



**About Nykredit 2011**  
CSR Report on Financial Sustainability

**Nykredit**

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# Foreword

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Nykredit's objective is to carry on financial business for the benefit of our customers.

Nykredit is a customer-driven financial mutual. Nykredit was founded by its customers and exists for its customers. That has been the case for more than 150 years.

Nykredit puts customers first. That is one of our fundamental business principles, and it conforms to our business concept. We want to advise and serve our customers in a manner that enables them to make their own choices on an informed basis. This places Nykredit under a particular obligation to provide responsible advisory services. Consequently, we train and certify our staff with a view to handling that task to best effect – and to an extent exceeding statutory requirements.

We constantly strive to facilitate the role of the customer and to ensure that we meet our customers in a positive and professional atmosphere. One of our main concerns is the open and trusting dialogue. That is why we are constantly improving our Internet bank with new features providing a better overview, that is why we have a customer ambassador, why we have a blog, and why in 2012 we are launching a new central advisory centre, Nykredit Direkte®, to mention but a few initiatives.

By virtue of Nykredit's long history and special ownership structure as a financial mutual, we stand out in a number of ways. Rather than looking for short-term gains, our customers aim at long-term customer relationships and returns – what we call Financial Sustainability – which is also our business concept. This distinguishes Nykredit from listed companies. However, in an international context, approximately one fifth of Europe's financial services providers have ownership structures similar to Nykredit's.

Like other financial institutions, Nykredit operates as a business and is as such supposed to make a profit. While contributing to a stable and efficient financial market, Nykredit also wants to assume corporate social responsibility (CSR). As a major Danish company, we consider this a natural obligation.

Consequently, we are running a number of CSR projects, we support eco-friendly behaviour and sponsor socially beneficial activities.

"About Nykredit 2011" is Nykredit's CSR report on Financial Sustainability. It supplements the Annual Report and differentiates the picture of a company that is more than numbers. The report describes our customers, our services and our core business areas, banking and mortgage lending. We provide information about sustainable investments, our staff, their training and our efforts to be an attractive workplace. We elaborate on ownership structure, capital policy, climate and environmental policies, and our relations with society.

Enjoy the read!

Peter Engberg Jensen  
Group Chief Executive







# Customers

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Nykredit puts the customer first and aims to have the most satisfied customers among the leading national players in the Danish financial sector. Consequently, Nykredit works systematically on customer satisfaction and measures of development and improvement that will match our customers' needs and requirements and create long-term relationships.

Historically, Nykredit's business is mortgage financing. However, the banking activities have been expanded, and today Nykredit offers broad-based financial solutions. Being Denmark's leading lender, Nykredit provides 30% of all Danish bank and mortgage loans.

## Nykredit's activities

Nykredit has activities within banking, mortgage lending, pension, investment, leasing, estate agency business, and insurance. The Group serves both retail and commercial customers, providing advisory services that accommodate the financial requirements of families as well as small and medium-sized enterprises and the largest groups. The Nykredit Group is in contact with more than 1.1 million customers. This includes almost 450,000 retail customers, more than 75,000 commercial customers under the Nykredit brand, and just over 600,000 retail customers served by local and regional banks under the Totalkredit partnership.

The financial crisis and subsequent economic downturn in the Danish economy have reduced customers' demand for financing, be that for home purchasing or business expansion. The reduced demand is clearly reflected in bank lending, whereas mortgage lending has seen moderate growth, ensuring stable earnings. Nykredit's total lending is increasing steadily, albeit at a slower rate than before. Nykredit has increased its banking activities, which is reflected in the distribution of group income. Today our banking activities generate 41% of Group income against only 8% in 1998, and Nykredit is now Denmark's fourth largest bank in terms of working capital.

As a result of the downturn in the Danish economy, savings are generally on the rise in Denmark, and Nykredit's customers are part of that trend. In response to this, Nykredit has been developing a range of additional savings products for our customers. One of the savings concepts offered by Nykredit is Private Portfolio, providing customers with sound advisory services and a proven investment concept and serving customers with asset management agreements as well as customers who prefer to trade in individual securities.

The financial crisis has affected customers' financial leeway and financial risk in a number of areas.

Nykredit has been adapting its advisory tools and service concepts to the new conditions. Based on the requirements of the individual customer, Nykredit thus strives to ensure long-term financial sustainability for the customer and Nykredit alike.

## Sustainable mortgage lending

Under the heading "Sustainable mortgage lending", Nykredit is introducing a range of measures aimed at ensuring the stability that has always characterised Danish mortgage lending, but which in recent years has been impugned by the rating agencies.

With "Sustainable mortgage lending" Nykredit and Totalkredit are consolidating their future business foundation and the long-term basis for their presence and lending capacity in financial markets.

## Retail mortgage lending through Totalkredit

From H1/2012 Nykredit will be granting retail mortgages through Totalkredit, in line with Totalkredit's partner banks. Sales and advisory services will still take place in Nykredit's centres.

### New mortgage lending price structure

In 2012 Nykredit and Totalkredit will introduce a new price structure for mortgage loans. The price structure will reflect the risk connected with the various loan types, rendering ARMs and interest-only loans marginally more expensive than fixed-rate loans. This change is the result of increased capital requirements for mortgage banks and the fact that it has become more expensive to raise the capital required for Nykredit to continue to offer mortgage loans at attractive prices. Prices will depend on the current market conditions and external requirements under which financial institutions must operate, and as such will be subject to changes.

### New type of loan funding for retail customers

In future, loans to retail customers, much like loans to commercial customers, will be funded by a combination of the covered bond types "særligt dækkede obligationer" (SDOs) and traditional mortgage bonds (ROs). This minimises the need for supplementary collateral behind the bonds in case of property price declines. Nykredit introduced this type of funding for commercial lending in 2009.

These measures are an important step towards ensuring Nykredit adequate and solid earnings in a time of stricter capital requirements and increased cost of capital in order for the Nykredit Group to maintain its long-term lending capacity and solid rating, allowing us to keep offering our 1.1 million customers competitive services.

### Customers first

Nykredit's main goal is to have the most satisfied customers among the leading financial sector players. Consequently, Nykredit takes a step beyond offering customers the right products and systems. For Nykredit, it is important that customers experience good service focusing on their needs and regular contact between Nykredit and the customer.

Throughout the Nykredit Group, our focus on good customer service has been sharpened. Our organisation is based on a value chain, determining the service our advisers are able to provide to the customer. Consequently, the service concept is employed throughout the Group, and all staff members are responsible for providing good service to the "real" customers as well as to their colleagues when interacting across the Group every day.

Furthermore, all customer-facing staff have completed a range of workshops aimed at translating customer orientation into new behaviour, ensuring that customers' requirements receive the highest priority.

These measures have already helped increase the satisfaction of our customers, retail as well as commercial.

### Nykredit – an advisory bank

The financial crisis has tightened the requirements for the advisory services that financial institutions provide to their customers. Part of our "Customers first" efforts has been to take a closer look at what Nykredit defines as good advice.

For Nykredit it is very important that our customers receive the best possible advice. Our ability to offer the best possible advice relies on professional skills across the organisation and customer advisers' in-depth knowledge of their customers.

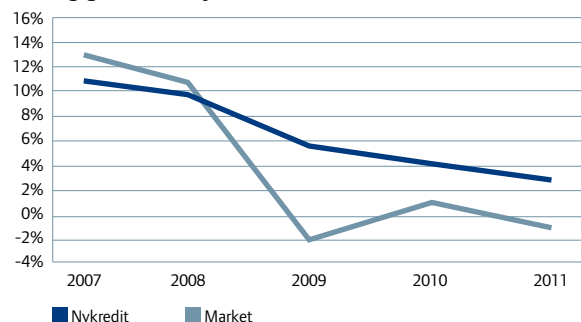
In order to ensure that the advisory services provided to customers prior to their choice of solution appear consistent and coherent, Nykredit has placed the responsibility for the advisory services with one unit, which – on the basis of its own and external economic research – will define Nykredit's general long-term and short-term recom-

#### Nykredit's market position in Denmark 2011

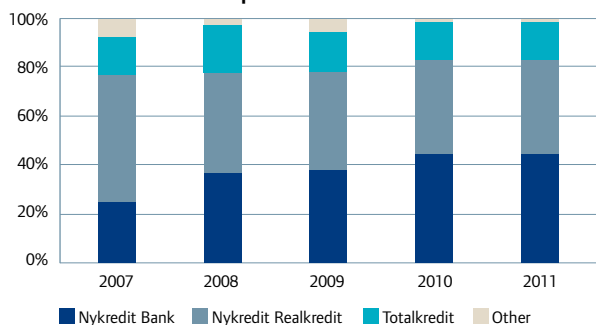
	DKKbn	Market share
Total bank and mortgage lending	1,090	30%
- of which bank lending	64	5%
- of which mortgage lending	1,027	43%
Assets under administration	335	31%
Assets under management	101	-
Portfolio of retail investment fund units	34	7%
Bond trading	-	26%

Note: Bank and mortgage lending is determined in nominal terms on the basis of the statistics on the balance sheets and flows of the MFI sector prepared by Danmarks Nationalbank.

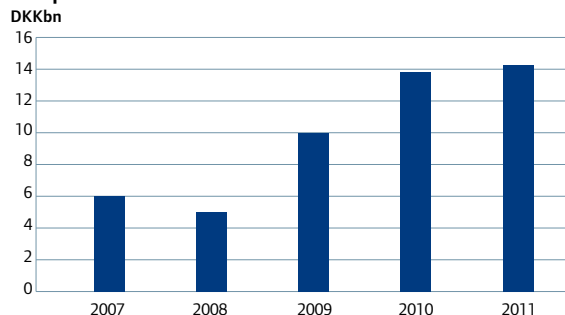
#### Lending growth in Nykredit and the market



#### Income from business operations



#### Development in Private Portfolio



mendations and analyse their consistency with Nykredit's products.

#### **Guiding principles of sound advisory services**

Our increased focus on advisory services translates into four general guiding principles of sound advisory services:

- Nykredit possesses all the required competences – and applies them
- we know and understand our customers
- responsibility for the advisory services rests with us – the decision rests with the customer
- we do not speak ill of our competitors.

