

**Annual Report 2016**  
Nykredit Holding



# Contents

<b>MANAGEMENT COMMENTARY</b>	<b>2</b>
Group Chief Executive's Statement	3
Company details	4
Group chart	5
Financial highlights	6
Nykredit's strategy	7
<b>2016 – in brief</b>	<b>9</b>
2016 overview	9
Results for Q4/2016	11
Results relative to forecasts	11
Outlook for 2017	11
Special accounting circumstances	11
Other	12
Uncertainty as to recognition and measurement	13
Material risks	13
Events since the balance sheet date	13
<b>Business areas</b>	<b>14</b>
Retail	15
Totalkredit Partners	18
Wholesale Clients	20
Wealth Management	22
Group Items	24
<b>Capital, funding and liquidity</b>	<b>25</b>
Equity and own funds	27
Funding	30
Credit ratings	34
Liquidity	35
<b>Lending</b>	<b>37</b>
Mortgage lending	38
Bank lending	42
<b>Organisation, management and corporate responsibility</b>	<b>44</b>
Engaging with society	44
Organisation and responsibilities	44
The under-represented gender	46
Corporate Governance	46
Remuneration	47
Internal control and risk management systems	48
<b>MANAGEMENT STATEMENT AND AUDIT REPORTS</b>	<b>51</b>
Management Statement	51
Internal Auditors' Report	52
Independent Auditor's Report	53
<b>FINANCIAL STATEMENTS 2016</b>	<b>56</b>
Income statement	56
Statements of comprehensive income	57
Balance sheets	58
Statement of changes in equity	60
Cash flow statement	62
Notes	63
<b>MANAGEMENT COMMENTARY (CONTINUED)</b>	<b>145</b>
Five-quarter financial highlights	145
Directorships and executive positions	146

# GROUP CHIEF EXECUTIVE'S STATEMENT

## Nykredit in motion

2016 was yet another year of good progress for Nykredit. Lending volumes in Totalkredit and Nykredit Bank increased. Loan impairments were very low, and Nykredit reduced its costs further and increased its income. On that basis, Nykredit achieved its best profit from core business to date. That is satisfactory.

## Successfully delivering our Winning the Double strategy

The performance is the result of our efforts to make Nykredit more customer-centric, more efficient and more profitable, guided by our strategy, Winning the Double.

In one strand of the strategy, Totalkredit, we strive to support our business partners across Denmark in making a difference to our customers. In conjunction with our business partners, we managed to grow lending significantly in 2016. All in all, we have seen a net increase of 18,000 in the number of Totalkredit customers, thus expanding our market share. And so 2016 became yet another year when the alliance with our business partners proved its potential. Developing and consolidating our business partnership further is a major strategic priority. We have expanded the partnership to include business mortgages and commenced the development of a new mortgage lending platform to improve customers' advisory experience even further.

In the other strand, we aim to make a difference to the homeowners and business customers that have entrusted their finances to Nykredit. We have launched new customer propositions tailored to all major customer groups. In 2015 we introduced Nykredit BoligBank, a programme targeted specifically at homeowners. In 2016 we launched our business banking programme, Nykredit Erhvervsbank, and introduced more private banking programmes for the wealthiest clients. The number of full-service customers is rising in all three programmes. Also, a growing number of customers choose our savings products, which is causing a significant increase in total assets under management. Bank lending to our business customers is also growing, especially to small and medium-sized enterprises. On that basis, our total market share of the banking market is growing.

## Continued cost and efficiency drive

The cost:income ratio fell to 40.1% in 2016, down from 55.7% in 2012. The combination of expanding business volumes, fewer staff and simplified workflows has boosted efficiency at Nykredit. In 2016, we sold our two headquarters buildings in central Copenhagen, the Glass Cube and the Crystal. The sale produced a positive one-off effect and paves the way for assembling all our headquarters functions in one location. We will stay focused on efficiency and on strengthening our digital solutions for customers in coming years. One of the ways to do this is through development-minded partnerships with innovative entrepreneurs such as Lunar Way, whom we started to work with in 2016.

