Total assets</b>	<b>129</b>	<b>1</b>	<b>14,603</b>	<b>18,861</b>	<b>283,703</b>	<b>14,463</b>	<b>10,608</b>	<b>332,915</b>	<b>4,936</b>	<b>10,637</b>	<b>690,856</b>
<b>Balance sheet – liabilities and equity</b>											
Payables to credit institutions	1	-	-	15,434	274,351	13,496	7,919	322,671	3,487	9,619	646,978
Covered bonds in issue	7	-	11,484	-	-	-	-	-	-	-	11,491
Remaining liabilities	-	-	84	102	2,349	33	125	2,977	31	25	5,726
Subordinated debt	26	-	839	780	3,056	97	-	1,139	-	63	6,000
Equity	96	1	2,197	2,544	3,947	837	2,564	6,128	1,418	930	20,661
<b>Total liabilities and equity</b>	<b>129</b>	<b>1</b>	<b>14,603</b>	<b>18,861</b>	<b>283,703</b>	<b>14,463</b>	<b>10,608</b>	<b>332,915</b>	<b>4,936</b>	<b>10,637</b>	<b>690,856</b>
Inflow and outflow of funds, net	-	-	50	(422)	1,182	42	64	1,065	28	40	2,048
The difference between total assets at end-2016 of the Financial Statements of Totalkredit A/S and the Series Financial Statements may be specified as follows:											
Assets, Financial Statements											690,527
Assets, Series Financial Statements											690,856
<b>Difference</b>											<b>(329)</b>
Specified as follows:											
Self-issued bonds have been offset against the liability item "Bonds in issue"											(329)
<b>Total</b>											<b>(329)</b>

The Series Financial Statements have been presented in accordance with the Danish FSA's Executive Order no 872 of 20 November 1995 on series financial statements of mortgage lenders.

Complete series financial statements at individual series level may be obtained from Totalkredit A/S.

## OTHER INFORMATION

### LOAN ARRANGING CREDIT INSTITUTIONS

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

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