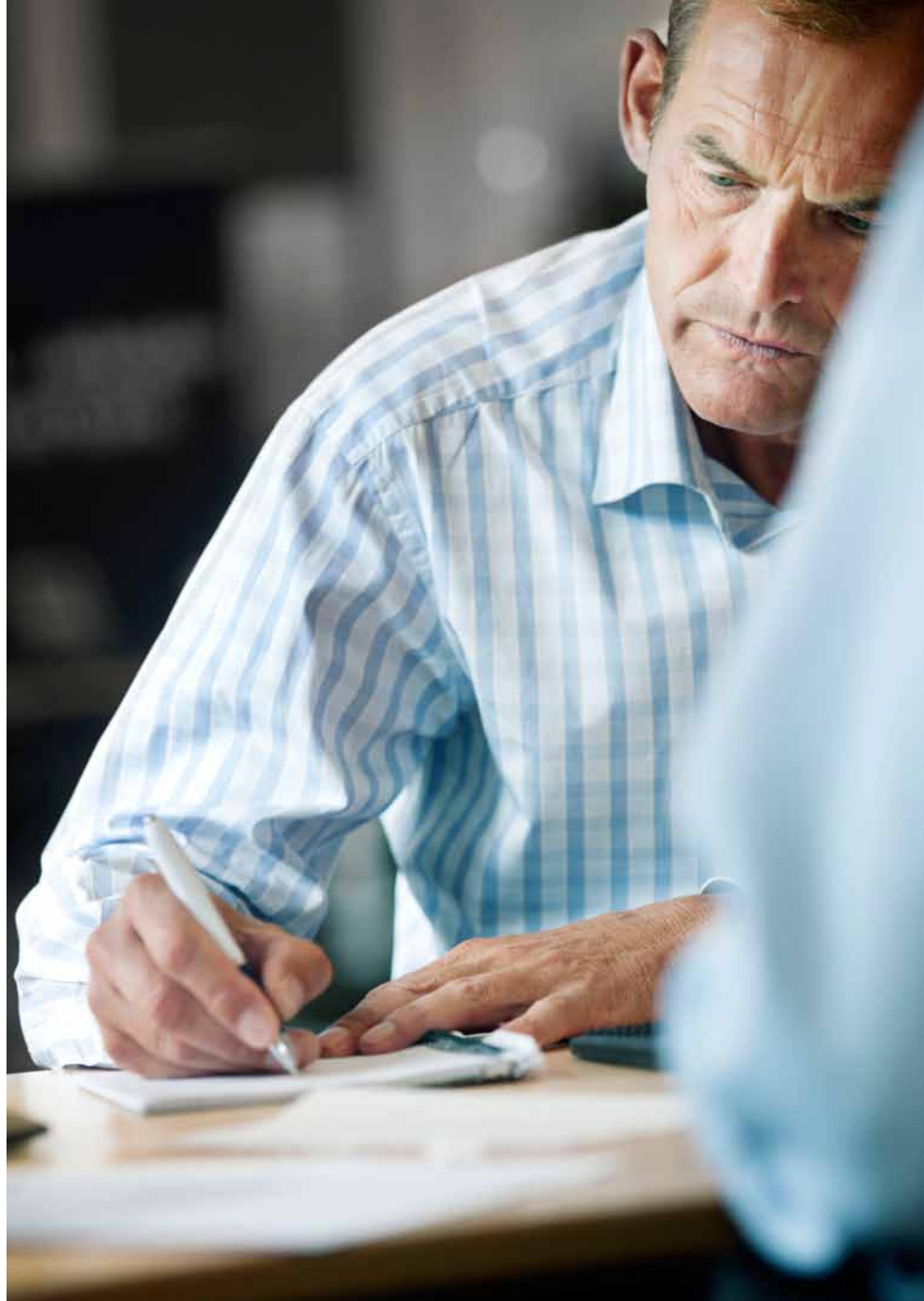
The objective of the guiding principles is that they – like the increased focus on service and customers – should permeate all of Nykredit's activities. This applies to direct customer advice as well as to the development of new products and workflows.

Combined with Nykredit's business concept "Financial Sustainability", the four guiding principles form an image of the views that Nykredit represents when advising our customers.

#### **Providing advice in turbulent times**

Nykredit finds it important to be close to its customers, on sunny days as well as when clouds are forming on the horizon. We are thus intensely focused on keeping our customers informed of their financial situation. The turbulent times in financial markets these years make customer advisory services more important than ever, as interest rates on loans as well as returns on savings and investments may be extremely volatile. Consequently, Nykredit has made intense efforts to equip our advisers as well as our customers for the conditions.

The turmoil in financial markets has demonstrated how important it is to communicate any consequences to advisers and customers promptly. Moreover, the commercial segment in particular has undergone development, with Nykredit evolving from merely a supplier of products into a financial sparring partner in a period of intensifying financial complexity. This applies to choosing the right balance between loans and assets as well as to questions of how to and whether to mortgage one's company. This trend has increased the demands on Nykredit's advisory services even further.



#### **New customer concepts**

In March 2011, Nykredit launched two new service concepts for retail customers, Nykredit Premium and Nykredit Plus, offering multiple-service customers more advantages and better terms.

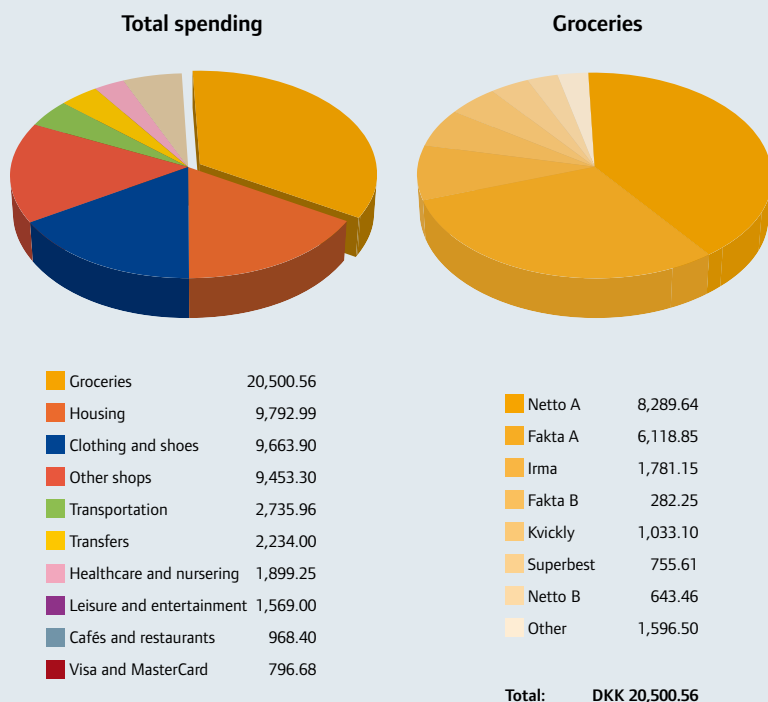
#### **Nykredit is a bank**

Nykredit is particularly focused on being able to handle all the day-to-day banking requirements of our customers. This includes our customers' needs to withdraw and deposit cash. Thus far, the Nykredit centres have been non-cash, but in order to accommodate cash requirements, Nykredit is establishing a solution for handling cash and foreign currencies for retail and commer-

cial customers. By the end of 2012, customers will be able to order cash and foreign currency for collection at any Nykredit centre, as well as deposit cash into a Nykredit account.

To meet customers' requirements in connection with various day-to-day payments and transactions, the internet bank has been improved in a number of areas, and we are still using many resources to make further improvements. Advisory services regarding optimisation of customers' day-to-day payments have also been strengthened considerably through training, and a newly established Commercial Customer hotline offers our commercial customers more opportunities for support regarding day-to-day payment services.

## HOUSEHOLD FINANCES UNDER CONTROL WITH NYKREDIT'S SPENDING OVERVIEW TOOL



Nykredit's internet bank has launched a new generation of customer services. By means of graphic tools, the spending overview provides customers with an overall view of their spending. Pie charts and colours make it easy for customers to see how they spend their money. They can see their total spending by month or over an entire year, and this way they can discover how much of their spending is swallowed up by food, clothing etc each month.

When the Danish consumer magazine Tænk Penge in 2010 found Nykredit's internet bank best in a test of ten Danish internet banks, innovation and improved graphics were called for in Danish internet banks in general. In 2011 Nykredit's internet bank won the title again, and the spending overview was particularly applauded.

Nykredit has included its customers in the development process and asked them to test and comment on the spending overview. Since it was launched, just over 80% of our internet bank users have employed the tool. More than 2,700 comments and proposals for improvement have been received, and the spending overview has been highly praised.

The spending overview tool divides account entries into a number of categories, eg housing, groceries, and transportation. It is possible to view the details of each category and see for instance whether transportation expenses include mainly petrol, taxis or bridge tolls. Thus the spending overview can tell customers whether there are savings to be made within a category, and it is an excellent tool for drawing up budgets.

**TÆNK**  
**Penge**  
**ANBEFALER** SEPT 2011

## MEET NYKREDIT IN THE SOCIAL MEDIA

"Customers first" is at the core of Nykredit's strategy – also when we communicate in the social media.

### Talk with us

At Nykredit's blog, customers may debate with nine blog hosts who post entries on everything from housing finances to customer services and career opportunities. Nykredit also has a Facebook profile, providing answers to general enquiries and presenting new initiatives.

### Share ideas, views and suggestions

Nykredit's Digital User Panel invites customers to contribute their ideas, views and suggestions for new digital measures.

At nykredit.tv and Nykredit's YouTube channel, the latest videos about financial advisory services etc, market comments and commercials may be found, and customers may post comments and ask questions. Nykredit also has profiles at LinkedIn, flickr and Twitter.

By appearing in the social media, Nykredit aims to

- be an open and accessible company
- meet the customers where they are
- establish direct contact with more customers
- establish a closer dialogue with customers and have an open debate
- develop new concepts based on customer ideas.

### Online activity

Number of	2010	2011
Hits at nykredit.dk	11,428,000	12,876,536
Online calculations	2,686,000	2,452,446
Hits at Nykredit Blog	91,000	99,887
Hits at nykredit.tv	96,000	60,244
Video conferences with financial adviser	9,600	14,100
Users of mobile apps	-	178,632

Note: Online calculations include calculations concerning home purchases, design of pension finances and size of homeowner's equity.

### Mobile applications

MitNykredit enables customers to access and employ some basic functionalities of Nykredit's internet bank. The Nykredit Finans app makes it possible to follow the Danish economy, interest rate trends and equity markets. Customers can read our Saving tips, evaluate them and contribute their own. Emergency service is for motorists, and Cash directs customers to ATMs and banks.



*"We must all ask ourselves the question: Do you want to be part of the problem or do you want to be part of the solution. With Nykredit's sustainable investment policy we have not only chosen to be part of the solution, we have also chosen the right solution for our customers, as we are convinced that sustainability is a catalyst for higher returns and lower risk."*  
*Lars Bo Bertram, Executive Vice President*

## Sustainable investment

Nykredit is Danish investors' first choice, be they institutional or private investors. Our customers have trusted us to invest DKK 101bn of their funds, making Nykredit one of Denmark's leading asset managers.