## IPO preparations proceed as planned

A year ago, Nykredit's Management and owners decided to prepare for a stock exchange listing of the Group. The IPO is not an end in itself. It is a means to achieve greater certainty that Nykredit will be able to provide loans to homeowners, agriculture and business customers at all times.

During the financial crisis, Nykredit continued its lending activities, while others held back. This contributed to supporting the Danish economy. We want to make certain that Nykredit can assume this role again if a new crisis sets in.

Nykredit is operating in a financial industry that is changing rapidly. Fiercer competition, changed demands from customers, changed macroeconomic and geopolitical conditions, new business models through digitisation and, not least, increased regulation are the challenges that financial undertakings are facing.

Nykredit is in a position where our main shareholder is unable to contribute capital if unforeseen events or new regulation, such as Basel IV, should make it necessary. If Nykredit is listed on the stock exchange, new owners can contribute capital if required.

In other words, it provides access to a new, flexible source of capital. That is the rationale behind the IPO. Other systemically important financial institutions of Nykredit's stature have that access. Also, the mere access to capital markets means that Nykredit can operate with lower capital reserves and thereby lower costs of capital.

It is therefore satisfactory to note that Nykredit is in a better position for a stock exchange listing than a year ago.

## 2017

The work that caused us to make headway in 2016 will continue in 2017. This year, we will give particular attention to developing our value propositions, strengthening our digital solutions and further streamlining our workflows. We will also focus on providing sound, personal financial advice – the cornerstone of our relationship with customers.



Steffen Kragh, Chairman



Michael Rasmussen, Group Chief Executive

## COMPANY DETAILS

Nykredit Holding A/S  
Kalvebod Brygge 1-3  
DK-1780 Copenhagen V  
Denmark

Website: [www.nykredit.com](http://www.nykredit.com)  
Tel: +45 44 55 10 00  
CVR no: 12 71 92 48  
Financial year: 1 January – 31 December  
Municipality of registered office: Copenhagen

### External auditors

Deloitte  
Statsautoriseret Revisionspartnerselskab  
Weidekampsgade 6  
DK-2300 Copenhagen S

### Annual General Meeting

The Annual General Meeting of the Company will be held on 16 March 2017.

### BOARD OF DIRECTORS

Steffen Kragh, Chief Executive Officer  
Chairman

Merete Eldrup, Chief Executive Officer  
Deputy Chairman

Nina Smith, Professor  
Deputy Chairman

Helge Leiro Baastad, Chief Executive Officer  
Hans Bang-Hansen, Farmer  
Olav Bredgaard Brusén, Deputy Chairman of NYKREDS\*  
Michael Demsitz, Chief Executive Officer  
Per W. Hallgren, Chief Executive Officer  
Marlene Holm, Personal Banking Adviser\*  
Allan Kristiansen, Chief Relationship Manager\*  
Bent Naur, former Chief Executive Officer  
Lasse Nyby, Chief Executive officer  
Anders C. Obel, Chief Executive Officer  
Claus E. Petersen, Chief Executive Officer  
Erling Bech Poulsen, Farmer  
Inge Sand, Senior Agricultural Adviser\*  
Lars Peter Skaarup, Personal Banking Adviser  
Leif Vinther, Chairman of Staff Association\*

See pages 145-148 for directorships and executive positions of the members of the Board of Directors and the Executive Board.

