Annual Report

2017

Totalkredit

Contents

COMPANY DETAILS

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Totalkredit A/S
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Denmark

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CVR no 21 83 22 78
Financial year: 1 January – 31 December 2017
Municipality of registered office: Copenhagen
Website: totalkredit.dk
Stock exchange announcements, etc, are available at Totalkredit's website: totalkredit.dk and at nykredit.com/reports

DATE OF APPROVAL OF FINANCIAL STATEMENTS
These financial statements were approved on 8 February 2018.

EXTERNAL AUDITORS
Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
DK-2300 Copenhagen S

FINANCIAL HIGHLIGHTS

DKK million

	FY/ 2017	FY/ 2016	FY/ 2015	FY/ 2014	FY/ 2013	Q4/ 2017	Q3/ 2017
Business profit and profit for the year							
Net interest income	3,111	2,880	2,523	2,453	1,676	761	793
Net fee income	510	490	488	361	264	135	127
Net interest from capitalisation	(62)	(141)	(186)	(228)	(315)	(11)	(14)
Trading, investment portfolio and other income	(15)	129	129	139	94	(60)	(17)
Income	**3,544**	**3,359**	**2,954**	**2,725**	**1,718**	**824**	**889**
Costs	726	673	548	388	397	197	184
Business profit before impairment charges	**2,818**	**2,686**	**2,407**	**2,337**	**1,321**	**627**	**705**
Impairment charges for loans and advances	637	47	446	406	567	542	37
Profit before tax	**2,181**	**2,640**	**1,961**	**1,932**	**754**	**85**	**668**
Tax	428	582	461	474	189	0	114
Profit for the year	**1,752**	**2,058**	**1,500**	**1,458**	**565**	**85**	**554**
SUMMARY BALANCE SHEET	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2017	30.09.2017
Assets							
Receivables from credit institutions	9,427	19,341	15,850	23,607	16,263	9,427	10,905
Mortgage loans at fair value	644,310	599,943	570,443	555,777	540,670	644,310	632,922
Bonds and equities	80,558	69,364	62,843	91,795	79,357	80,558	71,168
Remaining assets	1,760	1,878	2,381	3,574	3,534	1,760	1,783
Total assets	**736,055**	**690,527**	**651,517**	**674,753**	**639,824**	**736,055**	**716,777**
Liabilities and equity							
Payables to credit institutions	693,278	647,073	606,415	609,964	565,734	693,278	673,487
Bonds in issue at fair value	9,104	11,162	18,368	36,229	46,568	9,104	9,549
Remaining liabilities	5,373	5,619	6,121	8,348	8,766	5,373	5,477
Subordinated debt	2,000	2,000	2,000	3,100	3,100	2,000	2,000
Equity	26,300	24,674	18,613	17,113	15,655	26,300	26,264
Total liabilities and equity	**736,055**	**690,527**	**651,517**	**674,753**	**639,824**	**736,055**	**716,777**
FINANCIAL RATIOS							
Profit (loss) for the year as % pa of business capital (ROAC)[1]	10.7	13.9	9.9	9.5	3.6	0.1	14.4
Profit (loss) for the year as % pa of average equity[2]	7.5	10.4	7.9	8.0	3.2	0.4	2.8
Costs as % of income	20.5	20.0	18.5	14.2	23.1	23.9	20.6
Impairment charges for the year, %	0.10	0.01	0.08	0.07	0.10	0.08	0.01
Total capital ratio, %	29.6	28.7	23.5	20.9	21.3	29.6	28.7
Common Equity Tier 1 capital ratio, %	23.1	22.2	21.1	18.2	17.8	23.1	22.2
Internal capital adequacy requirement, %	10.6	10.4	11.3	10.6	10.2	10.6	10.4
Average number of staff, full-time equivalent	116	132	120	118	129	116	132

1 "Profit (loss) for the year as % of business capital (ROAC)" shows profit (loss) for the year relative to business capital. Profit (loss) corresponds to net profit or loss less interest expenses for AT1 capital.

1 In calculating the return on equity, Additional Tier 1 (AT1) capital raised in 2016 is treated as a financial liability for accounting purposes, and the dividends for the year thereon for accounting purposes are treated as interest expenses on subordinated debt through profit and loss.

As part of the ongoing adjustment of internal and external reporting, as from Q3/2017, various changes have been made to the presentation of profit for the period. Following these changes, the income statement items "Income from core business", "Profit from core business before impairment charges" and "Profit from core business" will not be reported going forward. In future, the designations "Income", "Business profit before impairment charges" and "Profit before tax" will be used.

The most important change is the recognition of investment portfolio income in "Income" and the presentation of the Company's income in a more differentiated structure going forward. Investment portfolio income was previously presented as a separate item.

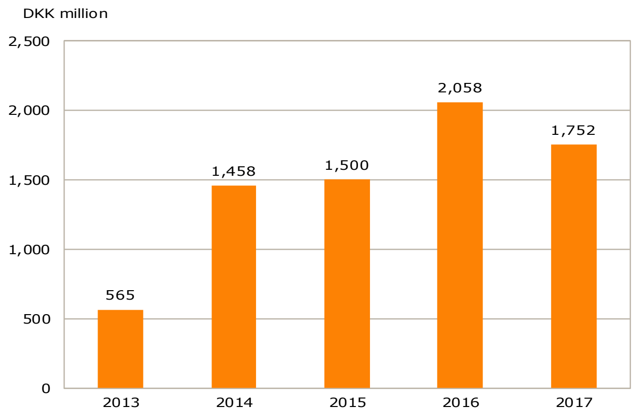
In future financial reporting, "Profit from core business" will be replaced by the new key item "Profit before tax". "Profit before tax" comprises the previous item "Investment portfolio income", which is now recognised in "Income".

The change will not affect the Company's profit, comprehensive income, balance sheet or equity. The accounting policies remain unchanged.

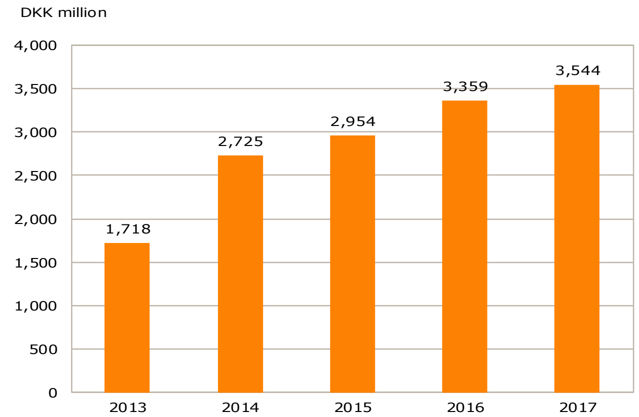
The adjustments should also be seen against the backdrop of similar adjustments having been made by the Nykredit Group to the earnings presentation. Reference is made to Nykredit's stock exchange announcement dated 27 October 2017.

2017 – IN BRIEF

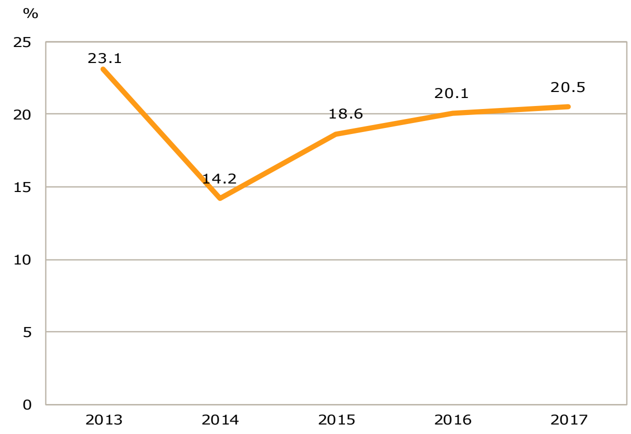
Profit for the year



Income



Costs as % of income



Totalkredit is a wholly-owned subsidiary of Nykredit Realkredit A/S and plays an essential role in Nykredit's strategy as a provider of mortgage loans arranged via partner banks. Historically, Totalkredit has mainly focused on lending to personal customers, but in recent years, Totalkredit has also arranged loans for business customers.

RESULTS

Totalkredit recorded a profit before tax of DKK 2,181m against DKK 2,640m in 2016, and profit after tax was DKK 1,752m against DKK 2,058m in 2016.

Activity levels in 2017 were above expectations, and in April 2017, nominal mortgage lending reached a historic milestone of DKK 600bn, totalling DKK 630bn as at 31 December 2017.

Income went up by DKK 185m, owing to increased net interest and fee income of DKK 251m, whereas other income was lower than in 2016. Costs rose by DKK 53m in 2017 to DKK 726m.

Impairment charges increased by DKK 591m to DKK 637m from DKK 47m the year before. The increase is mainly attributable to impairment provisions having been made by Totalkredit in 2017 for expected credit losses of DKK 561m within the framework that applies to measurement of loans and advances at fair value, which is a calculation method compatible with IFRS 9. The impairment provisions have been recognised in collective impairment provisions.

In Q3-Q4/2017, Totalkredit paid out KundeKroner, a loyalty bonus, as a discount granted to the Company's customers. The discount totalled DKK 304m and was financed in part by a capital contribution from Forenet Kredit.

Business profit before impairment charges

Income amounted to DKK 3,544m, up DKK 185m, compared with end-2016.

Administration margin income rose by DKK 338m to DKK 5,508m, cf note 2 of the Financial Statements, in part due to the administration margin adjustment made on 1 July 2016 and a growing loan portfolio. Commission to loan arrangers increased by DKK 325m, whereas other income rose by DKK 172m.

In 2017 income was affected by interest expenses of DKK 37m relating to subordinated debt.

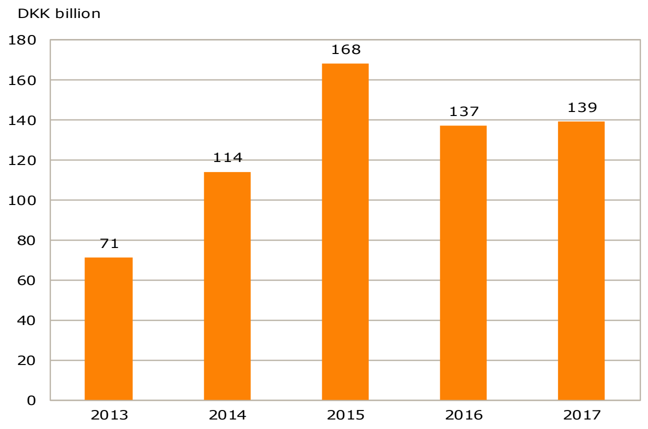
Costs totalled DKK 726m, up DKK 53m on the same period last year. Salaries were down DKK 9m, whereas other administrative expenses rose by DKK 65m. The rise was especially driven by the development of a new mortgage lending platform, which is a project launched by the Totalkredit alliance to build a future-proof shared IT platform.

The average number of full-time equivalent staff totalled 116 compared with 132 in 2016.

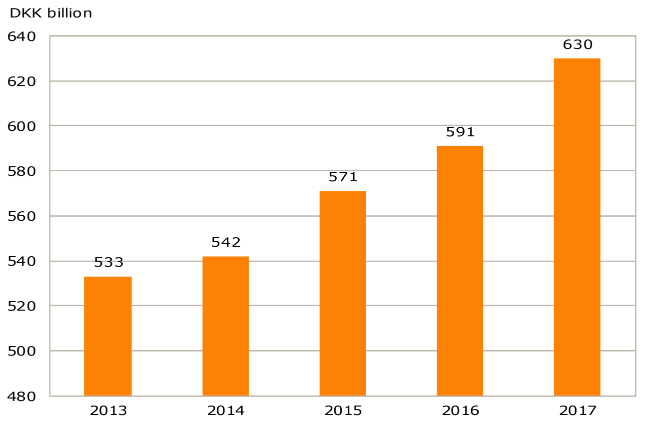
Totalkredit's contribution to the Danish Resolution Fund for 2017 amounted to DKK 66m against DKK 69m in 2016.

Business profit before impairment charges then came to DKK 2,818m against DKK 2,686m in 2016.

Gross new lending



Mortgage lending, year-end, nominal value



Impairment charges for loans and advances

2017 saw a rise in property prices in large parts of Denmark with a favourable effect on write-offs and impairments in general, resulting in lower impairment levels in 2017.