Nykredit's ambition is to challenge the Danish investment market and to stand out with new methods and products. Like all Nykredit's business activities, Nykredit asset management is based on sustainability. Nykredit's sustainable investment policy not only pertains to Nykredit's investment funds but also to the investment of the Group's own assets. Thus the policy governs investments amounting to DKK 198bn.

### Nykredit's investment policy rests on two legs

One leg is our focus on whether companies live up to our expectations. Twice a year, all companies in the portfolio are screened for any breaches of international conventions or of the ten Global Compact principles governing corporate social responsibility.

The other leg is our use of sustainability criteria such as environmental and social conditions, and governance in the investment process. To an increasing extent, Nykredit is including non-financial corporate data such as CSR reports in the assessment of a company's future performance.

### Screening of more than 2,000 companies

In November and May our advisers, GES Investment Services, screen the 2,000 companies whose shares, corporate bonds or covered bonds are included in Nykredit's own portfolio or in the portfolios of our investment funds. The latest screening revealed that 22 companies were in violation of international conventions or the Global Compact principles. Nykredit's initial response is to attempt to make the company change its behaviour and thus eliminate the

problem. We call that active ownership.

Should the company prove unreceptive, Nykredit may exercise its active ownership by voting at the company's general meeting. If, contrary to expectations, no improvement is seen, the security will be sold. At present Nykredit has excluded 11 companies.

### Special products

#### – Global SRI, Environment and Climate

Nykredit offers specialised products such as Global SRI. As opposed to our general policy, any company violating the conventions or earning more than 5% of its income from tobacco, alcohol or weapons will automatically be excluded from the portfolio.

Nykredit recently launched an Environment and Climate investment fund, the object of which is to create an excess return in the global transition to a more sustainable society in terms of energy and environmental impact. The fund is a further development of the first climate funds and invests diversely in energy-saving technology and not only in renewable energy. Another particular focus point is water, especially drinking water.

### CONCEPTS

- **Global Compact:** UN Global Compact is the world's largest volunteer network for companies that take measures to fulfil their social responsibility. Global Compact is based on ten principles within four areas: Human rights, labour standards, environment, and anti-corruption. The individual company selects the areas and the measures relevant to its core business.
- **UNPRI:** The UN's six principles for responsible investment. The principles constitute a set of common global guidelines for responsible investor conduct.
- **Dansif:** Dansif is a network forum for investment professionals, consulting firms and others dealing with Socially Responsible Investment (SRI) in Denmark.

### KNOWLEDGE SHARING AND DEVELOPMENT

Sustainability and responsibility are not an exact science when it comes to investment. Consequently, part of our work in connection with sustainable investment is to understand new trends and share our knowledge. We do that in UNPRI, Dansif, with our external advisers, and through the direct contact with our customers.



## Customer satisfaction

It is essential that being a Nykredit customer is considered attractive, as satisfied customers remain customers. Consequently, we ask our customers on a regular basis about their expectations for and experience with Nykredit's advisers, products and services. This provides us with valuable input from thousands of customers, and their time is not wasted. When we are made aware of areas where we might do better, we take it seriously and change our practice.

In general, our customers are satisfied with Nykredit. Our latest customer satisfaction survey from 2011 showed a positive trend in customers' satisfaction with Nykredit, among retail customers as well as commercial customers. Nine out of ten customers say that they will still be Nykredit customers one year from now.

Nykredit's customer satisfaction has improved since the 2010 survey, and part of this improvement is attributable to Nykredit's intensified customer focus. Nykredit has introduced initiatives in several areas, and it appears that the measures are taking effect.

## Nykredit's customer ambassador

Nykredit's ambition is to have the most satisfied customers, and "Customers first" marks the launch of a targeted effort. Still, things may go wrong and Nykredit there-

fore introduced a customer ambassador in 2007, whose particular focus is on helping dissatisfied customers.

The customer ambassador's primary objective is to ensure that any dissatisfied customers feel that their complaints are handled fairly. The objective of Nykredit's complaints handling is to find, in cooperation with the customer, a solution to the situation with which the customer is dissatisfied.

## Customer complaints must be handled competently

At the beginning of 2011, the customer ambassador introduced a new method for complaints handling in Nykredit, focusing on finding a solution with which both parties would be content. This is not due to an increase in the number of complaints, but is intended to raise the bar for complaints handling throughout the Group – and to ensure that the customer experiences a clear complaints process with focus on the customer, regardless of whether the customer is retail or commercial, or which unit the customer contacts.

## We utilise complaints

Although we would rather go without, we consider a complaint from a customer a gift. First, the customer chooses to give us a chance to rectify a situation which has been a source of dissatisfaction rather than

simply changing banks. Second, a complaint directs Nykredit's attention towards an inexpedient process, which we had not noted would be inconvenient to customers. Approximately 10% of the complaints made to the customer ambassador lead to specific initiatives or general changes. This way a complaint may be considered a gift, as it assists us in our efforts for improvement.

## We take dissatisfaction seriously

As part of our efforts to provide good service to our customers – including those who contact us with a complaint – Nykredit now measures the satisfaction level regarding our complaints handling.

Nykredit strives to provide competent, thorough and fast complaints handling. The measures are part of our semi-annual customer satisfaction surveys. We are pleased with the development recorded from 2010 to 2011, where "satisfied" and "highly satisfied" went up by 4 percentage points to 61%, of which 41% were "highly satisfied".

## Are complaints entirely avoidable?

We have asked ourselves the question whether it is possible to avoid complaints entirely. We will probably not be able to meet all our customers' requirements for the ideal financial company. Nykredit receives some 3 million customer e-mails and calls per year. In addition to that, we hold

## Contact Nykredit

Nykredit's customers can seek advice and buy Nykredit branded products directly through our contact channels:

- Nykredit's 57 centres
- online via e-mail, chat or webdesk meetings
- by telephone via Nykredit's central sales and customer contact centres
- complaints can be directed to the complaints unit or to the customer ambassador.

The local and regional banks in the Totalkredit partnership serve customers through more than 1,000 branches.

more than 250,000 meetings with customers. With that amount of communication, unavoidably things sometimes go awry. We are not perfect, and we know that our customers make ever greater demands on us.

We try to oblige, but completely avoiding complaints is not a realistic scenario.

### Openness about complaints – status for 2011

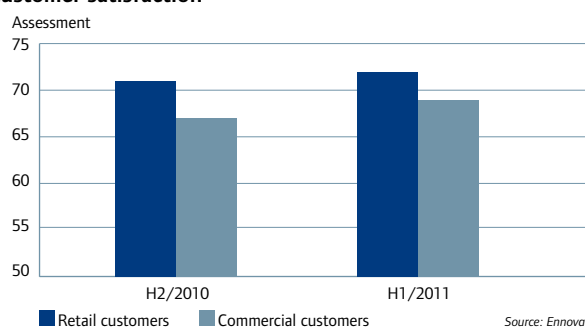
Nykredit has opted to be open about complaints. In 2011 Nykredit's customer ambassador and the complaints unit handled a total of 483 complaints concerning banking and mortgage lending. Customer complaints typically pertain to case handling, to a specific decision (eg loan refusal), or to communication, rarely to products or prices.

42% of the complaints brought to the customer ambassador or the complaints unit were decided entirely or partly in the customer's favour.

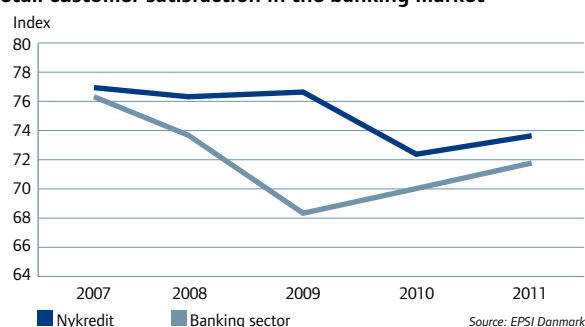
### Open dialogue with the customer

The customer ambassador regularly posts blog entries at Nykredit's website, in the customer ambassador's universe. The focus is on topics that influence customers' satisfaction with Nykredit. Here customers are offered an open discussion forum and may of course also voice their criticism.

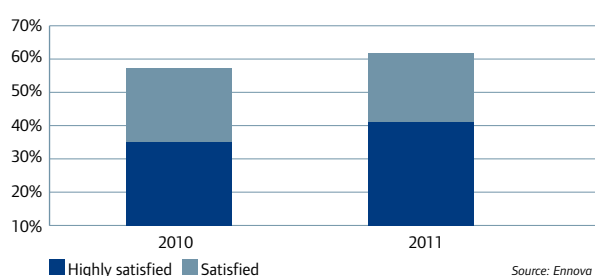
### Customer satisfaction



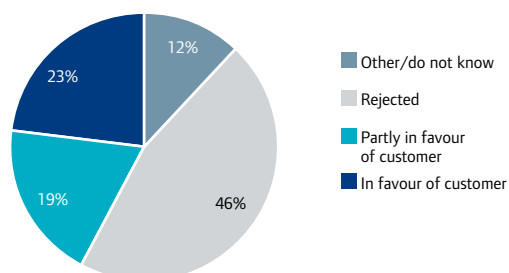
### Retail customer satisfaction in the banking market



### Share of customers satisfied with the handling of specific complaints (retail)



### Outcomes of complaints received by customer ambassador or complaints unit



# Social responsibility

Nykredit's business concept of Financial Sustainability describes how values such as balance, long-term relations and a broad social responsibility are active and integral parts of our dialogue with customers, business partners, investors, staff and the rest of society. Nykredit also has an ongoing dialogue with political decision-makers in Denmark as well as in a European context. Nykredit does not provide direct or indirect financial support to politicians or political parties.

Nykredit's membership of the UN Global Compact network is a natural consequence of our business concept of Financial Sustainability. This publication describes part of our efforts to implement and raise awareness of the ten Global Compact principles for corporate social responsibility. Nykredit's report on corporate social responsibility is also based on the Global Reporting Initiative (GRI) guidelines. In addition, Nykredit's investment policy complies with the UN's principles for responsible investments, UNPRI. These are but a few examples of Nykredit's broad effort to actively incorporate our social responsibility in the business and sometimes also outside the day-to-day business activities.