### NOMINATION BOARD

Steffen Kragh, Chairman  
Merete Eldrup  
Nina Smith

### AUDIT BOARD

Per W. Hallgren, Chairman  
Merete Eldrup  
Bent Naur  
Anders C. Obel

### REMUNERATION BOARD

Steffen Kragh, Chairman  
Merete Eldrup  
Nina Smith  
Leif Vinther

### RISK BOARD

Merete Eldrup, Chairman  
Michael Demsitz  
Bent Naur  
Anders C. Obel

### EXECUTIVE BOARD

Michael Rasmussen  
Group Chief Executive

Kim Duus  
Group Managing Director

David Hellemann  
Group Managing Director

Søren Holm  
Group Managing Director

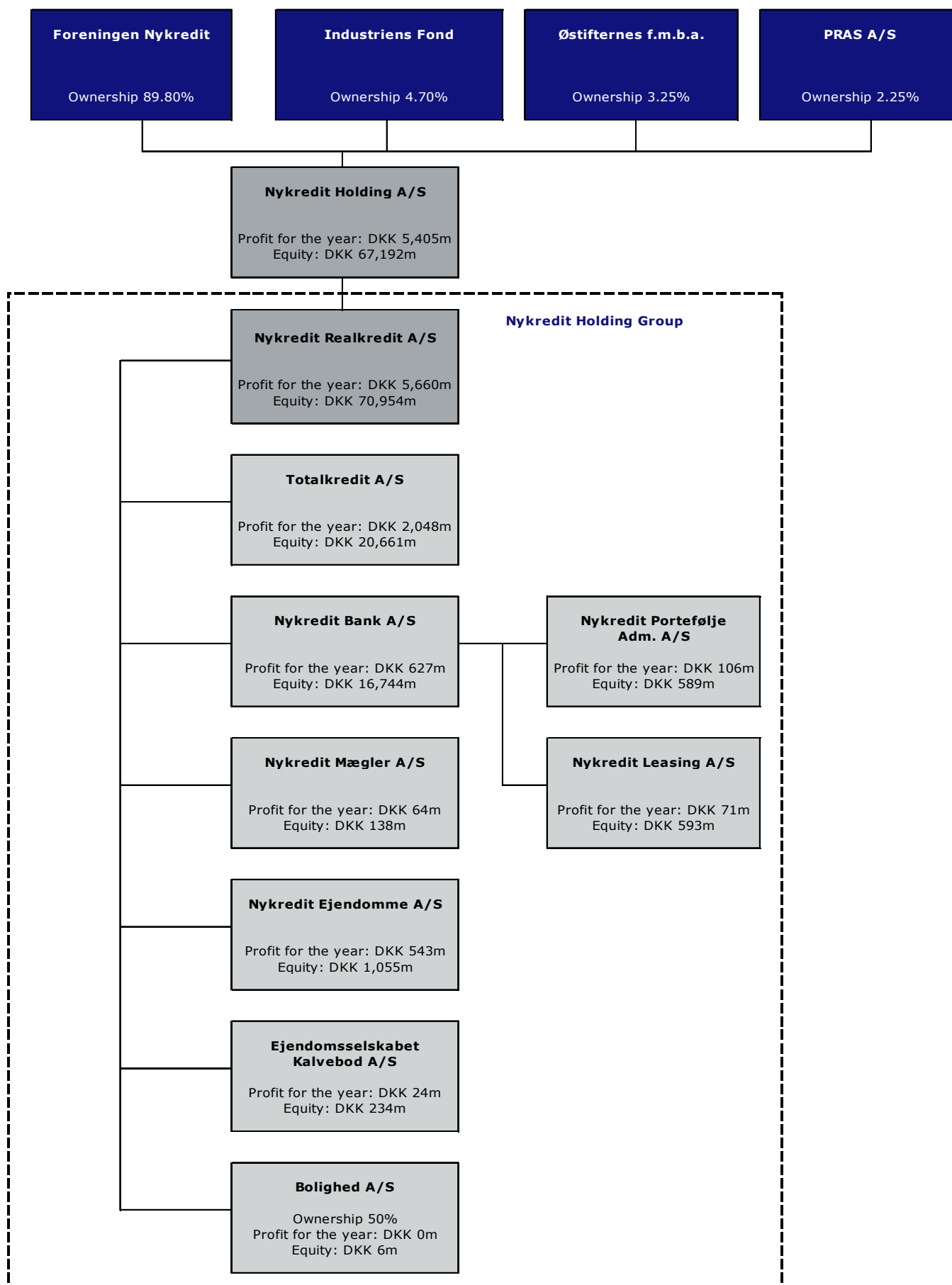
Anders Jensen  
Group Managing Director

At [nykredit.com](http://nykredit.com) you may read more about the Nykredit Group and download the following reports:

- Annual Report 2016
- CSR Report 2016 – Nykredit Engaging with Society
- CR Fact Book 2016
- Risk and Capital Management 2016

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

## GROUP CHART



# FINANCIAL HIGHLIGHTS

Nykredit Holding Group						Q4/	Q4/
DKK million	2016	2015	2014 <sup>3</sup>	2013	2012	2016	2015
<b>CORE BUSINESS AND RESULTS FOR THE YEAR</b>							
<b>Core income from</b>							
- business operations	12,159	12,126	10,821	10,372	9,949	3,285	2,892
- senior and subordinated debt	(494)	(610)	(936)	(944)	(901)	(98)	(127)
- securities	46	38	130	118	212	13	9
<b>Income from core business</b>	<b>11,711</b>	<b>11,554</b>	<b>10,015</b>	<b>9,546</b>	<b>9,260</b>	<b>3,200</b>	<b>2,774</b>
Operating costs, depreciation and amortisation	4,897	4,940	4,957	5,901	5,551	1,294	1,332
Provisions for restructuring	250	70	150	150	48	250	70
Mandatory mortgage bank contribution to Danish Resolution Fund <sup>1</sup>	138	61	-	-	-	34	15
<b>Profit from core business before impairment losses</b>	<b>6,426</b>	<b>6,483</b>	<b>4,908</b>	<b>3,495</b>	<b>3,661</b>	<b>1,622</b>	<b>1,357</b>
Impairment losses on mortgage lending	821	1,041	2,132	2,415	1,592	378	261
Impairment losses on bank lending	(141)	(121)	219	349	557	(83)	(34)
<b>Profit from core business</b>	<b>5,746</b>	<b>5,563</b>	<b>2,557</b>	<b>731</b>	<b>1,512</b>	<b>1,327</b>	<b>1,130</b>
Legacy derivatives	(763)	229	(2,674)	(708)	(816)	422	129
Gain on sale of owner-occupied properties	369	-	-	-	-	369	-
Impairment of goodwill and customer relationships	-	1,965	852	-	-	-	58
Investment portfolio income	1,331	750	779	1,257	2,069	218	372
Investment portfolio income, sale of strategic equities	-	103	-	697	455	-	-
<b>Profit (loss) before tax</b>	<b>6,683</b>	<b>4,680</b>	<b>(190)</b>	<b>1,977</b>	<b>3,220</b>	<b>2,336</b>	<b>1,573</b>
Tax	1,377	1,493	89	255	594	471	374
<b>Profit (loss) for the year</b>	<b>5,306</b>	<b>3,187</b>	<b>(279)</b>	<b>1,722</b>	<b>2,626</b>	<b>1,865</b>	<b>1,199</b>
Minority interests	0	-	-	-	-	(2)	-
<b>Profit (loss) for the year excl minority interests</b>	<b>5,306</b>	<b>3,187</b>	<b>(279)</b>	<b>1,722</b>	<b>2,626</b>	<b>1,867</b>	<b>1,199</b>
Interest on AT1 capital charged against equity	233	197	-	-	-	59	59
Value adjustment of strategic equities against equity	331	7	238	(343)	(237)	293	(247)
<b>SUMMARY BALANCE SHEET</b>							
	<b>31.12.2016</b>	<b>31.12.2015</b>	<b>31.12.2014</b>	<b>31.12.2013</b>	<b>31.12.2012</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
<b>Assets</b>							
Receivables from credit institutions and central banks	34,829	23,253	42,288	35,758	60,174	34,829	23,253
Mortgage loans at fair value	1,124,693	1,119,101	1,137,099	1,136,644	1,136,445	1,124,693	1,119,101
Bank loans excluding reverse repurchase lending	55,003	46,747	50,494	46,963	49,728	55,003	46,747
Bonds and equities	116,555	110,294	131,383	92,961	82,413	116,555	110,294
Remaining assets	69,531	84,401	96,042	105,090	104,646	69,531	84,401
<b>Total assets</b>	<b>1,400,611</b>	<b>1,383,796</b>	<b>1,457,306</b>	<b>1,417,417</b>	<b>1,433,406</b>	<b>1,400,611</b>	<b>1,383,796</b>
<b>Liabilities and equity</b>							
Payables to credit institutions and central banks	21,681	30,226	44,863	44,393	67,539	21,681	30,226
Deposits	65,414	62,584	65,211	65,147	54,335	65,414	62,584
Bonds in issue at fair value	1,152,373	1,137,314	1,167,163	1,130,020	1,103,818	1,152,373	1,137,314
Subordinated debt	11,078	11,006	11,394	10,964	11,281	11,078	11,006
Remaining liabilities	79,110	77,184	109,999	108,149	138,721	79,110	77,184
Equity	70,955	65,482	58,675	58,744	57,712	70,955	65,482
<b>Total liabilities and equity</b>	<b>1,400,611</b>	<b>1,383,796</b>	<b>1,457,306</b>	<b>1,417,417</b>	<b>1,433,406</b>	<b>1,400,611</b>	<b>1,383,796</b>
<b>FINANCIAL RATIOS</b>							
Profit (loss) after tax for the year as % of avg equity <sup>2</sup>	8.0	5.0	(0.5)	3.0	4.6	11.0	7.4
Profit from core business before impairment losses as % of avg equity <sup>2</sup>	9.6	10.4	8.4	6.0	6.5	9.5	8.5
Profit from core business as % of avg equity <sup>2</sup>	8.6	8.9	4.4	1.3	2.7	7.7	7.0
Costs as % of core income from business operations	40.3	40.7	45.8	56.9	55.8	39.4	46.1
Total provisions for loan impairment							
- mortgage lending	5,751	5,694	5,506	4,378	2,954	5,751	5,694
Total provisions for loan impairment and guarantees							
- bank lending	2,590	2,952	3,666	4,078	4,139	2,590	2,952
Impairment losses for the year, % - mortgage lending	0.07	0.09	0.19	0.21	0.14	0.03	0.02
Impairment losses for the year, % - banking	(0.15)	(0.12)	0.22	0.29	0.59	(0.09)	(0.04)
Total capital ratio, %	21.9	20.7	17.5	18.9	18.4	21.9	20.7
Common Equity Tier 1 capital ratio, %	18.8	19.4	15.4	15.8	15.3	18.9	19.4
Internal capital adequacy requirement, %	10.2	11.8	11.3	10.4	9.5	10.2	11.8
Average number of staff, full-time equivalents	3,648	3,757	3,971	4,052	4,115	3,642	3,739