Impairment charges for loans and advances totalled DKK 637m including impairment provisions for expected credit losses in 2017 of DKK 561m recorded based on a calculation method compatible with IFRS 9. Excluding this adjustment, impairment charges were an expense of DKK 76m compared with a charge of DKK 47m in 2016.

In 2017 the expense equalled 0.10% of lending against 0.01% in the same period in 2016.

Write-offs fell by DKK 49m in 2017 to a total of DKK 498m against DKK 547m the year before. Of this amount, DKK 220m and DKK 240m, respectively, were covered by the partner banks, corresponding to 44.1% against 43.9% in 2016.

Total impairment provisions rose from DKK 1,130m in 2016 to DKK 1,563m at end-2017, up DKK 433m. Excluding the impact of DKK 561m, total impairment provisions declined by DKK 128m. Impairment provisions totalled DKK 1,563m, equal to 0.25% of loans and advances. At end-2016, this ratio was 0.19%.

Total individual impairment provisions stood at DKK 469m at end-2017 against DKK 554m at the beginning of the year. Collective impairment provisions totalled DKK 1,094m against DKK 576m at the beginning of the year.

The arrears ratio measured as at the September due date, 75 days past due, was 0.16% against 0.18% at the same time in 2016.

In 2017 931 properties mortgaged by Totalkredit were sold at a forced sale by public auction, 34 of which were acquired by Totalkredit. 45 properties were sold in 2017, and at year-end, the portfolio of properties acquired by foreclosure stood at 8 against 19 at the beginning of the year.

Tax

Tax calculated on profit for the year was DKK 428m, corresponding to an effective tax rate of 19.6%.

Lending

Loan portfolio

Totalkredit is Denmark's largest private residential mortgage provider.

Measured at fair value, the loan portfolio amounted to DKK 644bn against DKK 600bn at the beginning of the year. In 2017 Totalkredit's loan portfolio measured at nominal value grew by DKK 39bn to DKK 630bn. The loan portfolio for business customers accounted for DKK 2.1bn at end-2017.

A breakdown by loan type shows that the share of interest-only loans fell from 53.0% to 51.1%. The share of variable-rate loans dropped from 56.8% to 55.4%. Of these loans, 7.1% had interest rate caps against 9.8% at end-2016.

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 69% against 70% at the beginning of the year.

Lending activity

Totalkredit's gross new lending was approximately DKK 139bn, of which around DKK 24bn accounted for loans originated by Nykredit Realkredit A/S and Nykredit Bank.

Parent loans

At end-2017, loans raised with Nykredit Realkredit A/S for the purpose of providing supplementary collateral totalled DKK 4.5bn against DKK 11.0bn at the beginning of the year.

Totalkredit **Capital and capital adequacy**	2017	2016
DKK million		
Credit risk	86,402	83,965
Market risk	4,262	3,708
Operational risk	5,642	4,624
Total risk exposure amount	**96,306**	**92,296**
Equity	26,300	24,674
Additional Tier 1 capital	(4,048)	(4,012)
Common Equity Tier 1 (CET1) capital deductions	(3)	(132)
Common Equity Tier 1 capital	**22,249**	**20,530**
Additional Tier 1 capital	4,000	4,000
Tier 1 capital	**26,249**	**24,530**
Subordinated debt	2,000	2,000
Subordinated debt deductions	272	(13)
Own funds	**28,522**	**26,516**
CET1 capital ratio, %	23.1	22.2
Total capital ratio, %	29.6	28.7
Internal capital adequacy requirement (Pillar I and Pillar II), %	10.6	10.4

Further, Totalkredit has raised loans in the form of subordinated debt totalling DKK 2.0bn. To this should be added Additional Tier 1 (AT1) capital, which is recognised in equity at DKK 4.0bn.

Balance sheet

At end-2017, the balance sheet stood at DKK 736.1bn against DKK 690.5bn at the beginning of the year.

Assets essentially consisted of three items: receivables from credit institutions of DKK 9.4bn, mortgage lending of DKK 644.3bn and a bond portfolio of DKK 80.6bn.

Liabilities essentially consisted of payables to the Parent, Nykredit Realkredit A/S, totalling DKK 693.3bn, of which DKK 688.5bn related to the funding of mortgage loans, and DKK 4.5bn related to supplementary collateral for SDO-funded lending. At end-2016, payables amounted to DKK 647.1bn.

As at 31 December 2017, Totalkredit's self-issued covered bonds totalled DKK 9.1bn compared with DKK 11.2bn at end-2016.

Equity, including profit for the period, totalled DKK 26.3bn at end-2017 compared with DKK 24.7bn at end-2016.

CAPITAL AND CAPITAL ADEQUACY

At end-2017, own funds totalled DKK 28.5bn, and the risk exposure amount (REA) was DKK 96.3bn, corresponding to a total capital ratio of 29.6%.

The Common Equity Tier 1 (CET1) capital came to DKK 22.2bn, corresponding to a CET1 capital ratio of 23.1% at end-2017.

Under the Basel I transitional rules, the capital requirement was DKK 19.9bn, equal to a minimum total capital ratio of 20.7%. The Basel I transitional rules have been extended to 2017 inclusive. By then, the European Commission must submit its proposed future minimum requirements.

The required own funds are the minimum capital required, in Management's opinion, to cover all significant risks. At end-2017, required own funds totalled DKK 10.3bn. The internal capital adequacy requirement is calculated as the required own funds as a percentage of REA. At end-2017, Totalkredit's internal capital adequacy requirement was 10.6%.

RESULTS RELATIVE TO OUTLOOK

In connection with the publication of the Q1-Q3 Interim Report 2017, Totalkredit forecast profit before tax in line with 2016, which showed profit of DKK 2.6bn.

At that time, Totalkredit did not expect to recognise higher mortgage loan impairment in Q4/2017 of around DKK 0.6bn as a consequence of impairment provisions for expected credit losses according to the principles that follow from IFRS 9.

Adjusted for this, our outlook would have been at around DKK 2.0bn.

Profit before tax came to DKK 2.2bn, up around DKK 0.2bn compared with the adjusted profit for 2016. The positive trend is notably driven by increased income.

OUTLOOK FOR 2018

Totalkredit expects more moderate market activity combined with continued low interest rate levels in 2018 compared with 2017. Increased activity from secured homeowner loans is expected to impact net interest income favourably, which, however, is expected to be on a level with 2017. This also applies to net fee income.

Trading, investment portfolio and other income is expected to be lower than in 2017.

In aggregate, income is expected to decrease moderately compared with 2017.

Costs are anticipated to drop compared with 2017.

Impairment charges for loans and advances are forecast to drop somewhat below the level of 2017, which was impacted by a value adjustment of DKK 561m.

In aggregate, profit before tax is expected to be around DKK 1.9bn-2.4bn in 2018.

In connection with the full-year guidance, it should be noted that especially movements in interest rate markets, mortgage market activity and uncertainty about impairment charges for loans and advances may impact profit before tax.

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 that are rated AAA by S&P Global Ratings.

Covered bonds issued by Totalkredit through Capital Centre C are also rated AAA by S&P Global Ratings. Capital Centre C is not open for new lending.

SPECIAL ACCOUNTING CIRCUMSTANCES

Adjustment of the Financial Statements for 2016 and the Q1-Q3 Financial Statements 2017

In December 2016, Totalkredit received a capital contribution from its parent, Nykredit Realkredit A/S, of DKK 4,000m, which was recorded in the balance sheet under "Subordinated debt". Subsequently, it has been established that the characteristics of the issue resemble those of Additional Tier 1 capital, which, for accounting purposes, is treated as equity. This also means that current interest payments to the Parent must be treated as dividend for accounting purposes. As a consequence, comparative figures have been restated, whereby subordinated debt has been reduced by DKK 4,000m, which has been transferred to equity.

Reference is made to "Accounting policies" and correcting disclosure regarding Q1-Q3/2017 on page 51.

Change in impairment calculations

Totalkredit does not prepare its Financial Statements in accordance with IFRS/IAS, but complies with the provisions set out in the Danish FSA's Executive Order on Financial Reports, which is widely in line with IFRS, meaning that the principles governing recognition, measurement and classification are in accordance with the IFRS/IAS standards.

Value adjustment of mortgage loans measured at fair value is thus in accordance with the provisions set out in the Executive Order on Financial Reports, which is based on the principles in IFRS 13.

Totalkredit provides for credit impairment by applying the same methods as apply to lending measured at amortised cost, for which the principles will be changed from being an actual credit loss model into being an expected credit loss model going forward.

Consequently, in 2017, Totalkredit has made impairment provisions for expected credit losses on loans and advances within the framework that apply to value adjustment of financial assets measured at fair value.

As this concerns an accounting estimate, and not a change in accounting policies, the amount has been charged to the income statement.

The impact on Totalkredit's impairments totals DKK 561m. The earnings impact after tax totals DKK 438m.

New earnings presentation in Management Commentary

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

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

The changes are described in detail in "Alternative performance measures".

OTHER

Secure capital position

On 23 November 2017, the Committee of Representatives of Forenet Kredit approved an agreement on the sale of a shareholding in Nykredit A/S to a group of Danish pension companies headed by PFA Pension and with PensionDanmark, PKA, AP Pension and MP Pension as co-investors. The sale of shares provides Nykredit with a stable and lasting ownership structure consisting of robust Danish owners and a strong capacity for raising equity and thus a very secure future capital position.

Customer loyalty bonuses

In September 2017, Totalkredit paid out the first KundeKroner loyalty bonuses in the form of a discount on the administration margin payments on personal mortgage loans.

Forenet Kredit's sale of a minority interest to PFA and other pension companies in December 2017 facilitates the Nykredit Group's access to raising equity. In 2018, under the KundeKroner loyalty bonus programme, we will consequently offer customers an annual discount of DKK 1,500 for every million Danish kroner borrowed instead of the DKK 1,000 that was the level in 2017. The concept will also be extended to business customers.

We aim to pay out loyalty bonuses to our customers each year and have thus already at this point fixed the discount at DKK 1,500 for every million Danish kroner borrowed for business and personal mortgage customers alike for the period up to end-2019.

Change in Totalkredit's Exective Board

Troels Bülow-Olsen, Managing Director of Totalkredit, will turn 60 in April and wishes to retire after having served the Company for almost 29 years. He will retire at the end of April 2018. Camilla Holm will stay on Totalkredit's Executive Board, and a recruitment process has been initiated to find a candidate to make up the other half of the Executive Board.

Change in Totalkredit's Board of Directors

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

Further changes were made to the Board of Directors as at 9 August 2017.

The changes aim at strengthening Totalkredit's partnership with the partner banks.

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

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

BUSINESS CONCEPT

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

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

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

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

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

EVENTS SINCE THE BALANCE SHEET DATE

No significant events have occurred in the period up to the presentation of the Annual Report 2017 which affect Totalkredit's financial position.

ORGANISATION AND RESPONSIBILITIES

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

The Risk Committee is charged with overseeing Nykredit's overall risk profile and capital requirements in order to assist the individual Executive Boards and Boards of Directors of the Nykredit Group in ensuring compliance with current legislation and practice. The Committee's remit covers Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S.

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 Nykredit's CSR Report 2017 at nykredit.com/CSRreport2017. Information on corporate governance is available at nykredit.com/corporategovernance.

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 aim is still to increase the proportion of the under-represented gender on Totalkredit's Board of Directors. At end-2017, the proportion came to 11%, and in 2018, the target will remain unchanged on 2017 at 25%.

Group-level boards

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 boards 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

The principal tasks of the Nykredit Group's Audit Board are to inform the Board of Directors of the results of the statutory audit, to oversee the financial reporting process and the effectiveness of Nykredit's internal control systems, internal audit and risk management, to oversee the statutory audit of the financial statements, 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.

The Audit Board consists of Per W. Hallgren, CEO (Chairman), Merete Eldrup, CEO, Bent Naur, former CEO, and Helge Leiro Baastad, CEO, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting.

The Audit Board held six meetings in 2017.

Risk Board
The function 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 risks related to products, business model, remuneration structure and incentives as well as risk models and methodological basis, etc. The Risk Board assists the Board of Directors in overseeing that the risk appetite defined by the Board of Directors is implemented correctly in the organisation.

The Risk Board consists of Merete Eldrup, CEO (Chairman), Michael Demsitz, CEO, Per W. Hallgren, CEO, and Bent Naur, former CEO, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting.

The Risk Board held six meetings in 2017.