Nykredit mainly operates in Scandinavia, which, according to Transparency International, is one of the least corrupt regions in the world. Even so, we find that legislation must be supplemented with clear policies and opinions to help staff members counter corruption in their everyday life. Areas of focus are money laundering, nepotism, receipt of improper gifts and any other conflicts of interest. Nykredit expects to approve and implement an anti-corruption policy in 2012.



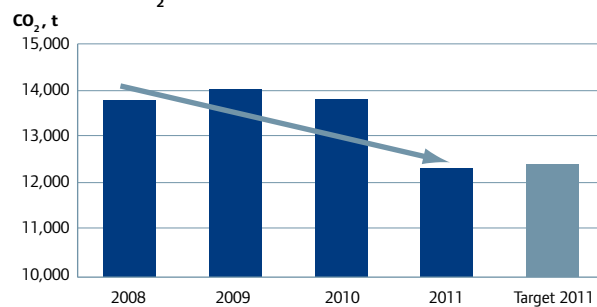
## Environment and climate

The environmental and climate impact is an important social issue. Being one of Denmark's largest financial services providers, we share the responsibility for a long-term environment and climate response. Three years ago, Nykredit set a target of reducing the Group's carbon footprint by 10% by the end of 2011. We have achieved that target by implementing heat and power-saving measures.

### Resource consumption and CO<sub>2</sub> emission

Resource consumption	2008	2009	2010	2011
Electricity, MWh	18,319	18,073	18,221	17,137
Heating, MWh	11,359	12,208	11,527	13,381
Water, m <sup>3</sup>	37,843	38,187	37,916	36,560
Transport, 1,000 km	18,216	18,228	19,632	20,049
- of which by aircraft	6,688	6,480	6,547	6,358
- of which by car	10,129	11,270	11,008	11,845
- of which by train	1,399	1,478	2,078	1,846
<b>CO<sub>2</sub> emission, t</b>				
Electricity	9,410	9,480	9,149	7,165
Heating	1,593	1,503	1,627	1,631
Transport	2,766	3,030	3,019	3,504
- of which by aircraft	963	1,041	1,069	1,416
- of which by car	1,755	1,939	1,894	2,039
- of which by train	47	50	56	50
<b>Total CO<sub>2</sub> emission</b>	<b>13,769</b>	<b>14,013</b>	<b>13,795</b>	<b>12,300</b>
Heated area, sqm	129,954	141,345	137,489	137,442
Heating per sqm, KWh	87	86	84	97
CO <sub>2</sub> emission per full-time staff, t	3.41	3.47	3.22	2.91

### 10% lower CO<sub>2</sub> emission in 2011



Note: 2011 emission is a preliminary statement as specific consumption figures for heating and emission factors will not be available until later this year.

### New target for the reduction of CO<sub>2</sub> emission

Nykredit has set the target of reducing its carbon footprint by 20% by 2015. The basis for the reduction is still the 2008 CO<sub>2</sub> emission. In addition to the continued efforts to limit power and heat consumption, focus will be on reducing Nykredit's CO<sub>2</sub> emission from transport. Specific plans for Nykredit's future environment and climate activities will be presented in H1/2012.

### Energy savings

In 2010 Nykredit established a central operations centre enabling the regulation of cooling, heating and ventilation systems in all Nykredit buildings throughout Denmark. The operations centre has opened completely new opportunities of adjusting ventilation and heating systems to the needs of individual locations. The result is power and heat savings, to the benefit of the environment, the indoor climate and our finances. The operations centre was expanded heavily in 2011, and 50 buildings can now be controlled centrally. When implemented on such a large scale, simple measures make a considerable difference.

Among the climate measures implemented by the operations centre are:

- The operations centre ensures that radiators and ventilation systems are utilised optimally in Nykredit's buildings.
- The operations centre improves the transparency of energy consumption and consumption patterns and facilitates control of the technical systems of individual locations.
- Shutdown of technical systems on bank holidays. In Denmark there are 10-13 bank holidays in a calendar year. This means that such measure alone will reduce the power consumption of technical systems by about 3%.

By upgrading the technical systems and connecting to the operations centre, one Nykredit centre achieved power and heat savings of 40%.

### Climate and environmental considerations in relation to the design of new buildings

Nykredit focuses on optimising the energy consumption of new buildings before they are occupied. If energy savings are thought of before the buildings are brought into use, several processes may be combined, and major energy savings can be achieved at a relatively low additional cost. The design, insulation and technical installations of a building are essential to its energy consumption and to heating/cooling problems and draughts. An early effort therefore means reduced power and heat consumption and an improved indoor climate.

### Energy-efficient lighting

In 2011 Nykredit focused on reducing CO<sub>2</sub> emission from lighting. Last spring Nykredit started using new and more energy-efficient lighting fixtures. The project is expected to generate power savings of 110,000 kWh a year, and Nykredit's investment will consequently be recouped in 18 months.

### Healthy Green Habits

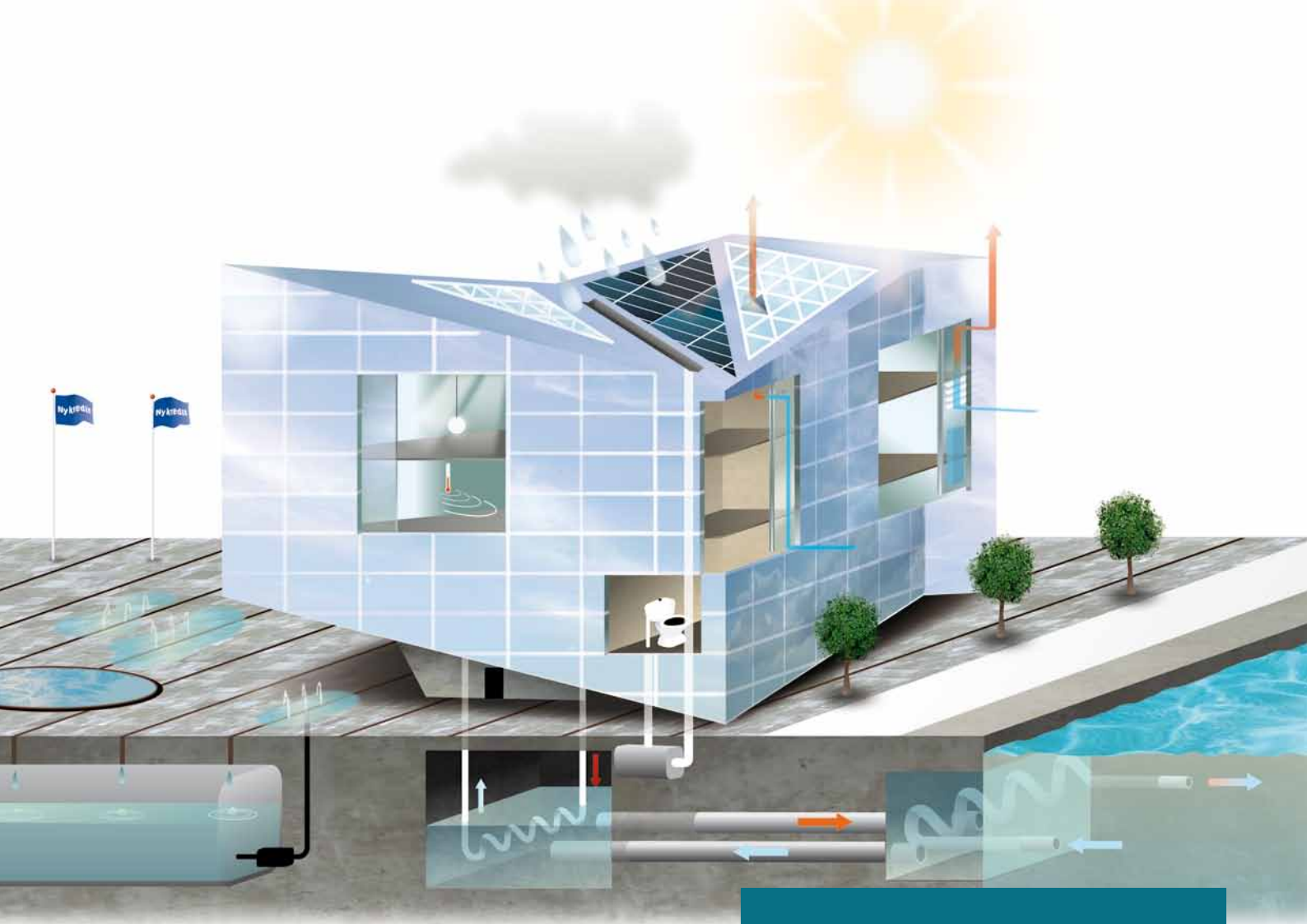
Nykredit is attempting, through dialogue, to motivate its staff to consider the environment and the climate. The staff campaign, Healthy Green Habits, is aimed at raising awareness of what individual staff members can do to reduce Nykredit's environmental impact. Nykredit also encourages proposals for more improvements in the area. The campaign was launched in 2009 and will continue in 2012.

Nykredit's Healthy Green Habits:

- Print in duplex mode
- Sort your waste and reuse paper
- Clean out your drives
- Turn off the computer when you leave work
- Hold video conferences.



Photograph by Brian Buchard



Graphics by Martin Schwartz for Klimagruppen.

## The Crystal

The Crystal is Nykredit's new face to the world. This is where Nykredit has gathered much of its customer advisory services in Copenhagen. In the Crystal, Nykredit welcomes its customers in a bright and inviting setting whose sustainability, flexibility and architecture make it the embodiment of Nykredit's New Thinking philosophy.

The Crystal and the square in front of it were designed by the two Danish architectural firms Schmidt Hammer Lassen Architects and SLA Landskabsarkitekter. The Crystal was finalised in 2011.

### A sustainable building

The Crystal features a number of energy-saving technologies and sets new standards for sustainable design. The environmental profile of glass buildings has traditionally been inferior to that of brick buildings because glass does not have the same ability to retain heat as bricks. However, the Crystal's architects have managed to obtain all the benefits of a glass building in the form of light and transparency while at the same time matching conventional commercial buildings in terms of energy consumption.

The low energy consumption was obtained by combining a number of different environmental technologies. The Crystal's facade has four layers of glass, and the solar cells on the roof generate green energy. The ventilation system is a combination of natural and mechanical ventilation that uses 40% less energy than conventional ventilation systems. An intelligent lighting system adjusts the electric lighting to the intensity of the natural light coming into the building, and cold water from the nearby harbour basin is piped into the building and used in its cooling system.