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 as well as to assist in ensuring that they are observed. Moreover, the Remuneration Board makes proposals for remuneration of the Board of Directors and the Group Executive Board. It reviews and considers the criteria for and process of appointing risk takers, assesses whether the Group's processes and systems are sufficient and take into consideration the Group's risks relative to the remuneration structure, and ensures that the remuneration policy and practices are in alignment with and promote sound and effective risk management and are in accordance with the Group's business strategy, objectives, values and long-term interests, which is coordinated with the Risk Board as required. Also, the Remuneration Board considers the overall results of the Group and the individual companies and business units and ensures that the Executive Board has evaluated whether the performance criteria behind the calculation of variable remuneration of members of the Board of Directors and the Executive Board and other risk takers are still met at the time of payout through spot checks of these evaluations. 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, CEO (Chairman), Merete Eldrup, CEO, and Nina Smith, Professor, who are all members of the Board of Directors of Nykredit Realkredit A/S 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 four meetings in 2017.

Details on bonuses to risk takers, remuneration policy and practices are available at nykredit.com/remuneration.

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 the Executive Board. Other accountabilities are 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 defining 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, CEO (Chairman), Merete Eldrup, CEO, and Nina Smith, Professor, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting.

The Remuneration Board held four meetings in 2017.

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-2017, Common Equity Tier 1 capital was DKK 22.2bn after deductions, Additional Tier 1 capital was DKK 4.0bn, and Tier 2 capital amounted to DKK 2.3bn. Own funds thus amounted to DKK 28.5bn after deductions against DKK 26.5bn at end-2016. With a total REA of DKK 96.3bn, the corresponding total capital ratio was 29.6%, and the CET1 capital ratio was 23.1% at end-2017.

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

Besides capital to cover other risks, 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-2017, required own funds were recognised at DKK 10.3bn. Of this amount, Pillar I accounted for DKK 7.7bn and Pillar II accounted for DKK 2.6bn.

The internal capital adequacy requirement is calculated as the required own funds as a percentage of REA. The internal capital adequacy requirement was 10.6% against 10.4% at end-2016. To this must be added the SIFI requirement, which was 1.2 percentage points in 2017.

Under the Basel I transitional rules, the capital requirement was DKK 19.9bn, equal to a minimum total capital ratio of 20.7%. The Basel I transitional rules will lapse in 2018.

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 a limit for the mortgaging of properties, and there are statutory requirements for loans secured by mortgages on 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 focuses on having a risk management framework that ensures agreement between our risk profile, risk appetite and current legislation, and on having a robust capital structure. Risk management is to ensure financial solutions that are viable in the short, medium and long term.

Reference is made to note 20 for a more detailed description of Totalkredit's risk management. The report Risk and Capital Management 2017, available at nykredit.com/riskandcapital-management, contains a detailed presentation of the Group's capital and risk policy.

UNCERTAINTY AS TO RECOGNITION AND MEASUREMENT

Measurement of certain assets and liabilities is based on accounting estimates made by Group 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 adhoc 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 approval of loans – Personal customers
- Instructions for approval of loans – Business customers
- Framework for 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, including unlisted financial instruments and impairment charges for loans and advances
- 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.

Furthermore, 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.

ALTERNATIVE PERFORMANCE MEASURES

New earnings presentation in Management Commentary

The Management Commentary is based on the Group's internal financial reporting.

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

As part of the Group's ongoing adjustment of its internal and external reporting, various changes have been made relative to the Annual Report 2016.

The most important change is that income is now broken down into several items, differentiating more clearly between stable types of income and relatively more volatile income, such as trading and investment portfolio income. Furthermore, investment portfolio income is recognised in "Income" as opposed to previously, when investment portfolio income was recognised as a separate item.

In future reports, the former "Profit from core business" will be replaced by the new key item "Business profit". The main difference between the two items is that "Business profit" comprises the former items "Investment portfolio income" and "Gain on sale of owner-occupied properties".

The change has been described in detail in the accounting policies. The change has no earnings impact.

Supplementary financial ratios

The Financial Highlights in the Management Commentary and the segmental financial statements include a number of internal income statement items, which have been specified on page 4. It should be noted in particular that "Net interest income" in the Financial Highlights is based on net interest income from deposit and lending activities and is thus not directly comparable with "Net interest income" in the income statement.

The presentation is based on the same recognition and measurement principles that apply to the Financial Statements. This consequently means that key concepts such as "Profit (loss)", "Comprehensive income", "Balance sheet" and "Equity" correspond to the items in the Financial Statements.

In relation to the internal presentation of income, a number of supplementary financial ratios are included in the Management Commentary.

"Profit (loss) for the year as % of business capital (ROAC)". The return target in the Financial Highlights shows profit (loss) for the year relative to business capital. Profit (loss) corresponds to net profit or loss less interest expenses for AT1 capital, which is treated as dividend in the Financial Statements. Business capital corresponds to a capital target of 16% of the risk exposure amount.

"Profit (loss) for the year as % of average equity". Interest expenses for Additional Tier 1 (AT1) capital have been deducted from profit, and Additional Tier 1 capital is considered a financial liability and is therefore not recognised in equity. Average equity is calculated on the basis of the value at the end of the past five quarters.

"Costs as % of income" is calculated as the ratio of "Costs" to "Income".

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 2017 of Totalkredit A/S.

The Annual Report is prepared in accordance with the Danish Financial Business Act, including 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.

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 2017 and of the results of its operations for the financial year 2017.

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

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

Copenhagen, 8 February 2018

Executive Board

Troels Bülow-Olsen

Camilla Holm

Board of Directors

Michael Rasmussen
Chairman

Claus E. Petersen
Deputy Chairman

Petter Blondeau

John Christiansen

John Fisker

Karen Frøsig

David Hellemann

Gert Jonassen

Lasse Nyby

INTERNAL AUDITORS' REPORT

Opinion

In our opinion, the Financial Statements give a true and fair view of the Totalkredit's assets, liabilities, equity and financial position at 31 December 2017 and of the results of its operations for the financial year 1 January – 31 December 2017 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.

Our opinion is in agreement with the long-form audit report issued by us to the Audit Board and the Board of Directors.

Basis for opinion

We have audited the Financial Statements of Totalkredit A/S for the financial year 1 January – 31 December 2017. 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, 8 February 2018

Lars Maagaard Chief Audit Executive	Kim Stormly Hansen Deputy Chief Audit Executive

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Totalkredit A/S

Opinion

We have audited the financial statements of Totalkredit A/S for the financial year 1 January to 31 December 2017, which comprise the statement of income and comprehensive income, balance sheet, statement of changes in equity and notes, including the summary of significant 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 financial position at 31 December 2017 and of its financial performance for the financial year 1 January to 31 December 2017 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our audit book comments issued to the Audit Board and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) 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 IESBA Code of Ethics for Professional Accountants and additional requirements applicable in Denmark, and we have fulfilled our other 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

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were appointed auditors of Totalkredit A/S for the first time on 31 March 2000 for the financial year 2000. We have been reappointed annually by decision of the general meeting for a contiguous engagement period of 18 years up to and including the financial year 2017.

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 to 31 December 2017. 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 *Loan impairment charges*	***How the matter was addressed in our audit***
The loans and advances amount to DKK 644,387m at 31 December 2017 (DKK 600,011m at 31 December 2016), and impairment charges therefor amount to DKK 637m in 2017 (DKK 47m in 2016) in the financial statements. Determining impairment charges for 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 charges for loans and advances are a key audit matter. The principles for determining the impairment charges 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 to the financial statements. In 2017, management estimates of expected credit losses have required special attention. The most significant judgements requiring special audit attention are: ▪ Assessment of whether loans and advances are impaired ▪ Valuation of security, including properties in particular which form part of the determination of impairment charges ▪ Management estimates related to the add-on for collective impairment provisions related to the add-on for collective impairment losses as well as expected credit losses.	Our audit comprised a review of relevant central and decentral business procedures, test of controls and analysis of the amount of impairment charges. Furthermore, our audit procedures included: ▪ Challgenging the procedures and methodologies applied for the areas involving the highest level of management judgement by using our industry knowledge and experience ▪ Assessing the changes in the assumptions for the areas requiring the highest level of management judgement against sector trends and historical observations ▪ Challenging management add-ons with special focus on management consistency and bias as well as expected credit losses.

Management's responsibilities for the financial statements

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

Auditor's 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 ISAs 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 ISAs 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 Entity 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 to 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.

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, 8 February 2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Henrik Wellejus State-Authorised Public Accountant MNE no 24807	Bjørn Philip Rosendal State-Authorised Public Accountant MNE no 40039

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

DKK million

	Note	2017	2016
INCOME STATEMENT			
Interest income	2	15,417	15,861
Interest expenses	3	9,733	10,453
Net interest income		**5,684**	**5,409**
Fee and commission income	4	524	525
Fee and commission expenses	5	3,065	2,743
Net interest and fee income		**3,143**	**3,191**
Value adjustments	6	165	166
Other operating income		236	2
Staff and administrative expenses	7	725	670
Other operating expenses		1	3
Impairment charges for loans, advances and receivables	8	637	47
Profit before tax		**2,181**	**2,640**
Tax	9	428	582
Profit for the year		**1,752**	**2,058**
Proposal for the distribution of profit			
Profit for the year		1,559	2,046
Holders of Additional Tier 1 capital		193	12
Total amount available for distribution		**1,752**	**2,058**
Retained earnings		1,752	2,058
Total distribution		**1,752**	**2,058**
STATEMENT OF COMPREHENSIVE INCOME			
Comprehensive income			
Profit for the year		1,752	2,058
Other comprehensive income		-	-
Comprehensive income for the year		**1,752**	**2,058**

BALANCE SHEET

DKK million

	Note	31.12.2017	31.12.2016
ASSETS			
Receivables from credit institutions and central banks	10	9,427	19,341
Loans, advances and other receivables at fair value	11	644,310	599,943
Loans, advances and other receivables at amortised cost	11	77	68
Bonds at fair value	12	80,558	69,364
Current tax assets		182	35
Deferred tax assets		-	5
Assets in temporary possession	13	9	10
Other assets	14	1,485	1,754
Prepayments		6	7
Total assets		**736,055**	**690,527**
LIABILITIES AND EQUITY			
Payables to credit institutions and central banks	15	693,278	647,073
Bonds in issue at fair value	15	9,104	11,162
Other liabilities	16	5,362	5,613
Total payables		**707,744**	**663,848**
Provisions for obligations		6	6
Provisions for deferred tax		5	-
Subordinated debt	17	2,000	2,000
Equity			
Share capital		848	848
Reserves			
- series reserves		1,646	1,646
- other reserves		19,758	18,167
Shareholder of Nykredit Realkredit A/S		**22,252**	**20,661**
Holders of Additional Tier 1 capital		4,048	4,012
Total equity		**26,300**	**24,674**
Total liabilities and equity		**736,055**	**690,527**
OFF-BALANCE SHEET ITEMS	18		
Contingent liabilities		-	-
Other commitments		2	7
Total		**2**	**7**

STATEMENT OF CHANGES IN EQUITY

DKK million

	Share capital	Series reserves	Retained earnings	Shareholder of Totalkredit A/S	Holders of AT1 capital	Total
Equity, 1 January 2017	**848**	**1,646**	**18,167**	**20,661**	**4,012**	**24,674**
Profit for the year	-	-	1,559	1,559	193	1,752
Total comprehensive income for the period	**-**	**-**	**1,559**	**1,559**	**193**	**1,752**
Interest paid on Additional Tier 1 capital	-	-	-	-	(158)	(158)
Tax on Additional Tier 1 capital	-	-	32	32	-	32
Equity, 31 December 2017	**848**	**1,646**	**19,758**	**22,252**	**4,048**	**26,300**
Equity, 1 January 2016	**848**	**1,646**	**16,119**	**18,613**	**-**	**18,613**
Profit for the year	-	-	2,046	2,046	12	2,058
Total comprehensive income for the period	**-**	**-**	**2,046**	**2,046**	**12**	**2,058**
Issuance of Additional Tier 1 capital					4,000	4,000
Tax on Additional Tier 1 capital	-	-	3	3	-	3
Equity, 31 December 2016	**848**	**1,646**	**18,167**	**20,661**	**4,012**	**24,674**

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

Totalkredit is included in the Consolidated Financial Statements of this company and the Consolidated Financial Statements of Forenet Kredit, Kalvebod Brygge 1-3, Copenhagen, Denmark, which owns 78.9% of Nykredit Realkredit A/S. The Financial Statements [in Danish] of Forenet Kredit may be obtained from the same.