### DESIGN PRIZES FOR THE CRYSTAL

The Crystal was awarded two great international design prizes in 2011. In August the Crystal won the European Steel Design Award 2011, which puts the Crystal in the company of other distinct European buildings such as the new Holmenkollen in Oslo, the Aviva Stadium in Dublin and Immeuble Basalte, La Défense, in Paris. The award-winning team behind the Crystal included Nykredit (client), architects from Schmidt Hammer Lassen, advisers from Grontmij and contractors from Promecon.

In September the architects behind the Crystal, Schmidt Hammer Lassen, won a LEAF Award for best structural design of the year. The prize was awarded for the Crystal's unique shape, inherent flexibility and elegance. The LEAF (Leading European Architects Forum) Awards are given to architects who design buildings and architectural solutions that set new standards on the international architectural scene.

### FACTS ABOUT THE CRYSTAL

- Levels: 6
- Floor area: 6,850 m<sup>2</sup>
- Building height: 34 m
- 7,000 m<sup>3</sup> of concrete and 14,000 tonnes of steel used for the building
- Car park under the square.

## Social initiatives

Nykredit possesses a number of competencies which we make available for three ongoing social projects: A social partnership with both Mødrehjælpen (Mothers Help) and crisis centres, and the New Network project. Nykredit supports and facilitates the projects, and Nykredit's staff provide their professional and personal skills and experience on a voluntary and unpaid basis.

### Social partnership

Since the beginning of 2009, the Mary Foundation, headed by HRH Crown Princess Mary, Mødrehjælpen and Nykredit have been partners in a project offering free and independent personal, financial and legal counselling to battered and other vulnerable women in the metropolitan area. Based on the experience gained in the first few years, the offer was expanded to include similar counselling in Aarhus from the end of 2010.

So far, more than 850 women have received financial counselling from Nykredit in Copenhagen and Aarhus. Surveys indicate that the number of women who feel that they can cope with their financial situation after they received counselling has more than doubled.

### Social partnership expanded to include crisis centres

In 2010 the social partnership was expanded to include counselling at crisis centres outside Copenhagen. Under this part of the project, Nykredit is still working together with the Mary Foundation, but also with the National Organization of Shelters

for Battered Women and Children (LOKK) and local law firms. At the end of 2011, the crisis centres in Esbjerg, Aarhus, Elsinore, Kolding, Næstved and Bornholm also offered counselling.

A total of 32 Nykredit staff members were working as financial mentors under the projects in 2011. They offer their help on a voluntary basis, using their professional skills and a good deal of human insight to help these women to help themselves and gain control of their financial situation.

Based on the positive results achieved, Nykredit together with Foreningen Østifterne will continue to provide financial support for the two social partnership projects in 2012.

### New Network helps foreign residents

The New Network project was launched in 2011 in cooperation with Hellerup Language School. The aim is to assist foreign residents who are learning Danish in entering the Danish labour market. Nykredit is facilitating the project, and Nykredit staff members work as voluntary mentors in their spare time. The mentors help their mentees expand their networks and advise them on Danish society, labour market and workplace culture.

Two programmes involving a total of 30 mentors and 30 mentees were completed in 2011. So far, about half the participating mentees have found jobs, and the rest are receiving training or education, which will bring them closer to the labour market. They have all expanded their networks and learned more about Danish culture – in general and in the workplace.



## Sponsorships

Sponsoring agreements with institutions of arts, culture and sports as well as educational establishments are a natural part of Nykredit's social commitment. Also, the sponsorships strengthen and expand relations with important groups of stakeholders.

In 2011 Nykredit spent about DKK 15m on sponsoring agreements, of which the main ones were:

- Vorespuls.dk – partnership agreement with the Danish Gymnastics and Sports Associations (DGI)
- Nykredit Copenhagen Marathon – main and title sponsor
- The Royal Danish Theatre – main sponsor
- National Gallery of Denmark – main sponsor of x-rummet
- Louisiana – sponsor of Louisiana Contemporary
- The Royal Danish Academy of Fine Arts' Schools of Visual Arts – main sponsor
- Heart – sponsor of Herning Museum of Contemporary Art
- Copenhagen Business School – Premium Career Partner.

### Vorespuls.dk

In 2010 Nykredit entered into a partnership with DGI on creating a joint, online physical activity universe. The sponsorship is part of Nykredit's efforts to make a difference in the field of physical activity, and the objective of vorespuls.dk is to improve public health by inspiring and motivating Danes to engage in physical activity as a natural part of their everyday life.

vorespuls.dk offers information and news mails about running, cycling, mountain biking, swimming, kayaking and more generally about a healthy lifestyle.

### Nykredit Copenhagen Marathon

In 2009 Nykredit entered into an agreement with Sparta Atletik on the title sponsorship of Nykredit Copenhagen Marathon. A total of 11,919 runners had registered for the notorious 42.195 km run. Of those, 1,200 were Nykredit customers and 170 Nykredit staff members.

### The Royal Danish Theatre

For the 15th consecutive year, Nykredit is the main sponsor of the Royal Danish Theatre, sponsoring performances, open-air operas and the two great summer events at Rosenborg and Skamlingsbanken. In 2011 Nykredit hosted a number of events for customers and business partners. In open-air opera concerts, singers from the Royal Danish Opera performed extracts from the next opera season to an audience of more than 11,000. More than 25,000 people attended the two great summer events at Rosenborg and Skamlingsbanken.

### The Nykredit Foundation

The Foundation is managed by Nykredit Realkredit A/S and has a capital of DKK 100m. The Nykredit Foundation awarded about DKK 7m in 2011, of which DKK 1.6m went to Nykredit's prizes.

### Nykredit's Research Prize 2011

The Research Prize was first awarded in 2010. The prize is awarded for original and innovative, high-quality research in the financial, HR or CSR area.

The Research Prize 2011 of DKK 500,000 went to Professor Peter Norman Sørensen, University of Copenhagen, who has performed original research at the highest international level



within the field of financing.

Assistant Professor Peter Feldhütter, London Business School, received the Research Talent Prize 2011 of DKK 100,000, which is awarded to a promising young researcher.

### Nykredit's Architecture Prize and Motivation Prize

The Architecture Prize of DKK 500,000 is Scandinavia's largest architecture prize and has been awarded every year since 1987. In 2011 the prize went to Cubo Arkitekter owned by partners and architects MAA Peter Dalsgaard, Bo Lautrup, Ib Valdemar Nielsen and Lars Juel Thiis, who are behind for instance the conversion of a former power plant into the cultural power-house Nordkraft in Aalborg.

The Motivation Prize of DKK 100,000 went to Jaja Architects owned by architects Kathrin Susanna Gimmel, Jakob Steen Christensen and Jan Yoshiyuki Tanaka. A globally-oriented architecture firm which has often worked with cross-border and cross-cultural projects.

### Donations

The Nykredit Foundation wants to make a difference and continuously supports initiatives within arts, culture, research, sports and humanitarian work. The donations span very widely. In 2011 support was given to projects as different as energy renovation of a residential building, holidays for disabled children and seminars on the prevention of drug abuse.

### RECORDS BROKEN IN 2010 AND 2011

Nykredit Copenhagen Marathon beat the record with a total of 12,644 registered runners in 2010, while 2011 saw a new record in terms of runners completing the Marathon – 9,209. The ambition is to become the largest marathon in Scandinavia.

# Staff

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**N**ykredit strives to create visible career paths and lay down clear and consistent competence requirements for each position. These efforts are prompted by Nykredit's ambition to be an attractive and challenging workplace, which attracts and retains staff who can lead Nykredit in a strategically right direction.

This ambition may be fulfilled by moving towards a more performance-oriented culture. This calls for a structured development of the organisation and staff, and a sharper focus on targets and results ensures clarity as to when Nykredit's staff meet the job requirements.

## **Nykredit Certification**

For many years, Nykredit has set competence requirements and offered in-house training to all customer advisers. The financial crisis in recent years has led to the introduction of mandatory testing of staff working with investment products. Certification is related to the mandatory risk labelling of investment products.

In 2011 Nykredit decided to do more than required by law, launching "Nykredit Certification" for all customer-facing staff. All customer advisers are certified every three years.

## **Nykredit Academy**

Nykredit Academy consists in development programmes targeted at key staff members who are working with areas of strategic importance to Nykredit and have the potential to develop professionally either in their current jobs or across the Group.

Two new development programmes, "Financial Advice and Sales" and "New Thinking" focus on networking and performance. Based on a personal development plan, staff members are trained by means of eg virtual meetings and cases leading to a final exam. In 2011, 33 staff completed one of these development programmes, and a total of 145 staff have been enrolled in Nykredit Academy training.

## **Talent development for management and staff members**

It is Nykredit's ambition that in-house candidates fill the majority of managerial positions in the Group and that there is a well-functioning pipeline of qualified management candidates meeting the future need for managers. In 2011 the process of realising this ambition included the design of management assessment concepts improving the selection of managers.

The programmes aim at three management levels:

- First-level management (pre-management training)
- Middle-level management
- Executive-level management.

The programmes ensure that management candidates are spotted and developed. In the wake of the programmes, talent development activities are initiated with a view to retaining, further developing and motivating management talent in the organisation.

## **Managers and staff members to improve bank competences**

Nykredit rests on two equally strong legs: banking and mortgage lending. A higher priority has been given to staff banking competences to further bolster the Group's banking expertise to the level of the already solid expertise within mortgage lending.

All management and staff members within Nykredit's commercial area have completed extensive training leading to a mix of professional and personal development. The training focused on our customers, who will experience a closer contact as regards their daily banking business with Nykredit.





*"Homosexuals should perceive Nykredit as a proactive and all-encompassing workplace that allows them to be themselves. It is important that both management and staff members support this diversity and the fact that Nykredit sees openness about sexual orientation as positive."*

*Bente Overgaard, Group Managing Director*

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### Internal resource mobility

The keen focus on cost containment introduced across the Group made Nykredit continue its efforts to fill vacancies with in-house candidates in 2011. Aiming at internal job rotation and internal resource mobility, Nykredit has succeeded in setting a new agenda and enhancing staff awareness of career opportunities. Further, the Group's internal competences have become clearer to Nykredit.

### Diversity

Nykredit aims at staff diversity in terms of age, gender, sexuality, ethnicity and women in management. This is based on Nykredit's business concept of Financial Sustainability and the understanding that higher diversity and optimum use of such diversity strengthen Nykredit.

In 2011 Nykredit sharpened its focus on sexual orientation because surveys and the experience of other businesses show that the job satisfaction of homosexual staff is higher if it is natural to be open about sexual orientation. Nykredit has taken a number of specific initiatives:

- Review and updating of staff policies
- Leave rights for homosexual co-mothers equal to the paternity leave rights of heterosexual fathers
- Higher attention to internal and external usage of the Danish language
- Nykredit's participation in Copenhagen Pride.

### Women in management

Nykredit strives to step up the number of female managers in accordance with its adoption of the Charter for more women in management. Nykredit made targeted efforts to support each of its female managers in 2011. Accordingly, Nykredit is continuing its participation with DR, TDC, the Danish Ministry of Finance and DONG Energy in the network KIL (women in management), which includes 18 of Nykredit's female managers.

Nykredit has also entered into business agreements with WOW Exenet (Women on their way) and Protocol. These networks offer a number of Nykredit's female managers the opportunity to participate in networks with their peers in similar organisations, which strengthens their competences. A network for female managers is being formed within Nykredit.

### Gender-segregated labour market

In 2011 Nykredit made the gender-segregated labour market a special focus area. The implementation of a group-wide job structure has unleashed new possibilities of working with and mapping how women and men are distributed across the organisation and at job level. Female staff generally work in support functions or at lower levels in specialist, advisory or sales functions. The same trend is recorded in management, as there are most women at the lower echelons.

Therefore, Nykredit has launched initiatives to temper this trend. At group level Nykredit has intensified its efforts to even the gender distribution and demands that both women and men be represented when Nykredit recruits for executive positions across the organisation.

### INITIATIVES FOR WOMEN IN MANAGEMENT

- Charter for more women in management
- Operation Chain Reaction
- Peter Engberg – Ambassador of the Confederation of Danish Industry
- Barrier analysis – internal workshops
- Equal representation at pre-management level
- Relaunch of Nykredit's internal mentoring scheme
- After-hours meetings
- Networks: KIL, WoW, Protocol
- Internal and external role models.
- Charter for more women in management: Two of the purposes of the Charter for more women in management issued by the Danish Ministry of Equality are to ensure equal opportunities for men and women to have a career in management and to take initiatives aimed at raising the number of female managers
- Women in management (KIL): The purpose of the networking initiative is to set up networks internally and across industries where female managers can develop their skills and discuss the dilemmas and challenges of a career in management
- WOW Exenet (Women on their way): WOW Exenet is a professional forum for knowledge sharing between individuals, businesses, associations and organisations. The objective is to promote diversity in Danish trade and industry, contributing to growth and equality
- Protocol: Network for Danish women. The objective is to create a platform which allows the individual business to attract and retain female staff, motivate and inspire them and improve their competences.



### Share of female managers

%	2008	2009	2010	2011	Target 2015
Executive-level management	10	12	9	10	15
Middle-level management	18	20	25	24	30
Lower-level management	38	35	42	41	45

New determination method as from 2010.

### Nykredit Health

For the second consecutive year Nykredit offered all permanent staff a health check. About 76% of Nykredit's staff accepted the offer, which was six percentage points more than in 2010. The new possibility of body age testing attracted particular interest.

The figures show an extraordinary development, as the health of the entire Nykredit staff has improved by 4 percentage points.

### Nykredit Job Satisfaction

Nykredit focuses on job satisfaction and continuously strives to strengthen the physical and mental working environment. Nykredit Job Satisfaction involves two annual staff satisfaction surveys across the Group. Nykredit's results are benchmarked against the entire financial sector and the labour market in general. In continuation of previous results, the survey carried out in 2011 showed a high degree of commitment and significant job satisfaction among the Group's staff.

In addition to the surveys, Nykredit completed a physical workplace survey among its staff in 2011. Overall, the results reflected generally high satisfaction with the individual working environment. In centres, canteens, service functions and at the headquarters, the largest challenges are the indoor climate and noise from colleagues.

Nykredit is characterised by a good mental working environment with a relatively busy working week, a high activity level and a good social network. The survey also showed that commitment and a feeling of team spirit are some of Nykredit's major strengths. Furthermore, management quality is considered high in the Group.

### Staff figures

In 2011 Nykredit staff numbers averaged 4,139.

	2008	2009	2010	2011
Permanent staff, year-end	3,531	4,061	3,826	4,057
- of which part-time staff	367	490	479	495
Staff paid by the hour	774	601	665	651
New staff <sup>1</sup>	687	214	197	348
Outflow <sup>2</sup>	349	220	287	303
New staff as % of permanent staff	21.5	6.1	4.9	8.6
Outflow as % of permanent staff	10.9	6.2	7.1	7.5

<sup>1</sup> In 2009 new staff is exclusive of 536 staff of Forstædernes Bank. <sup>2</sup> In 2010 outflow is exclusive of 338 staff of Nykredit Forsikring.







# Ownership structure and capital policy

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## Structured as financial mutual

In 1991 Nykredit was converted from a credit association to a private limited company, and the current corporate structure was established. Through Nykredit Holding, Nykredit is owned mainly by Foreningen Nykredit (the Nykredit Association), which has an ownership interest of 89.51% and the object of which is to be shareholder of the Nykredit Group and carry on financial business through the Group. Nykredit operates through Nykredit Realkredit A/S, the object of which is to carry on mortgage banking and other financial business.

The ultimate authority of Foreningen Nykredit is the Committee of Representatives, which is composed of 100 representatives who are elected by the members and bondholders. The Committee of Representatives elects the Board of Directors of the Association and approves the annual reports and any amendments to the articles of association.

Owing to Nykredit's corporate structure, Foreningen Nykredit, Nykredit Holding A/S and Nykredit Realkredit A/S have the same objectives and common interests. Therefore, it is natural that all members of the Board of Directors of Foreningen Nykredit elected by the Committee of Representatives are also members of the boards of directors of Nykredit Holding and Nykredit Realkredit.

All customers who have a mortgage loan with Nykredit Realkredit A/S gain membership of Foreningen Nykredit. Membership lapses automatically when a borrower no more has a Nykredit mortgage loan.

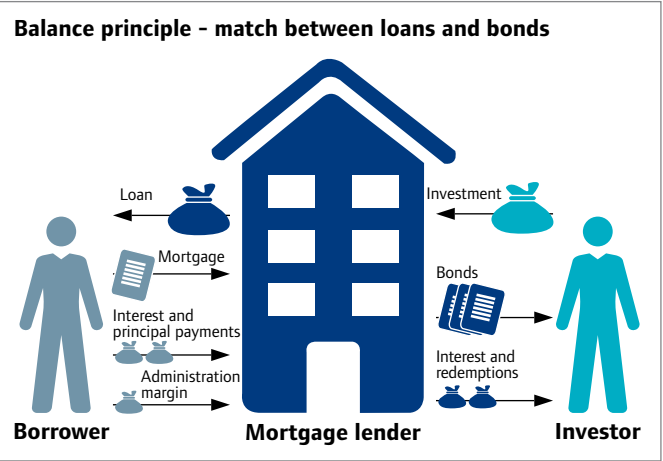
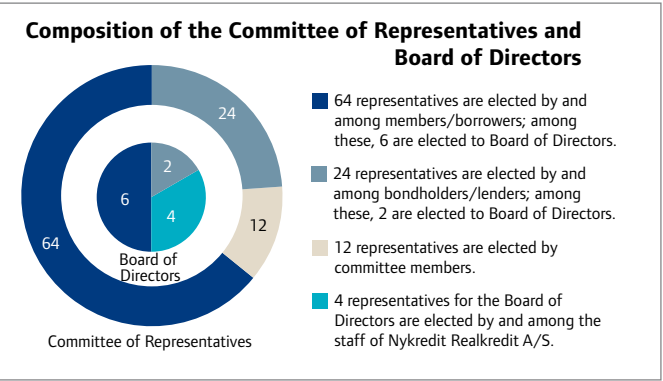
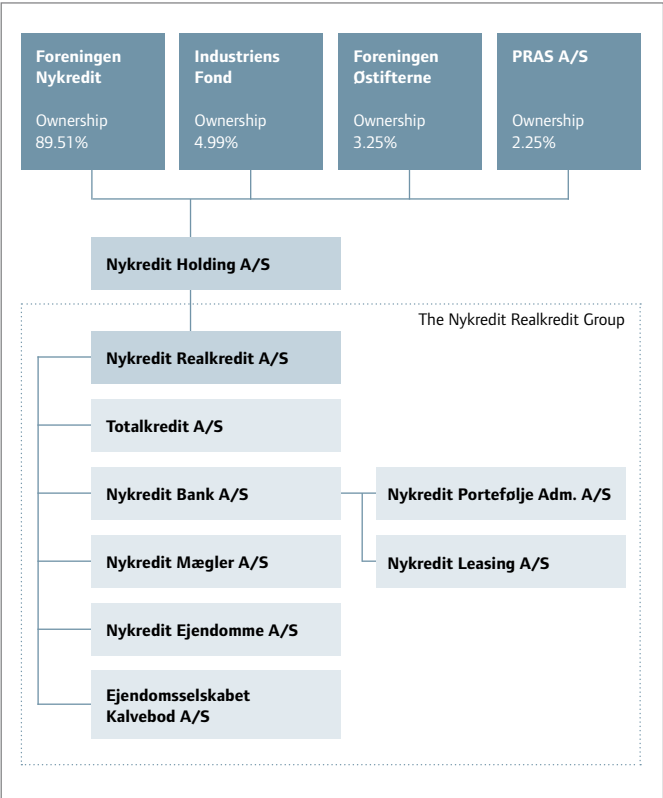
Members are entitled to vote at elections of representatives in the electoral district in which they own a property.

Members may also be elected to the Committee of Representatives by running as candidate in the area where they live or in one of the areas in which they own a property. In order to run for election, candidates must be endorsed by at least 25 other members of the Association in their electoral district or by the Board of Directors. Bondholders with a bond portfolio in excess of DKK 25,000 are entitled to vote at the election for the Committee of Representatives. Bondholders may only vote for bondholder candidates. The election of bondholders is not divided into electoral districts.

The election is announced towards the end of the year in the daily newspapers and at [nykredit.dk](http://nykredit.dk).

## HISTORY OF NYKREDIT

- |      |   |
|------|---|
| 1851 | Formation of Kreditforeningen af Jyske Landejendomsbesiddere – the oldest of the mortgage associations that later merge and become Nykredit |
| 1985 | Kreditforeningen Nykredit is formed by a merger of Jyllands Kreditforening and Forenede Kreditforeninger                                    |
| 1991 | Kreditforeningen Nykredit is converted into Nykredit A/S  |
| 1994 | Nykredit Bank is set up   |
| 2003 | Acquisition of Totalkredit  |
| 2008 | Acquisition of Forstædernes Bank  |



### Unique Danish mortgage system

The Danish mortgage system is unique and recognised as one of the best systems in the world. The system is founded on

- low lending rates based on listed bonds
- transparent pricing and repayment terms
- the balance principle, which secures long-term financial stability
- personal debt liability.