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 may otherwise only be used to cover losses not covered by amounts distributable as dividend in the public limited company.

With effect from the beginning of 2017, subordinated debt of DKK 4,000 has been reclassified and is now recognised in equity. The proportion of equity attributable to the shareholders of Totalkredit A/S remains unchanged. Additional Tier 1 capital has been raised on 9 December 2016 and is owned by Nykredit Realkredit A/S. The loan is perpetual and carries an interest rate of 5% pa above 3M Cibor. The principal will be subject to write-down if a trigger event occurs. A trigger event occurs if, at any given time, the CET1 capital ratio of Totalkredit A/S falls below 7.0%. Totalkredit A/S is entitled at all times to cancel payment of interest for an unlimited period of time and on a non-cumulative basis.

NOTES

NOTES

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 2017 no changes were made to the Danish Financial Supervisory Authority's Executive Order on Financial Reports of importance to this Annual Report and the Financial Statements.

Reclassification of subordinated debt to equity
In December 2016, Totalkredit received a capital contribution from its parent, Nykredit Realkredit A/S, of DKK 4,000m, which was recorded in the balance sheet under "Subordinated debt". Subsequently, it has been established that the characteristics of the issue resemble those of a so-called Additional Tier 1 capital issuance, which, for accounting purposes, is treated as equity. This also means that current interest payments to the Parent must be treated as dividend for accounting purposes.

As a consequence, comparative figures have been restated, whereby subordinated debt has been reduced by DKK 4,000m, which has been recognised in equity. The earnings impact in 2016 amounted to an insignificant DKK 12m before tax and about DKK 10m after tax.

New accounting estimate for mortgage loan impairment
Totalkredit prepares its Financial Statements in accordance with the provisions set out in the Danish FSA Executive Order on Financial Reports, which is widely compatible with IFRS in the sense that the principles governing recognition, measurement and classification are in accordance with the IFRS/IAS standards.

Even though impairment of mortgage lending measured at fair value is not covered by the principles of impairment of loans and advances at amortised cost, the same rules as apply to impairment of loans and advances measured at amortised cost have been applied under previous practice.

In accordance with amendments to the Danish FSA Executive Order on Financial Reports, Totalkredit will continue to record impairments of mortgage lending applying the same principles as are used for loans and advances at amortised cost.

Therefore, in the Financial Statements 2017, Totalkredit has made a new accounting estimate of the impairment impact on mortgage lending and has resolved to recognise the impact under profit for the year. As this is an accounting estimate and not a change in accounting policies, the amount has been charged to the income statement. The impact on Totalkredit's impairment provisions accounts for DKK 561m. The earnings impact after tax totals DKK 438m.

The accounting policies are unchanged compared with the Annual Report 2016.

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 charges for loans and advances involve 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, the determination of impairment provisions for expected credit losses is subject to a number of estimates, including determination of the transition from impairment provisions for 12 months' expected credit losses in stage 1 to stage 2, where the credit losses correspond to expected credit losses during the time-to-maturity. To this should be added uncertainty in determining scenarios and risk premiums included in the calculations.

Furthermore, realisable values of security received and expected dividend payments from bankrupt estates are subject to a number of estimates. Reference is made to "Impairment charges for loans, advances and receivables" 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 date and the settlement date are recognised as financial assets or liabilities in "Other assets"/"Other liabilities" in the balance sheet and set off against "Value adjustments" in the income statement.

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

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

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

Valuation and classification
Financial instruments are classified as follows:
- Loans, advances and receivables and other financial liabilities at amortised cost
- Financial assets and liabilities at fair value.

Loans, advances and receivables and other financial liabilities at amortised cost
Receivables from credit institutions and central banks, some loans, advances and other receivables as well as subordinated debt are included in this category.

Loans, advances and receivables as well as liabilities are measured at amortised cost after initial recognition. For loans, advances and receivables, amortised cost equals cost less principal payments, impairment 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. Using this method, transaction costs are distributed over the life of the asset or liability.

Value adjustments due to credit risk are recognised in "Impairment charges for 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.

The 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.

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 charges for loans, advances and receivables".

Impairment charges for loans, advances and receivables
Impairment charges for loans, advances and receivables are divided into individual and collective impairment provisions. Reference is also made to note 27.

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. To this should be added impairment provisions for expected credit losses, which were recorded in total impairment provisions in 2017.

The provisioning need is calculated based on the change in expected credit losses relative to the time when 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 expected credit losses 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.

Also, in 2017, impairment provisions were made for expected credit losses, cf note 29. Neither IAS 39 nor IFRS 9, or any similar provisions of the Danish FSA Executive Order on Financial Reporting, addresses impairment of mortgage lending measured at fair value. According to previously applied practice, impairment of mortgage lending has, however, been determined along the same principles as lending measured at amortised cost. This practice is maintained, and, consequently, Totalkredit recognised the transition impact in expected credit losses in 2017. The impact has been charged to the income statement together with other impairment charges for loans and advances and offset against advances.

Compared with previously applied practice, impairment charges are based on 12-month expected credit losses for loans and advances with unchanged or improved credit quality, whereas impairment of loans and advances with increased credit risk since the initial recognition are calculated based on expected credit losses on a loan throughout its full useful life.

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 charges for 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.

Impairments 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 the Group, and if the value of the liability can be measured reliably.

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

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

Alternative performance measures
The Financial Highlights in the Management Commentary presents Totalkredit's results in the form of "Business profit before impairment charges" and profit for the year before and after tax.

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.

In the presentation, cf the income statement, the items "Net interest and fee income", "Value adjustments" and "Other operating income" were recorded in "Income".

"Costs" comprise the items "Administrative expenses" and "Other operating expenses". "Impairment charges" corresponds to "Impairment charges for loans, advances and receivables" in the income statement.

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 Financial Reports, 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.

On 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 on the date of transaction.

Other operating income
"Other operating income" comprises operating income not attributable to other income statement items, including contributions from Forenet Kredit, which were used for KundeKroner discounts in 2017.

Staff and administrative expenses
Staff expenses comprise wages and salaries as well as social security costs, pensions, etc. 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 the association Forenet Kredit. 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.

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 having 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

	2017	2016
2. INTEREST INCOME		
Receivables from credit institutions and central banks	(28)	(29)
Loans, advances and other receivables	9,711	10,318
Administration margin income	5,508	5,169
Bonds		
- self-issued covered bonds (SDOs, ROs)	1	3
- other covered bonds	172	313
- government bonds	-	12
Derivative financial instruments		
- interest rate contracts	50	76
Other interest income	7	2
Total	**15,418**	**15,864**
Set-off of interest from self-issued covered bonds	(1)	(3)
Total	**15,417**	**15,861**
3. INTEREST EXPENSES		
Mortgage loan funding through Nykredit Realkredit A/S	9,455	9,971
Bonds in issue	164	242
Other payables to Nykredit Realkredit A/S	78	202
Subordinated debt	37	40
Other interest expenses	0	1
Total	**9,734**	**10,456**
Set-off of interest from self-issued covered bonds	(1)	(3)
Total	**9,733**	**10,453**
Subordinated debt is exclusive of interest relating to Additional Tier 1 (AT1) capital reclassified in Q4/2017.		
4. FEES AND COMMISSION INCOME		
Loan fees, new lending	305	296
Trading commission and other fees	219	230
Total	**524**	**525**
5. FEE AND COMMISSION EXPENSES		
Loan arrangement fees	239	250
Commission to loan arrangers	2,618	2,293
Trading commission and other fees	208	199
Total	**3,065**	**2,743**
6. VALUE ADJUSTMENTS		
Mortgage loans	6,263	9,686
Bonds	301	292
Foreign exchange	0	1
Foreign exchange, interest rate and other contracts as well as derivative financial instruments	(204)	(225)
Other contingent liabilities	67	98
Bonds in issue[1]	(6,263)	(9,686)
Total	**165**	**166**

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

NOTES

	2017	2016
7. STAFF AND ADMINISTRATIVE EXPENSES		
Remuneration of Board of Directors and Executive Board	6	5
Staff expenses	78	88
Other administrative expenses	641	576
Total	**725**	**670**
Remuneration of Board of Directors and Executive Board		
Board of Directors		
Fees	1	1
Executive Board		
Salaries	5	4
Pensions	0	0
Total	**6**	**5**
Staff expenses		
Salaries	60	71
Pensions	8	7
Other social security expenses	10	10
Total	**78**	**88**

DKK million

Terms and conditions applying to the Board of Directors

The Board of Directors comprises nine members, seven of whom receive fixed fees. To this should be added 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-2017, annual remuneration amounted to DKK 200 thousand (2016: DKK 200 thousand) for the Chairman, DKK 150 thousand (2016: DKK 150 thousand) for the Deputy Chairman and DKK 100 thousand (2016: DKK 100 thousand) for members. In 2017 Claus E. Petersen received remuneration of DKK 150 thousand from Totalkredit A/S and DKK 228 thousand (2016: DKK 185 thousand) from Nykredit A/S. Lasse Nyby, who joined the Board of Directors of Totalkredit on 9 August 2017, has received remuneration of DKK 40 thousand from Totalkredit A/S and DKK 228 thousand from Nykredit A/S (2016: DKK 185 thousand). The members of the Board of Directors are listed on pages 53-54 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 2017 of Nykredit Realkredit A/S for the terms and conditions applying to its Executive Board.

Members of the Board of Directors employed as Group Chief Executive or Group Managing Director of Nykredit A/S and Nykredit Realkredit A/S received the following remuneration:

2017

DKK '000	Michael Rasmussen	David Hellemann	Total
Contractual salary	10,786	6,374	19,657
Pension contributions	2,497	1,466	3,963
Total expenses for accounting purposes / total earned income	**13,283**	**7,840**	**21,123**
Various benefits	30	12	42

Nykredit A/S has entered into a retention agreement with members of the Group Executive Board. The expense for 2017 has been recognised at DKK 3,017 thousand in Nykredit A/S's Financial Statements. The retention benefit, which is made in two instalments, has been fixed at one year's salary excluding pension contributions. The retention benefit is paid out only if the members are still employed at the time of payout. Provisions are made for the retention benefit during the vesting period. For Michael Rasmussen, the vesting period runs from 1 April 2017 to end-December 2019, and for David Hellemann, the vesting period runs from 1 January 2018 to end-December 2020.

2016

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[1]	2,270	-	-	1,396	466	698	4,830
Total	**12,075**	**6,070**	**6,070**	**7,466**	**2,490**	**3,733**	**37,903**
Defined benefit plans	-	1,717	1,717	-	-	-	3,434
Salary, pension and termination benefits in the notice period	-	-	-	-	-	15,332	15,332
Total expenses for accounting purposes / total earned income	**12,075**	**7,787**	**7,787**	**7,466**	**2,490**	**19,065**	**56,669**
Various benefits	27	13	20	23	4	66	153

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 specific bonus potential distributed annually. In 2017 fixed annual salaries and bonuses were:

2017

DKK '000	Troels Bülow-Olsen	Camilla Holm	Total
Contractual salary	2,501	2,099	4,600
Pension contributions	100	230	330
Bonus	646	887	1,533
Total	**3,247**	**3,216**	**6,463**
Various benefits	19	14	33

2016

DKK '000	Troels Bülow-Olsen	Camilla Holm	Total
Contractual salary	2,446	1,723	4,169
Pension contributions	100	193	293
Bonus	724	522	1,246
Total	**3,270**	**2,438**	**5,708**
Various benefits	18	13	31

Furthermore, a retention bonus payable by Nykredit A/S is agreed.
The amount payable to Camilla Holm is DKK 671 thousand.

Troels Bülow-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 Bülow-Olsen, retirement at the age of 65 years is possible, after which he is entitled to pension benefits for 10 years equal to 20% of his gross salary. The pension benefits period will be reduced by one year for each year his employment contract continues after the age of 65 years. A provision of DKK 4.8m had been made at end-2017 against DKK 4.2m at end-2016 to cover pension obligations in respect of Troels Bülow-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	11	7
Board of Directors	23	34
Management and related parties of Totalkredit's Parent	2	-

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 on average 4.7 persons in 2017. Remuneration of risk takers amounted to DKK 5.9m in 2017, of which base salaries of DKK 5.6m, and variable remuneration of DKK 0.3m.

The expense is included in "Staff expenses".

Number of staff		
Average number of staff, full-time equivalent	116	132

Fees to Deloitte, auditors appointed by the General Meeting	1	1
Total fees include:		
Statutory audit of the Financial Statements	1	1

Fees for non-auditing services provided by Deloitte Statsautoriseret Revisionspartnerselskab to the Company covers sundry statements, review in connection with ongoing recognition of earnings and general accounting, regulatory and tax advice.

DKK million

	2017	2016
8. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES		
Change in individual impairment provisions for loans and advances	145	275
Change in collective impairment provisions for loans and advances	(43)	(213)
Write-offs for the year	255	256
Recoveries on claims previously written off	22	20
Impairment provisions for expected credit losses	561	-
Total impairment charges for loans, advances and receivables	**896**	**297**
Value adjustment of assets in temporary possession	(31)	16
Write-offs offset against commission payments to partner banks	220	240
Value adjustment of claims previously written off	(8)	(26)
Total	**637**	**47**
Specification of provisions for loan impairment		
Individual impairment provisions	469	554
Collective impairment provisions	1,094	576
Total impairment provisions	**1,563**	**1,130**
Individual provisions for loan impairment		
Impairment provisions, beginning of year	554	553
Impairment provisions for the period	343	454
Impairment provisions reversed	198	146
Value adjustment of properties acquired by foreclosure	(18)	(44)
Write-offs	213	263
Impairment provisions, year-end	**469**	**554**
Collective impairment provisions for loans and advances		
Impairment provisions, beginning of year	576	789
Impairment provisions for the year, net	(43)	(214)
Impairment provisions for expected credit losses	561	-
Impairment provisions, year-end	**1,094**	**576**
Individual impairment provisions for properties acquired by foreclosure		
Impairment provisions, beginning of year	69	70
Transfer from impairment provisions for loans and advances	18	44
Impairment provisions for the year	6	11
Impairment provisions reversed	37	28
Impairment provisions written off	31	28
Impairment provisions, year-end	**25**	**69**

Of total individual impairment provisions for mortgage loans, about 16% was attributable to loans in arrears but not referred to collection and about 17% to loans in arrears referred to collection. The remaining 27% was attributable to estates in bankruptcy or estates of deceased persons.

	2017	2016
Specification of loans and advances		
Loans and advances subject to individual impairment provisioning	3,112	3,450
Impairment provisions	469	554
Loans and advances after impairment	**2,644**	**2,895**
Loans and advances subject to collective provisioning	42,077	40,013
Impairment provisions	1,094	576
Loans and advances after impairment	**40,982**	**39,437**
9. TAX		
Current tax	429	583
Deferred tax	(1)	(2)
Adjustment of tax assessed for previous years	0	1
Tax	**428**	**582**
Current tax rates, %	22.0	22.0
Non-deductible costs, %	(2.4)	(0.0)
Effective tax rate, %	**19.6**	**22.0**

NOTES

DKK million	31.12.2017	31.12.2016
10. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS		
Receivables from credit institutions	9,427	19,341
Total	**9,427**	**19,341**
11. LOANS, ADVANCES AND OTHER RECEIVABLES		
Loans, advances and other receivables at fair value	644,310	599,943
Loans, advances and other receivables at amortised cost	77	68
Total	**644,387**	**600,011**
Loans, advances and other receivables at fair value		
Mortgage lending	644,174	599,721
Arrears and outlays	136	222
Total	**644,310**	**599,943**
Mortgage lending		
Balance, beginning of period, nominal value	590,959	570,806
New loans	139,243	137,047
Ordinary principal payments	(10,314)	(8,930)
Prepayments and extraordinary principal payments	(90,386)	(107,964)
Balance, year-end, nominal value	**629,502**	**590,959**
Loans transferred relating to properties in temporary possession	(10)	(32)
Adjustment for interest rate risk	16,138	9,849
Adjustment for credit risk		
Individual impairment provisions	(362)	(479)
Collective impairment provisions	(1,094)	(576)
Balance, year-end, fair value	**644,174**	**599,721**
As collateral for loans and advances, Nykredit has received mortgages over real estate and:		
Arrears before impairment provisions	97	129
Outlays before impairment provisions	146	168
Impairment provisions for arrears	(19)	(3)
Impairment provisions for outlays	(88)	(72)
Total	**136**	**222**
Mortgage arrears up to and including the September 2017 due date, for which no provisions have been made, amounted to DKK 0.		
Loans, advances and other receivables at amortised cost		
Mortgage lending	16	16
Other loans and advances	61	52
Total	**77**	**68**
Measured at fair value, the item amounted to DKK 77m at end-2017 and DKK 68m at end-2016.		
Mortgage lending		
Balance, beginning of period, nominal value	16	19
Ordinary principal payments	(0)	(0)
Prepayments and extraordinary principal payments	(0)	(3)
Total	**16**	**16**

NOTES

DKK million

	31.12.2017	31.12.2016
11. LOANS, ADVANCES AND OTHER RECEIVABLES (CONTINUED)		
Mortgage loans by property category		
Loans and advances as % at nominal value, year-end		
Owner-occupied dwellings	95%	95%
Commercial property	0%	0%
Holiday homes	5%	5%
Total	**100%**	**100%**
Mortgage loans by property category		
Number of loans, end of financial year	583,066	565,879
For mortgage lending, the following bank guarantees have been provided:		
Supplementary guarantees in addition to mortgages on real estate	31,288	23,980
Statutory guarantees for interim loans	18,732	16,644
Guarantees for loans disbursed before obtaining a registered mortgage	25,699	25,165
Balance, year-end, nominal value	**75,719**	**65,790**
12. BONDS AT FAIR VALUE		
Self-issued covered bonds	81	329
Other covered bonds	80,558	69,364
Total	**80,639**	**69,693**
Transferred to set-off against "Bonds in issue at fair value" – note 15	(81)	(329)
Total bonds	**80,558**	**69,364**
13. ASSETS IN TEMPORARY POSSESSION		
Debt outstanding, year-end	7	11
Outlays	13	28
Impairment provisions, year-end	(11)	(29)
Total	**9**	**10**
14. OTHER ASSETS		
Positive market value of derivative financial instruments	9	22
Interest and commission receivable on loans and advances	900	1,169
Interest receivable from bonds and credit institutions	524	533
Remaining assets	52	29
Total	**1,485**	**1,754**

NOTES

	31.12.2017	31.12.2016
15. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS		
Payables to credit institutions	332	95
Payables to Nykredit Realkredit A/S concerning supplementary collateral for SDO-funded mortgage lending	4,486	10,976
Payables to Nykredit Realkredit A/S concerning funding of mortgage lending	688,460	636,001
Total	**693,278**	**647,073**
Of which payables to Nykredit Realkredit A/S concerning the funding of mortgage loans		
Balance, beginning of period, nominal value	626,799	593,450
Additions	203,297	185,904
Redemptions and prepayments	(149,206)	(142,592)
Prepayments and extraordinary principal payments	(7,986)	(9,964)
Balance, year-end, nominal value	**672,904**	**626,799**
Fair value adjustment	15,557	9,203
Total	**688,460**	**636,001**
Bonds in issue at fair value		
Covered bonds issued against mortgages on real estate		
Balance, beginning of year, nominal value	10,845	19,651
Redemptions and prepayments	(2,130)	(8,538)
Prepayments and extraordinary principal payments	(111)	(269)
Balance, year-end	**8,604**	**10,845**
Set-off of self-issued covered bonds	(81)	(329)
Fair value adjustment	581	646
Total	**9,104**	**11,162**
Covered bonds redeemed at next creditor payment date	461	789

DKK million

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.

Determined relative to other Danish mortgage lenders, the fair value has not been subject to changes attributable to the credit risk of Totalkredit in 2017 or since the issuance date, as there are no measurable price differences between bonds with identical properties from different mortgage lenders.

The yield spread between government bonds and covered bonds tightened in 2017 causing a rise in the fair value of the bonds in issue of about DKK 7.0bn 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 the credit risk of Totalkredit of approximately DKK 3.0bn. However, equity and profit (loss) have not been affected by the changes in fair value, as the value of mortgage loans has changed correspondingly. The determination allows for both maturity and nominal holding, but is to some extent based on estimates.

	31.12.2017	31.12.2016
16. OTHER LIABILITIES		
Interest and commission payable	4,518	4,799
Negative market value of derivative financial instruments	37	43
Other payables	787	771
Total	**5,342**	**5,613**

DKK million

	31.12.2017	31.12.2016
17. SUBORDINATED DEBT		
Subordinated debt consists of financial liabilities in the form of subordinate loan capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.		
Nykredit Realkredit A/S is creditor on the loans. Subordinated debt that may be included in own funds totalled DKK 2,000m against DKK 2,000m at 31 December 2016.		
Total, cf Annual Report 2016		6,000
Reclassified to equity		(4,000)
Total, end-2016, after reclassification		**2,000**
Subordinate loan capital		
Nominal DKK 2,000m raised on 21 December 2015. The loan falls due at par (100) on 1 January 2026. The loan carries an interest rate of 2.1% pa above 3M Cibor	2,000	2,000
Total subordinate loan capital	**2,000**	**2,000**
No costs were incurred in connection with the redemption or raising of subordinate loan capital.		
Measured at fair value, subordinated debt amounted to DKK 2,100m.		
18. OFF-BALANCE SHEET ITEMS		
Other commitments		
Contingent liabilities	-	-
Other liabilities	2	7
Off-balance sheet items	**2**	**7**

OTHER CONTINGENT LIABILITIES

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

The Resolution Fund was established on 1 July 2015 and must amount to at least 1% of the sector's covered deposits. The Resolution Fund will be based on annual contributions from the participating businesses and must be in place by end-2024. Totalkredit's contribution to the Danish Resolution Fund came to about DKK 1m in 2017 and DKK 3m in 2016. Totalkredit further pays Nykredit Realkredit an amount corresponding to the part of the Group's contribution attributable to joint funding. The amount totalled about DKK 66m in 2017.

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

DKK million

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 2017.

Agreements include intercompany funding, loan capital and supplementary collateral, referral commission, IT support and development, payroll and staff administration, asset and risk management, and other administrative tasks. Intercompany trading in goods and services took place on an arm's length 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 2017 include Additional Tier 1 capital of DKK 4,000m received from Nykredit Realkredit A/S in 2016 as well as interest in the amount of DKK 193m in 2017 and DKK 12m in 2016. Interest is recorded as dividend for accounting purposes. In addition, the following should be mentioned:

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

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

Totalkredit A/S has raised loans with Nykredit Realkredit A/S in the form of subordinated debt. As at 31 December 2017, Totalkredit had raised loans totalling DKK 2.0bn with Nykredit Realkredit A/S in the form of subordinated debt and DKK 4bn in Additional Tier 1 capital.

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 2017 Totalkredit received secured homeowner loans of DKK 3.4bn from Nykredit Bank A/S.

		DKK million
	31.12.2017	31.12.2016
Income statement		
Interest income	84	173
Interest expenses	9,570	10,225
Fee and commission expenses	517	469
Value adjustments	(6,261)	(9,744)
Costs	497	454
Asset items		
Receivables from credit institutions and central banks	7,420	17,895
Bonds at fair value	53,129	34,973
Other assets	396	361
Liability items		
Payables to credit institutions	693,247	647,049
Other liabilities	3,899	4,265
Tier 2 capital	2,000	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.

20. RISK MANAGEMENT

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

Risk profile

As Totalkredit mainly provides match-funded mortgage loans against mortgages on real estate, Totalkredit's primary risk is credit risk. Mortgage lending and the underlying funding are regulated by the balance principle, which means that Totalkredit incurs limited market and liquidity risks on mortgage lending and the underlying funding. Liquidity and market risks are further reduced by the Danish act regulating refinancing risk, which provides for the refinancing of mortgage loans in special situations.

The business activities combined with the management of the investment portfolio involve credit, market, liquidity and operational risks, including IT and compliance risks.

Credit, market and operational risks are mitigated by the holding of adequate capital. Liquidity risk is mitigated by the holding of a sufficient stock of liquid assets. This is described in more detail below.