### Balance principle and match funding

The balance principle is the cornerstone of the Danish mortgage system.

The stability of the Danish mortgage market derives from the match funding of most Danish mortgage loans. Match funding means that loans and funding mirror each other, and the funding costs are visibly reflected in the loan. Match funding eliminates the interest rate, foreign exchange and liquidity risks of mortgage banks. The most important risk of Danish mortgage banks is therefore credit risk – the risk that borrowers fail to make timely payments or fail to pay at all. Match funding allows customers to prepay their loans by purchasing the underlying bonds on the stock exchange. This principle ensures financial mobility, active debt management and protection against a loss of home equity.

### Security

Security of Danish mortgage bonds is based on the following factors:

- the bonds are secured against a registered mortgage on property
- loan-to-value (LTV) limits for loans in the different property categories are laid down by law
- if property prices fall and LTV limits are exceeded, mortgage banks must provide additional collateral in case of SDOs (Danish covered bonds)
- mortgage banks comply with a number of statutory requirements such as that of capital adequacy
- mortgage banks apply a balance principle which reduces financial risk in relation to loan balances
- mortgage banks are supervised by the Danish Financial Supervisory Authority.

### New regulation underway

A whole set of rules for the regulation of financial markets is underway. The rules were prompted by the lessons learned from the financial crisis when huge credit losses and the lack of trust between banks led to liquidity problems and bank failures in several countries. The new rules seek to create a more stable financial sector by introducing stricter capital requirements and completely new regulation of the technically complex liquidity area.

In summer 2011, the European Commission published its proposal for capital and liquidity requirements for credit institutions. The proposal will implement the principles of the Basel Committee (Basel III) issued in December 2010 into European legislation. The proposal will also introduce the so-called Single Rule Book – a common set of rules for all credit institutions within the EU.

The new rules must be adopted by the European Parliament and the Council in order to become legally binding. The rules are expected to be phased in during the period 2013-2019.

In Denmark, the Ministry of Business and Growth, Dan-

marks Nationalbank, the Danish Financial Supervisory Authority, the Danish Bankers Association and the Association of Danish Mortgage Banks have taken concerted action to explain the special Danish problems caused by the new proposals to the EU institutions involved.

### Sustainable mortgage lending in Nykredit

Nykredit is financially robust, but in order to ensure financial sustainability we must continuously adapt our business to future terms and conditions.

The general framework for financial institutions is undergoing significant changes. New international capital and liquidity rules are underway. At the same time, the growing unrest in financial markets and decreasing prices in the housing market pose a number of challenges.

This is the motivation for Nykredit's latest initiatives, "Sustainable mortgage lending", which introduce changes to the price structure and funding of loans. The initiative will add further stability to Nykredit's business, making Nykredit even more resilient to turbulent periods.

Nykredit has also spread the refinancing auctions, which determine the rates of adjustable-rate mortgage loans, more evenly over the year. Nykredit now holds refinancing auctions three times a year as opposed to once a year previously. The purpose of spreading the auctions is to reduce our customers' refinancing risk.

### Sustainable capital policy

A firm capital structure is an essential element of Nykredit's financial sustainability. Nykredit's ownership structure makes it difficult to raise new capital in equity markets. For this reason, Nykredit plans for the long term and pursues a conservative capital policy.

Nykredit's objective is to be able to maintain its lending activities at an unchanged level regardless of economic trends, while retaining a competitive credit rating.

Danish legislation lays down a minimum capital requirement in order for Nykredit to fulfil its obligations as lender. The statutory capital requirement increases with the risk incurred by Nykredit. Nykredit's risk is calculated by means of statistical models based on customers' ability to pay and resulting losses and arrears. During an economic downturn, losses and arrears generally tend to increase, causing the statutory capital requirement to increase as well. Nykredit has structured its capital policy so that, regardless of the current economic climate, the size of the capital reserves always fulfils the requirement during a severe recession. This means that Nykredit expects to be able to maintain its lending capacity at all times.

Capital is as far as possible concentrated in the Parent Company, to ensure strategic flexibility and leeway. Contributing capital to group companies as required is a central element of the Group's capital policy.

Coupled with a prudent credit policy and sound business operations, the capital policy forms the basis of Nykredit's credit ratings assigned by international credit rating agencies. Nykredit's SDOs are rated AAA by Standard & Poor's and Aaa/Aa1 by Moody's.

Long-term financial sustainability ensures a strong rating of Nykredit's bonds, which benefits our customers in the form of competitive bond prices.

### Nykredit's capital structure

DKKbn	2011
Business capital – Pillar I	25.3
Statutory capital requirement in a favourable economic climate	
Business capital – Pillar II	8.1
Additional statutory capital requirement during a mild recession	
Cyclical buffer	12.5
Additional statutory capital requirement during a severe recession	
Statutory deductions	4.4
Strategic capital	4.8

#### Total equity after dividend distribution 55.1

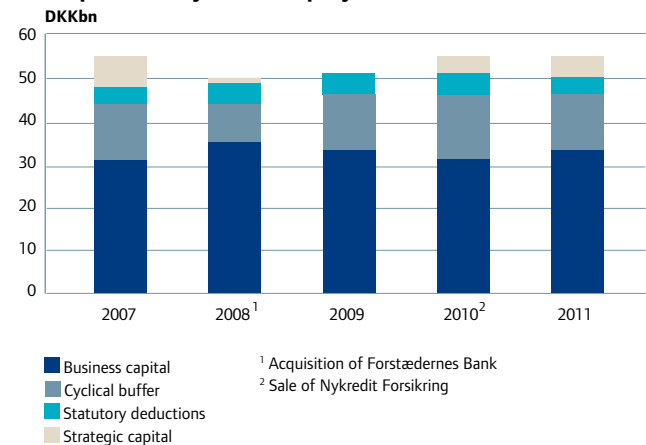
Business capital is the amount of capital which Nykredit must set aside according to law. The business capital amounted to DKK 33.4bn at end-2011.

The cyclical buffer must cover the expected increase in the statutory capital requirement in case of a severe recession. Nykredit keeps a cyclical buffer at all times. At end-2011 it amounted to DKK 12.5bn.

Statutory deductions are partly time-limited rights under the partnership agreement with the regional and local banks behind Totalkredit, partly goodwill from the acquisition of Totalkredit and Forstædernes Bank. At end-2011 statutory deductions came to DKK 4.4bn.

Strategic capital is the equity component that may be applied for business growth. Strategic capital amounted to DKK 4.8bn at end-2011.

### Development in Nykredit's equity



# Nykredit in numbers

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## Nykredit's investors

Nykredit is the largest mortgage lender in Denmark and one of the largest private bond issuers in Europe.

Nykredit's bond issues consist mainly of covered bonds. In addition to this, Nykredit has issued hybrid capital and subordinate loan capital. Moreover, Nykredit Bank has issued bonds as part of its international funding programme.

The target is a broad investor base and an efficient market for the bonds. An efficient market for Nykredit's bonds means favourable interest terms for customers' and Nykredit's benefit.

Due to the size of the Danish market for bonds for funding mortgage loans, the mortgage banking sector is a central element of credit intermediation in Denmark.

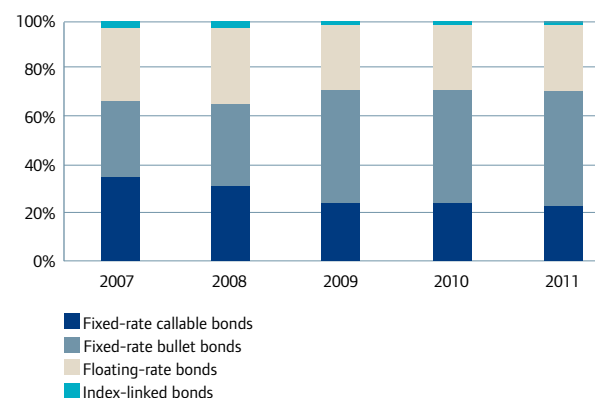
## Nykredit's bonds

At end-2011, Nykredit had issued a nominal amount of DKK 1,223bn of covered bonds.

The bulk of Nykredit's issued bonds is applied for financing owner-occupied dwellings.

Most of the security underlying Nykredit's bonds falls within 40% of the value of the properties.

## Distribution of issued mortgage bonds and SDOs by type of bond



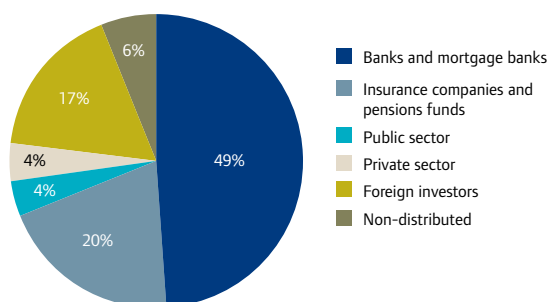
## Financial highlights

### Nykredit Realkredit Group Core earnings and results for the year

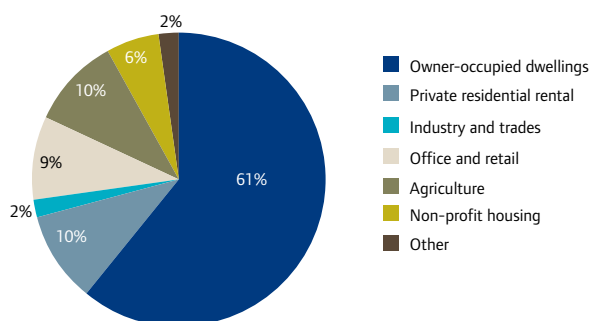
DKKmn	2010	2011
<b>Core income</b>	<b>9,872</b>	<b>9,010</b>
Costs, depreciation and amortisation	5,999	5,975
<b>Core earnings before impairment losses</b>	<b>3,873</b>	<b>3,035</b>
Impairments losses on loans and advances	2,382	1,414
<b>Core earnings after impairment losses</b>	<b>1,491</b>	<b>1,621</b>
Investment portfolio income	2,060	179
<b>Profit before cost of capital</b>	<b>3,551</b>	<b>1,800</b>
Net interest on hybrid core capital	(461)	(462)
<b>Profit before tax</b>	<b>3,090</b>	<b>1,338</b>
Tax	785	223
Profit from discontinued insurance operations	1,511	-
<b>Profit for the year</b>	<b>3,816</b>	<b>1,115</b>
Profit for the year excludes value adjustment and reclassification of strategic equities <sup>1</sup>	261	(854)

<sup>1</sup> Nykredit's portfolio of strategic equities amounted to DKK 2.1bn at end-2011.