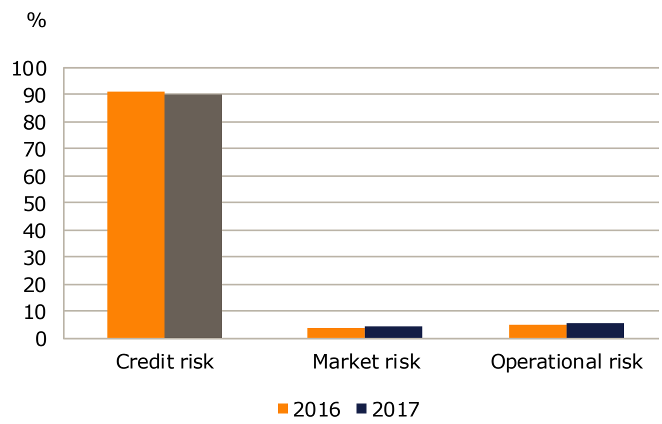
The Group publishes a detailed report annually entitled Risk and Capital Management, available at nykredit.com/riskandcapitalmanagement. It describes the Group's risk and capital management in detail and contains a wide selection of risk key figures in accordance with the disclosure requirements of the Capital Requirements Regulation (CRR). The report is not audited.

Credit risk

Credit risk is the risk of loss resulting from Totalkredit's customers and counterparties defaulting on their payment obligations.

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.

Risk exposure amount (REA) by risk type



Loans secured by mortgages on private residential properties with a mortgageable value of more than DKK 15m are subject to approval by the Board of Directors. For commercial properties, the limit is DKK 50m.

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.

Totalkredit's business concept is based on a strategic alliance with 58 Danish local and regional banks undertaking the distribution of Totalkredit loans, customer advisory services, customer assessment, case processing and customer services. Assessments of personal customers are thus mostly carried out by the regional and local banks, while the final approval of credit applications is undertaken by Totalkredit. Assessments of business customers, however, are carried out centrally by Totalkredit on the basis of an initial credit assessment by the partner bank.

Totalkredit and the individual partner bank share the risk relating to the loans according to the principles set out in the agreement with the partner banks. The partner banks provide security by way of a right of set-off and guarantees to Totalkredit for the loans distributed by them. This security provides an incentive for the partner banks to carry out a thorough and comprehensive assessment of customer creditworthiness and the mortgageability of the property. In case of particularly risky loans where the ordinary business procedures are derogated from, the partner bank must provide a guarantee exceeding the security provided for ordinary loans.

Credit risk models

Totalkredit applies 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 the event 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 placed in a category of their own. Customer ratings are used actively as part of the credit policy and customer assessment.

For each customer exposure, an LGD is calculated, 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.

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

The risk exposure amount (REA) for credit risk totalled DKK 86.4bn at end-2017 against DKK 84.0bn at end-2016. In 2017 retail exposures represented DKK 76.1bn and credit institution exposures DKK 6.4bn, against DKK 68.7bn and DKK 12.1bn, respectively, at end-2016.

Concentration risk

Totalkredit has no single credit exposures exceeding 0.5% of own funds. The ten largest mortgage exposures totalled DKK 0.3bn at end-2017.

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% for owner-occupied dwellings for all-year habitation. For holiday homes the maximum limit is 75%, and for commercial properties 60%.

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 the underlying covered bonds.

The average LTV ratio of the loan portfolio was 69.1% at end-2017 against 70.4% at end-2016.

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

At end-2017, Totalkredit required total supplementary collateral of DKK 9.2bn for the part of SDO-funded lending that exceeded LTV limits. At the beginning of the year, the requirement was DKK 13.3bn.

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 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.

This leads mainly to interest rate and yield spread risk.

Totalkredit's market risk is determined for two purposes:

- Day-to-day management of all positions involving market risk
- Determination of 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 include specific limits for the different types of risk.

The main principle is that losses on exposures involving market risk must not have a significant earnings impact. Market risk is managed 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, yield 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, the Board of Directors of Totalkredit or other levels depending on the nature of such non-compliance.

Day-to-day market risk management

The traditional risk measures, such as interest rate, equity price, volatility and foreign exchange risks, are monitored by means of 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 98m at end-2017 against DKK 111m at end-2016.

Yield spread risk

Yield spread risk is the risk of loss as a consequence of spread widening between covered bond yields and swap rates. The yield spread risk on Totalkredit's portfolio of covered bonds amounted to DKK 501m at end-2017.

This means that Totalkredit would lose DKK 501m 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 2017 Totalkredit's most significant foreign exchange positions were in EUR. At end-2017, the exposure was a negative DKK 25m against a positive DKK 2m at end-2016.

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 Totalkredit's part.

Totalkredit's interest rate volatility risk is assumed through portfolios of bonds with embedded options, eg callable covered bonds.

At end-2017, Totalkredit's interest rate volatility risk was DKK 0m against a negative DKK 0.07m at end-2016.

Overall, Totalkredit's interest rate volatility 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 regulatory standardised approach to determine market risk exposures. Market risk exposures totalled DKK 4.3bn at end-2017 and were thus very limited.

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.

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, compliance 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.

Compliance risk is the responsibility of the Compliance function, headed by the Chief Compliance Officer, which must review all customer-facing and market-facing processes within an appropriate time period. The risk areas are selected according to the risk-based approach. A five-year overview of risk areas is prepared for the Group's main areas of activity. Compliance risk is reported to the Board of Directors and the Executive Board.

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. Operational risk management activities are coordinated centrally to ensure coherence, consistency and optimisation across the Group.

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 operational risk 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 a good management tool.

The Nykredit Realkredit Group has outsourced the operation of IT systems, and appropriate processes have been established for follow-up and reporting from suppliers. Furthermore, the IT security area is monitored constantly, and the Nykredit Realkredit Group participates actively in a wide Danish and international network on IT security through Finance Denmark. An IT security policy has been prepared as well as emergency response plans and business contingency plans.

Capital requirement for operational risk
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 5.6bn in 2017.

NOTES

DKK million

	2017	2016
21. CREDIT RISK		
Total credit exposure		
Receivables from credit institutions and central banks	9,427	19,341
Loans, advances and other receivables at fair value	644,310	599,943
Loans, advances and other receivables at amortised cost	77	68
Bonds at fair value	80,558	69,364
Other assets	1,485	1,754
Off-balance sheet items	2	7
Total	**735,859**	**690,477**
Mortgage loans		
- Bond debt outstanding	629,518	590,976
- Number of loans	583,066	565,879
Bond debt outstanding by loans involving:		
- bank guarantees	68,473	61,364
- guarantee and set-off agreement with partner banks	292,855	230,152
- set-off agreement with partner banks	138,302	162,715
- no security	129,888	136,745
Total	**629,518**	**590,976**
Bond debt outstanding by loan type		
Fixed-rate loans		
- repayment loans	191,700	170,480
- interest-only loans	88,702	83,008
Adjustable-rate mortgage loans (ARMs)		
- repayment loans	66,955	64,326
- interest-only loans	163,466	161,181
Money market-linked loans		
Loans with interest rate cap		
- repayment loans	25,296	28,294
- interest-only loans	19,347	29,594
Loans without interest rate cap		
- repayment loans	23,618	17,079
- interest-only loans	50,433	37,012
Total	**629,518**	**590,976**
Bond debt outstanding by region		
- Capital Region of Denmark	154,142	139,685
- Sealand Region	79,399	75,750
- North Denmark Region	92,082	88,197
- Central Denmark Region	162,620	153,549
- South Denmark Region	141,144	133,630
- Greenland	131	165
Total	**629,518**	**590,976**

DKK million

21. 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 on private residential properties with a mortgageable value of more than DKK 15m are subject to approval by the Board of Directors. For commercial properties, the limit is DKK 50m. 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, 60% for commercial properties and 75% for 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 in note 20.

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

Concentration risk
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 2017 or 2016 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.

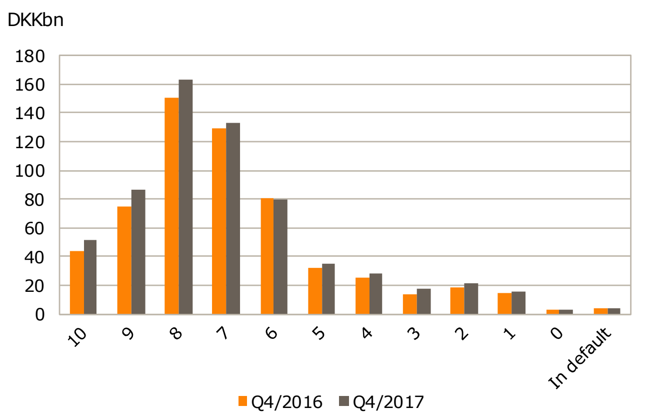
Mortgage debt outstanding relative to estimated property values

DKK million	LTV (loan-to-value), %							
	0-40	40-60	60-80	80-90	90-100	Over 100	Total	LTV average
2017	390,830	152,102	88,073	8,296	2,774	2,099	644,174	69%
2016	358,500	141,911	83,854	9,116	3,631	2,744	599,756	70%

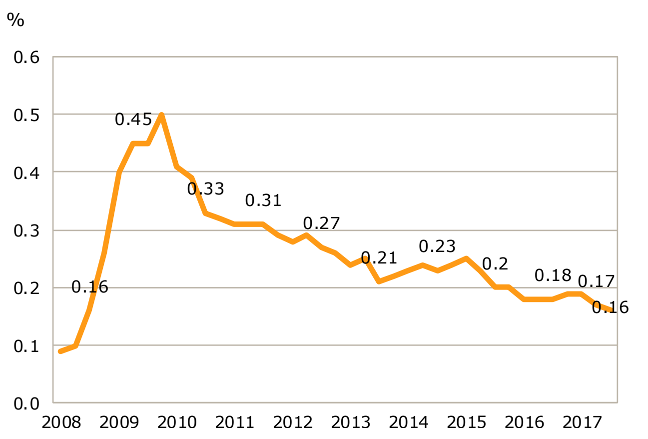
Mortgage debt outstanding relative to estimated property values, %

Relative distribution, %	LTV (loan-to-value), %						
	0-40	40-60	60-80	80-90	90-100	Over 100	Total
2017	61	24	14	1	-	-	100
2016	60	24	14	2	1	-	100

Outstanding amounts by rating category



Arrears ration, mortgage lending – 75 days past due



DKK million

22. MARKET RISK

Market risk is 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).

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.

Totalkredit's interest rate exposure was DKK 98m at end-2017 against DKK 111m at end-2016. The interest rate exposure is primarily in DKK and EUR.

In 2017 Totalkredit's most significant foreign exchange positions were in EUR. At end-2017, the exposure was a negative DKK 25m against a positive DKK 2m at end-2016.

23. LIQUIDITY RISK

Totalkredit's liquidity risk is the risk that Totalkredit is unable to fulfil its financial obligations and meet regulatory requirements and rating criteria in the short, medium and long term.

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. 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

	2017	2016
Receivables from credit institutions		
Demand deposits	5,352	5,016
Up to 3 months	2,275	11,400
Over 3 months and up to 1 year	1,800	2,925
Total, cf note 10	**9,427**	**19,341**
Mortgage loans and arrears		
Up to 3 months	4,045	3,825
Over 3 months and up to 1 year	8,235	9,600
Over 1 year and up to 5 years	65,506	60,702
Over 5 years	566,524	525,816
Total, cf note 11	**644,310**	**599,943**
Payables to credit institutions		
Demand deposits	332	95
Up to 3 months	45,399	38,290
Over 3 months and up to 1 year	90,826	96,020
Over 1 year and up to 5 years	279,394	259,398
Over 5 years	277,327	253,270
Total, cf note 15	**693,278**	**647,073**
Bonds in issue at fair value		
Up to 3 months	461	789
Over 3 months and up to 1 year	427	497
Over 1 year and up to 5 years	2,190	2,521
Over 5 years	6,106	7,683
Total	**9,185**	**11,491**
Set-off of self-issued bonds	(81)	(329)
Total, cf note 15	**9,104**	**11,162**

DKK million

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Up to 3 months		Over 3 months and up to 1 year		Over 1 year and up to 5 years		Total 2017	
By time-to-maturity	Nominal value	Net market value	Nominal value	Net market value	Nominal value	Net market value	Nominal value	Net market value
Interest rate contracts								
Forward contracts/futures, purchased	593	3	21	-	-	-	614	3
Forward contracts/futures, sold	12,478	(33)	2	-	-	-	12,480	(33)
Unsettled spot transactions	3,831	2	-	-	-	-	3,831	2

	Market value of non-guaranteed contracts		Market value	
	Positive	Negative	Positive	Negative
Interest rate contracts				
Forward contracts/futures, purchased	3	-	3	-
Forward contracts/futures, sold	3	36	3	36
Unsettled spot transactions	2	-	2	-

NOTES

DKK million	2017	2016	2015	2014	2013
25. FIVE-YEAR FINANCIAL HIGHLIGHTS					
Summary income statement					
Net interest income	5,684	5,409	4,994	4,454	3,461
Net fee income	(2,541)	(2,218)	(2,055)	(1,632)	(1,646)
Net interest and fee income	**3,143**	**3,191**	**2,939**	**2,822**	**1,815**
Value adjustments	165	166	15	(96)	(97)
Other operating income	236	2	0	0	0
Staff and administrative expenses	725	670	547	388	397
Other operating expenses	1	3	1	0	0
Impairment charges for loans, advances and receivables	637	47	446	406	567
Profit before tax	**2,181**	**2,640**	**1,961**	**1,932**	**754**
Tax	428	582	461	474	189
Profit for the year	**1,752**	**2,058**	**1,500**	**1,458**	**565**
SUMMARY BALANCE SHEET, YEAR-END	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Assets					
Cash balances and receivables from credit institutions and central banks	9,427	19,341	15,850	23,607	16,263
Mortgage loans	644,310	599,943	570,443	555,777	540,670
Bonds and equities	80,558	69,364	62,843	91,795	79,357
Remaining assets	1,760	1,878	2,381	3,574	3,534
Total assets	**736,055**	**690,527**	**651,517**	**674,753**	**639,824**
Liabilities and equity					
Payables to credit institutions and central banks	693,278	647,073	606,415	609,964	565,734
Bonds in issue	9,104	11,162	18,368	36,229	46,568
Remaining liabilities	5,373	5,619	6,121	8,348	8,767
Subordinated debt	2,000	2,000	2,000	3,100	3,100
Equity	26,300	24,674	18,613	17,113	15,655
Total liabilities and equity	**736,055**	**690,527**	**651,517**	**674,753**	**639,824**
Return on equity after tax, %	6.9	9.5	8.4	8.9	3.7
Return on equity before tax, %	8.6	12.2	11.0	11.8	4.9
Loans and advances:equity	29.0	29.0	30.7	32.5	34.5
Growth in loans and advances for the year, %	6.5	3.5	5.4	1.7	4.4
Impairment charges for the year, %	0.1	0.0	0.1	0.1	0.1
Income:cost ratio	2.60	4.67	2.97	3.43	1.78
Total capital ratio, %	29.6	28.7	23.5	20.9	21.3
Common Equity Tier 1 capital ratio, %	23.1	22.2	21.1	18.2	17.8
Foreign exchange position, %	0.1	0.0	0.2	0.3	0.7
Total impairment provisions, %	0.2	0.2	0.2	0.2	0.2
Average number of staff, full-time equivalent	116	132	120	118	129
Return on capital employed, %	0.2	0.3	0.2	0.2	0.1

In 2017 "Other operating income" comprised contributions received from Forenet Kredit, used for financing of the 2017 KundeKroner discount.

DKK million

	2017	31.12.2016
26. CAPITAL AND CAPITAL ADEQUACY		
Own funds		
Equity, year-end[1]	26,300	24,674
Additional Tier 1 capital	(4,048)	(4,012)
Difference between expected credit losses and impairment charges	(3)	(206)
Other deductions	-	(9)
Transitional adjustments	-	82
Common Equity Tier 1 capital	**22,249**	**20,530**
Additional Tier 1 capital	4,000	4,000
Tier 1 capital	**26,249**	**24,530**
Tier 2 capital	2,000	2,000
Tier 2 capital additions/deductions	272	70
Transitional adjustment of deductions	-	(82)
Own funds	**28,522**	**26,516**
Capital requirement		
Credit risk	6,912	6,717
Market risk	341	297
Operational risk	451	370
Total capital requirement	**7,704**	**7,384**
Total capital requirement subject to transitional rule[2]	**19,940**	**18,800**
Total risk exposure amount	**96,306**	**92,296**
Financial ratios		
Common Equity Tier 1 capital ratio, %	23.1	22.2
Total capital ratio, %	29.6	28.7
Required own funds and internal capital adequacy requirement		
Pillar I – primary risks		
Credit risk	6,912	6,717
Market risk	341	297
Operational risk	451	370
Total Pillar I	**7,704**	**7,384**
Pillar II – other risks		
Weaker economic climate	1,088	1,097
Other factors	1,464	1,163
Total Pillar II	**2,552**	**2,260**
Total required own funds	**10,256**	**9,644**
Total risk exposure amount	**96,306**	**92,296**
Internal capital adequacy requirement, %	**10.6**	**10.4**

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 FSA.

For a more detailed description of the determination of own funds and internal capital adequacy, reference is made to the report Risk and Capital Management 2017, available at nykredit.com/riskandcapatalmanagement.

NOTE 27. TRANSITION TO CHANGED FINANCIAL REPORTING STANDARDS AS AT 1 JANUARY 2018

The description below is a supplement to note 1. Accounting policies.

In July 2014, the IASB issued the final IFRS 9 "Financial Instruments", effective from 1 January 2018. The standard includes new provisions governing "classification and measurement of financial assets", "impairment of financial assets" and "hedge accounting".

Totalkredit does not prepare Financial Statements in accordance with IFRS, but in accordance with the Danish Executive Order on Financial Reports, which contains the principles governing recognition, measurement and classification based on the rules of IFRS/IAS. Consequently, in connection with the implementation of IFRS 9, the Danish Financial Supervisory Authority has issued amendments to the IFRS-compatible Executive Order on Financial Reports (amending the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.), which comprises significant elements from IFRS 9, including impairment of loans and advances at amortised cost as well as classification.

In accordance with amendments to the Danish Executive Order on Financial Reports issued by the Danish FSA, Totalkredit will, in line with its Parent, Nykredit Realkredit A/S, continue to record impairment of mortgage lending, applying the same principles as are used for impairment of loans and advances at amortised cost and within the provisions on the determination of fair values. Therefore, in the Financial Statements for 2017, Totalkredit has made a new accounting estimate of the impairment impact on mortgage lending and has recognised the impact through profit or loss, seeing as this is an accounting estimate and not a change in accounting policies.

The impact of the new principles is recognised at DKK 561m (impairment provisions) and at DKK 438m including the tax effect, which is recognised in the Financial Statements 2017.

According the coming Danish Executive Order on Financial Report, measurement must be based on an expected loss principle whereas the method of the current Executive Order, which is based on objective evidence of impairment (OEI) and losses incurred.

Compared with current practice, the provisions set out in the coming Danish Executive Order on Financial Reports and the guidelines imply earlier recognition of impairment of loans and advances, as impairment must be recognised for 12-month expected credit losses already on initial recognition.

If credit risk subsequently increases significantly, expected credit losses on the asset/loan for the entire lifetime of the asset/loan must be recognised. The standard thus implies earlier recognition of impairment than previously and consequently higher total impairments at the time of implementation.

Group Credits, which reports to a steering group, is responsible for these processes and calculations. The Group's Capital, Risk and Finance units participate in the determination of expected credit losses as stakeholders coordinating and performing the determination and presentation of impairment provisions for accounting purposes. The procedures and calculations are widely based on the Group's current risk models.

The size of both the 12-month expected credit losses as well as the expected credit losses for the entire lifetime of the asset/loan will be calculated based on models already applied as part of Totalkredit's and Nykredit's daily risk management. Impairments will thus reflect the Probability of Default (PD) and Loss Given Default (LGD).

Classification and measurement

The general principles for measurement of financial assets and liabilities will generally change following implementation of the coming Danish Executive Order on Financial Reports. But for Totalkredit the implementation has not given rise to significant changes.

After initial recognition, financial assets must still be measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Going forward, classification of financial instruments will be based on Totalkredit's business models:

The asset is held to collect cash flows from payments of principal and interest (hold to collect business model). Measured at amortised cost.

The asset is held to collect cash flows from payments of principal and interest and selling the asset (hold to collect and sell business model). Measured at fair value with changes recognised through other comprehensive income with reclassification to the income statement on realisation of the assets.

Other financial assets value adjusted through profit or loss (fair value).

Relative to the first two categories, the business model should be based on collection of cash flows from payment of interest and principal combined with limited sales activity. If the business model is not founded on these assumptions, the financial assets will be placed in a category, which is subject to value adjustment through profit or loss. Financial assets, which, if measured at amortised cost, would result in measuring inconsistencies, are also recognised in this category.

Having reviewed the Company's business models in relation to assessing the significance of collecting cash flows, the current classification and measurement are largely unchanged compared with current practice. In particular, it should be noted that Totalkredit does not have a business model that implies recognising fair value adjustments in other comprehensive income.

Thus, mortgage lending and the underlying bonds in issue are still measured at fair value.

The bond portfolio is generally still measured at fair value through profit or loss. The reason is that the business model behind the portfolio is not intrinsically based on collecting cash flows from payments of principal and interest but is based on, for example, investments focused on cost minimisation, where contractual cash flows do not constitute a central element but follow solely from the investment.

Generally, financial liabilities should be measured at amortised cost after initial recognition. However, financial liabilities, which are issued with a view to funding mortgage lending, are measured at fair value through profit or loss, and this aligns with current practice.

Irrespective of the fact that a number of financial assets and liabilities must generally be measured at amortised cost, measurement at fair value is possible if this eliminates or reduces an accounting mismatch that would otherwise follow from the different measurement of one or more financial instruments. Financial liabilities may also be measured at fair value if the instrument is part of an investment strategy or a risk management system based on fair values and is continuously stated at fair value in the reporting to Management.

Changes in value attributable to own credit risk must in some cases be recognised in other comprehensive income. This applies to eg changes in value relating to financial liabilities measured at fair value using the fair value option. Thus, recognition in other comprehensive income does not apply if this leads to or amplifies a mismatch in the income statement, which is the case for issues funding mortgage loans.

Derivative financial instruments (derivatives), which are assets or liabilities, are measured at fair value through profit or loss, and this is unchanged compared with current practice.

Financial assets attributable to a business model where Nykredit intends to collect their contractual cash flows until maturity are measured at amortised cost. Totalkredit only has very few financial assets that fall within this category, and future measurement will thus essentially correspond to the current practice and include the financial assets which today are measured at amortised cost.

Mortgage loans are still measured at fair value. The same applies to the liabilities that are issued for the purpose of funding these loans. Generally, mortgage loans are not transferred during their term, and the business model is based on maintaining the portfolio in order to collect the cash flows. However, both IFRS 9 (B4.1.30.c) and IAS 39 allow measurement at fair value through profit or loss. Mortgage loans granted in accordance with Danish mortgage legislation are funded by issuing listed covered bonds of uniform terms. Such mortgage loans may be prepaid by delivering the underlying bonds, and Totalkredit regularly buys and sells self-issued bonds.

If mortgage loans and covered bonds in issue are measured at amortised cost, the purchase and sale of self-issued covered bonds would lead to timing differences between the recognition of gains and losses in the Financial Statements. Also, the purchase price of the portfolio would not equal the amortised cost of the bonds in issue. If the portfolio of self-issued covered bonds is subsequently sold, the new amortised cost of the "new issue" would not correspond to the amortised cost of the matching mortgage loans, and the difference would be amortised over the remaining term-to-maturity.

In order to avoid the consequently inconsistent earnings impact, 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.
Other financial assets, including securities in the form of bonds and equities, will be measured at fair value through profit or loss after initial recognition. In relation to the bond portfolio, this should in Nykredit's assessment not be ascribed to the two business models that form the basis for measurement at amortised cost or measurement at fair value with recognition of changes in value in other comprehensive income. The reason for this is that the portfolio is not held to collect cash flows in the form of interest and principal payments, but that the collection of cash flows is merely a secondary function.

Impairment provisions for loans and advances at fair value
Going forward, impairment provisions will be classified in three stages. Stage 1 covers loans and advances without significant increase in credit risk since initial recognition. For loans and advances measured at fair value, initial impairments are expected to be nil, as the value of the loan at the time of recognition is based on the fair value. Subsequently, the impairments will be increased equal to 12 months' expected credit losses based on analysis of the distribution of credit losses throughout the useful life of the loan.

Stage 2 covers loans and advances with significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the expected credit losses over the asset's time-to-maturity.

Stage 3 covers loans and advances that are credit impaired, and which have been subject to individual provisioning on the specific assumption that the customers will default on their loans. This classification largely corresponds to the exposures, which, according to previous policy, were subject to individual impairment provisioning.

Impairment calculations are based on further development of existing methods and models for impairment, taking into account forward-looking information and scenarios as well as risk premiums for loans and advances at fair value, cf the rules of the Danish FSA.