## Investors in Nykredit's issued SDOs and mortgage bonds 2011



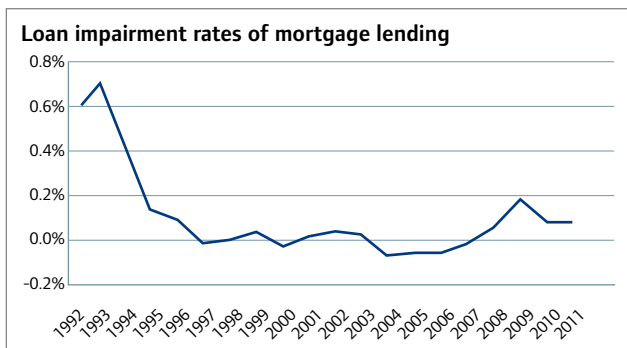
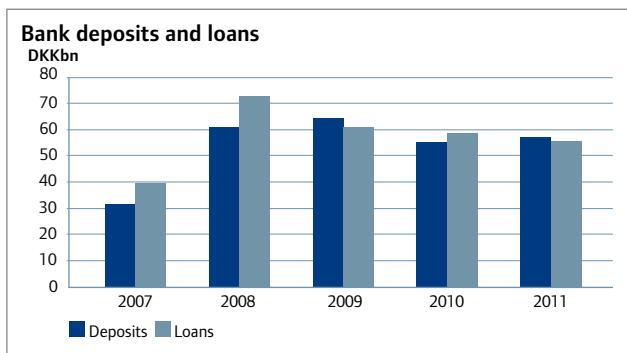
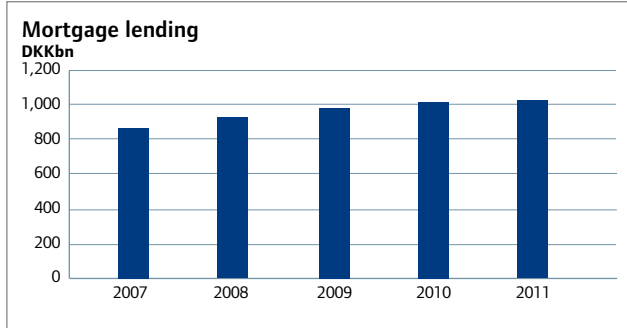
## Bond debt outstanding by property type, end-2011



Loan impairment rates	2010	2011
Mortgage lending	0.09	0.10
Banking	1.31	0.42
The Nykredit Realkredit Group	0.21	0.12

Financial ratios	2010	2011
Core earnings before impairment losses as % of average business capital, pa	12.8	10.0
Core earnings after impairment losses as % of average business capital, pa	4.9	5.3
Tier 1 capital ratio, %	18.5	17.1
Total capital ratio, %	18.5	17.1

## Non-financial highlights



	2008	2009	2010	2011	GRI indicator*
<b>Customers and contact</b>					
Number of Nykredit Realkredit Group customers (1,000)	1,002	1,030	1,051	1,065	
<b>Customer satisfaction</b>					
Retail customers (EPSI 1-100)	76	77	72	74	PR5
Number of complaints <sup>1</sup>	514	588	698	483	
Share of customers "highly satisfied" with complaints handling			36%	41%	
<b>Responsible investment</b>					
Number of companies screened <sup>2</sup>	-	1,800	1,800	2,000	HR1
Number of companies subject to active ownership	-	16	20	22	
Number of companies excluded	-	12	11	11	
<b>Energy consumption</b>					
Absolute CO <sub>2</sub> emission <sup>3</sup> (t)	13,769	14,013	13,795	12,300	
<b>Staff</b>					
Average number of full-time staff <sup>4</sup>	4,037	4,135	4,026	4,139	LA2
Staff turnover	10.5%	5.8%	7.5%	6.3%	
Women in management	-	-	29.5%	29.6%	
Job satisfaction (Ennova 1-100)	-	-	75	76	
<b>Social initiatives/donations</b>					
Nykredit sponsorships, DKKm	19	15	15	15	EC1
Nykredit Foundation donations, DKKm	6.9	6.8	7.7	7.0	
Voluntary staff in Nykredit projects			20	62	

\* Areas in which the disclosed data partially or completely comply with GRI requirements. <sup>1</sup> Complaints received by Nykredit's customer ambassador or complaints unit including insurance. <sup>2</sup> All companies are screened. <sup>3</sup> Nykredit has a target of reducing the Group's carbon footprint by 10% from 2008 to 2011. <sup>4</sup> Excluding Nykredit Forsikring A/S and JN Data A/S.

# Reporting policies

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The contents of this report pertain to all activities of the entire Nykredit Realkredit Group, including subsidiaries. In this report, the Nykredit Realkredit Group is referred to as Nykredit or the Nykredit Group. The reporting principles apply to the data which Nykredit has found significant. As a main rule, the latest data available are applied in this report. The report is included in the audit of the Management's Review in the Annual Report 2011. Due to rounding-off, the sum totals of the tables in the report may differ from the actual sums.

## Nykredit's customers

The market share of mortgage lending as well as bank deposits and bank lending is determined in nominal terms on the basis of the statistics on the balance sheets and flows of the MFI sector (Danish monetary financial institutions) prepared by Danmarks Nationalbank.

The market share of assets under administration is determined on the basis of the official statistics prepared by the Federation of Danish Investment Associations.

The market share in terms of Nykredit's amount of retail investment fund units in custody denotes the share of total number of retail investment fund units which is in custody with Nykredit Bank (ie, both self-issued units and those of external managers).

Bond trading is calculated on the basis of a 12-month average of the Nykredit Realkredit Group's share of total bond trading (excl repo transactions) measured at market value in the regulated market and OTC (Over-The-Counter).

Nykredit's position as the fourth largest bank in Denmark is based on a comparison of banks' working capital made by the Danish Bankers Association. Working capital is defined as the sum of deposits, equity, self-issued bonds and subordinated debt as stated in the banks' 2010 financial statements.

The figure "Income from business operations" only includes income from customer-oriented business activities. Core income from business operations is distributed by product.

In the figure "Lending growth in Nykredit and the market", lending data derive from the MFI statistics. The data exclude loans to MFIs, but include reverse transactions. Data for 2009 include Forstædernes Bank.

The total number of customers has been adjusted so that multi-service customers only appear once.

Total customer complaints exclude complaints by customers with the Danish local and regional banks of the Totalkredit partnership. The principle of determination is the number of new complaints received in the year under review. Customer satisfaction with the complaints handling process is measured on a scale of 1-10. Is the answer 7 or 8, it is classified as "satisfied", and if the answer is 9 or 10, it is classified as "highly satisfied".

## Nykredit's social responsibility

The environmental and climate report includes companies in Denmark wholly owned by Nykredit throughout the financial year. Partially owned subsidiaries and foreign activities are not included, with the exception of JN Data, which is included on the grounds of materiality at a proportion equal to Nykredit's ownership interest. Transport data exclude JN Data and Nykredit Leasing.

In accordance with Nykredit's policy to reduce our CO<sub>2</sub> emission by 10% from 2008 up to and including 2011, data for the baseline year 2008 have been adjusted for changes resulting from acquisitions or divestments during the year. As the duty of reduction also applies to acquisitions, 2008 emission by acquired assets have been added to Nykredit's total emission for 2008. Thus, data for Forstædernes Bank are included as from 2008.

Resource consumption data also include leased premises. Consumption of electricity is computed on the basis of meter readings.

In calculating CO<sub>2</sub> emission, degree-day adjusted CO<sub>2</sub> emission from heat consumption is applied, which enables year-on-year comparison.

Heat consumption is determined on the basis of meter readings for Nykredit's own properties. Consumption relating to leased premises is determined on the basis of the statement of heating expenses for the premises and Nykredit's share of consumption (usually in terms of floor area). Heating sources are district heating, natural gas and heating oil.

Air transport is computed on the basis of data from the travel agencies which Nykredit uses.

Car transport covers work-related travel by company car (50% work-related driving), taxi or own car. Staff transport to and from work is not included.

Resource consumption and CO<sub>2</sub> emission data for 2011 are preliminary. Final data will be published in Nykredit's environmental and climate reporting for 2011.

## Nykredit's staff

The number of staff is an average for 2011 calculated on the basis of the Group's total ATP (Danish Labour Market Supplementary Pension scheme) contributions for the year relative to the ATP contribution for one full-time staff member. Staff in companies where Nykredit exercises control are included in proportion to the respective ownership interests.

Part-time staff are determined as the number of permanent staff working less than the number of hours required of a permanent staff member under the group collective agreement.

Inflow and outflow of permanent staff reflect permanent staff joining or leaving the Group's wholly-owned companies. The percentage is determined on the basis of permanent staff at the beginning of the year. The number of management staff in Nykredit is determined as the number of staff in the job track Management.

From 2011 the share of women in management will be determined on the basis of job ladders where the management level now depends on the scope of job responsibility within the organisation. Women in management was previously, in the years 2008-2010, determined on the basis of executive level of immediate superior. However, it has been possible to restate the figures for 2010 using the new method.

## Nykredit's ownership structure and capital policy

PRAS A/S is owned by the regional and local banks, Totalkredit's partner banks. The company was formed in connection with Nykredit's acquisition of Totalkredit in 2003.

Nykredit's group chart reflects the organisation as at end-2011.

### Nykredit in numbers

Data on Nykredit's investor base are for the period up to and including November 2011. The category Non-distributed ensures investor confidentiality subject to the following confidentiality requirements:

- The principle of numbers: Portfolio data for a given investor sector must comprise the portfolios of at least three investors.
- The principle of dominance: The portfolio of a given investor must not exceed 90% of the total portfolios of the sector.

The bond debt outstanding by property type is computed at nominal value.

Mortgage lending for calculation of the impairment rate of mortgage lending is based on loans and advances at nominal value and arrears and outlays at fair value. Impairment losses are the earnings impact for the year.

Bank lending for calculation of the impairment rate of bank lending is based on loans and advances at fair value, loans and advances at amortised cost, guarantees excl the government guarantee scheme as well as individual and collective impairment provisions. Impairment losses are the earnings impact for the year excluding the government guarantee scheme.

Nykredit's total mortgage lending reflects year-end statements at nominal value.

Bank deposits and loans are stated at year-end. Bank lending is stated excluding guarantees and reverse transactions.

The impairment rate of mortgage lending equals the earnings impact of loan impairments relative to mortgage lending at year-end measured at fair value and before impairment provisions.





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**Nykredit**