The classification of customers into stages 1, 2 and 3 follows the standard definitions of the Danish FSA based on short- and long-term Probability of Default (PD). The definition of default has not been changed and will continue being dictated by the customer's circumstances and payment behaviour (90 days arrears).

The model-based impairment charges in stages 1 and 2 are based on transformations of PD and LDG values in the short term (12 months) or long term (remaining lifetime of the product/cyclical). The parameters are based on Totalkredit's IRB models, and forward-looking information is determined according to the same principles as apply to regulatory capital and stress tests. For a small fraction of portfolios with no IRB parameters, simple methods are used based on appropriate loss ratios.

Model-based impairment is still subject to management judgement according to the same principles as are applied under the current rules and is supplemented with an assessment of an improved/worsened macro scenario for the long-term Probability of Default (PD).

Customers subject to individual impairment provisions under the current rules will chiefly be classified in stage 3. At Totalkredit, impairment provisions are mechanically adjusted in accordance with the requirement for more than one scenario.

28. FINANCIAL RATIOS, DEFINITIONS

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

Profit (loss) for the year as % pa of average equity (Financial Highlights on page 4).	Profit (loss) for the year less interest expenses for AT1 capital/average equity excluding AT1 capital.
Profit (loss) for the year as % of business capital (ROAC), %.	Profit (loss) for the year relative to business capital. Profit (loss) corresponds to net profit or loss less interest expenses for AT1 capital, which is treated as dividend in the Financial Statements. Business capital corresponds to a capital target of 16% of the risk exposure amount.

SERIES FINANCIAL STATEMENTS

DKK million

2017	Totalkredit In General	Capital Centre	Capital Centre	Capital Centre	Capital Centre	Capital Centre	Capital Centre	Capital Centre	Capital Centre	Capital Centre	
	Other	PRL	C	D	E	F	G	H	I	1	Total
Income statement											
Income from lending	0	-	67	84	1,992	105	71	3,063	26	105	5,514
Interest, net	1	0	33	46	51	13	39	91	22	14	310
Administrative expenses	0	0	(31)	(38)	(1,097)	(56)	(32)	(1,686)	(10)	(56)	(3,006)
Impairment charges for loans and advances	(0)	-	(29)	(65)	(219)	1	9	(334)	(0)	(0)	(637)
Tax	51	(0)	(9)	(6)	(160)	(14)	(19)	(249)	(8)	(14)	(428)
Profit for the year	**53**	**0**	**31**	**21**	**567**	**49**	**68**	**885**	**29**	**50**	**1,752**
Balance sheet – assets											
Mortgage loans	5	0	8,599	5,720	272,780	14,769	4,138	325,426	1,925	11,026	644,387
Remaining assets	174	1	3,697	7,580	36,693	953	3,227	36,614	1,761	1,050	91,749
Total assets	**179**	**1**	**12,296**	**13,299**	**309,472**	**15,722**	**7,365**	**362,040**	**3,686**	**12,077**	**736,136**
Balance sheet – liabilities and equity											
Payables to credit institutions	-	-	-	9,408	300,012	14,702	4,659	350,942	2,218	11,005	692,946
Covered bonds in issue	5	(0)	9,180	-	-	-	-	-	-	-	9,185
Remaining liabilities	0	0	65	60	2,448	39	73	2,967	21	30	5,705
Subordinated debt	26	0	845	786	3,081	98	-	1,148	-	63	6,048
Equity	148	1	2,205	3,044	3,931	884	2,632	6,982	1,447	978	22,252
Total liabilities and equity	**179**	**1**	**12,296**	**13,299**	**309,472**	**15,722**	**7,365**	**362,040**	**3,686**	**12,077**	**736,136**
Inflow and outflow of funds, net	-	53	31	21	567	49	68	885	29	50	1,752

The difference between total assets at end-2017 of the Annual Financial Statements of Totalkredit A/S and the Series Financial Statements may be specified as follows:

Assets, Annual Financial Statements	736,055
Assets, Series Financial Statements	736,136
Difference	**(81)**
Specified as follows:	
Self-issued bonds have been offset against the liability item "Bonds in issue"	(81)
Total	**(81)**

As previously mentioned, reclassification between subordinated debt and equity was made in 2017. The reclassification resulted in the below restatement of the quarterly financial statements for 2017. The earnings impact on the Annual Report and the income statement for 2016 was insignificant, as the loan was not raised until December 2016.

DKK million

CORRECTIONS PER QUARTER (YTD)	Q1 original	Q1 restated	Q2 original	Q2 restated	Q3 original	Q3 restated
Q1-Q3 / 2017						
Summary income statement						
Interest income	3,916	3,916	7,833	7,833	11,619	11,619
Interest expenses	2,523	2,474	4,994	4,898	7,477	7,331
Net interest income	**1,394**	**1,442**	**2,839**	**2,935**	**4,142**	**4,288**
Net fee income	(630)	(630)	(1,272)	(1,272)	(1,925)	(1,925)
Net interest and fee income	**764**	**813**	**1,566**	**1,663**	**2,217**	**2,362**
Value adjustments	137	137	168	168	208	208
Other operating income	-	-	-	-	150	150
Staff and administrative expenses	163	163	345	345	528	528
Other operating expenses	1	1	1	1	1	1
Impairment charges for loans, advances and receivables	2	2	58	58	95	95
Profit before tax	**736**	**785**	**1,330**	**1,427**	**1,950**	**2,095**
Tax	162	173	293	314	396	428
Profit for the year	**574**	**612**	**1,037**	**1,113**	**1,554**	**1,667**
Total comprehensive income	**574**	**612**	**1,037**	**1,113**	**1,554**	**1,667**

SUMMARY BALANCE SHEET, YEAR-END	31.03.2017	31.03.2017	30.06.2017	30.06.2017	30.09.2017	30.09.2017
Assets						
Receivables from credit institutions and central banks	17,558	17,558	11,564	11,564	10,905	10,905
Loans, advances and other receivables at fair value	607,036	607,036	616,450	616,450	632,922	632,922
Loans, advances and other receivables at amortised cost	73	73	77	77	79	79
Bonds at fair value	69,609	69,609	77,830	77,830	71,168	71,168
Deferred tax assets	7	7	6	6	6	6
Assets in temporary possession	9	9	12	12	23	23
Other assets	1,495	1,495	1,205	1,205	1,663	1,663
Prepayments	12	12	16	16	12	12
Total assets	**695,798**	**695,798**	**707,160**	**707,160**	**716,777**	**716,777**
Liabilities and equity						
Payables to credit institutions and central banks	652,885	652,885	663,947	663,947	673,487	673,487
Bonds in issue at fair value	10,311	10,311	10,016	10,016	9,549	9,549
Current tax liabilities	45	45	176	176	279	279
Other liabilities	5,315	5,254	5,317	5,269	5,241	5,192
Total payables	**668,556**	**668,496**	**679,456**	**679,408**	**688,556**	**688,507**
Provisions for pensions and similar obligations	6	6	6	6	6	6
Subordinated debt	6,000	2,000	6,000	2,000	6,000	2,000
Equity						
Share capital	848	848	848	848	848	848
Reserves						
- series reserves	1,646	1,646	1,646	1,646	1,646	1,646
- other reserves	18,741	18,741	19,204	19,204	19,721	19,721
Shareholders' capital	**21,235**	**21,235**	**21,698**	**21,698**	**22,215**	**22,215**
Additional Tier 1 capital		4,061		4,048		4,049
Total equity	**21,235**	**25,296**	**21,698**	**25,746**	**22,215**	**26,264**
Total liabilities and equity	**695,798**	**695,798**	**707,160**	**707,160**	**716,777**	**716,777**

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
Folkesparekassen
Frørup Andelskasse
Frøs Sparekasse
Frøslev-Mollerup Sparekasse
Fynske Bank
Fælleskassen
Handelsbanken
Hvidbjerg Bank
Jutlander Bank
Klim Sparekasse
Kreditbanken
Københavns Andelskasse
Langå Sparekasse
Lollands Bank
Lægernes Bank
Lån og Spar Bank
MERKUR, Andelskasse
Middelfart Sparekasse
Møns Bank
Nordfyns Bank
Nordjyske Bank
Nykredit
Pensam Bank
Ringkjøbing Landbobank
Rise Flemløse 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
Stadil Sparekasse
Sydbank
Sønderhå-Hørsted Sparekasse
Totalbanken
vestjyskBANK
Østjydsk Bank

DIRECTORSHIPS AND EXECUTIVE POSITIONS

BOARD OF DIRECTORS

Michael Rasmussen, Chairman
Group Chief Executive of Nykredit Realkredit A/S

Date of birth: 13 November 1964
Joined the Board on 18 March 2014

Managing Director:
Nykredit A/S

Chairman of:
Nykredit Bank A/S
Finance Denmark
FR I af 16. September 2015 A/S*
Investeringsfonden for Udviklingslande (IFU)

Director of:
Copenhagen Business School Handelshøjskolen

Claus E. Petersen, Deputy Chairman
Chief Executive Officer, Den Jyske Sparekasse

Date of birth: 3 July 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:
Nykredit A/S
Borgergade 3 A/S*
Den Jyske Sparekasses Støttefond
DJS Leasing A/S*
Finance Denmark
Finanshuset Farsø Pantebrevsselskab A/S*
FR I af 16. September 2015 A/S
HN Invest Tyskland 1 A/S
Spar Pantebrevsinvest A/S
Værdiansættelsesrådet

Member of the Executive Board:
Borgergade 3 A/S*

Petter Blondeau
Chief Executive Officer, Fynske Bank

Date of birth: 31 January 1959
Joined the Board on 5 November 2012

Director of:
Finance Denmark
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

John Christiansen*
Chief Executive Officer, Lån & Spar Bank A/S

Date of birth: 11 December 1964
Joined the Board on 9 August 2017

Deputy Chairman:
Skandinavisk Data Center A/S
Lokale Pengeinstitutter

Director of:
Finance Denmark
KAB
VP Securities
FR I af 16. September 2015 A/S*
PRAS A/S*

Other positions of trust:
Member of the Committee of Representatives of Det Private Beredskab (follows Finance Denmark)

John Fisker*
Chief Executive Officer, Ringkjøbing Landbobank Aktieselskab

Date of birth: 3 December 1964
Joined the Board on 9 August 2017

Chairman of:
Letpension A/S

Deputy Chairman of:
Foreningen Bankdata
BI Holding A/S
BI Asset Management Fondsmæglerselskab A/S

Director of:
AUHE Midtvest's Støttefond
PRAS A/S

Karen Frøsig
Chief Executive Officer, Sydbank A/S

Date of birth: 23 September 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
Finance Denmark
DLR Kredit A/S
Musikhuset Esbjerg Fond
FR I af 16. September 2015 A/S
Sydbank Sønderjyllands Fond
Sydbank Fonden
Komitéen 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 A/S

Chairman of:
Nykredit Ejendomme A/S, Copenhagen,
JN Data A/S*

Deputy Chairman of:
JN Data A/S**

Director of:
Nykredit Bank A/S
Bankernes EDB Central a.m.b.a.
CBS Executive Fonden*
Finanssektorens Uddannelsescenter
Realkreditrådet

Gert Jonassen
Chief Executive Officer, Arbejdernes Landsbank A/S

Date of birth: 17 January 1959
Joined the Board on 27 March 2007

Chairman of:
AL Finans A/S
Bankernes EDB Central (BEC)

Deputy Chairman of:
Finanssektorens Uddannelsescenter
LR Realkredit A/S

Director of:
DLR Kredit A/S*
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

Lasse Nyby*
Chief Executive Officer of Spar Nord Bank A/S

Date of birth: 25 November 1960
Joined the Board on 9 August 2017

Chairman of:
Aktieselskabet Skelagervej 15
Landsdækkende Banker

Deputy Chairman of:
PRAS A/S

Director of:
AP Pension Livsforsikringsaktieselskab
AP Pensionsservice A/S
Finance Danmark
Foreningen AP Pension f.m.b.a
FR I af 16. September 2015 A/S
Nykredit A/S
Vækst-Invest Nordjylland A/S

Totalkredit's staff has voted to discontinue staff representation. In consequence, the staff representatives stepped down from Totalkredit's Board of Directors at the annual general meeting on 15 March 2017.

As at 9 August 2017, Kim Duus, Søren Holm and Anders Jensen of Nykredit's Group Executive Board resigned from the Board of Director.

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

Director of:
Nykredit Portefølje Administration A/S*

* Joined in 2017
** Resigned in 2017

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