<sup>1</sup> Nykredit Realkredit's and Totalkredit's contributions to the Danish Resolution Fund. No contributions were made to similar schemes prior to Q3/2015.

<sup>2</sup> For the purpose of return on equity, the Additional Tier 1 (AT1) capital raised in 2015 is treated as a financial obligation for accounting purposes, and the dividends for the year thereon for accounting purposes are included as interest expenses on subordinated debt in profit (loss) for the year.

<sup>3</sup> Adjusted for goodwill impairment of DKK 852m, cf the supplementary/correcting disclosure released on 5 November 2015.

The income statement format has been adjusted relative to 2015. Profit from core business is now presented exclusive of certain derivatives and goodwill impairment. Furthermore, the statement of non-core business legacy derivatives and investment portfolio income has been adjusted, cf the Management Commentary and Accounting policies.

# NYKREDIT'S STRATEGY

## Winning the Double

Nykredit's strategy, Winning the Double, aims to ensure satisfied and loyal full-service customers and to strengthen the Totalkredit alliance.

Following a period of development and launch of new competitive customer propositions, the foundation for our Winning the Double strategy is nearly in place. We have successfully launched our homeowner banking concept, Nykredit BoligBank, and our business banking concept, Nykredit ErhvervsBank, by streamlining and improving our propositions for homeowners and business customers, resulting in a net full-service customer intake. We have also improved our Private Banking concept for wealth clients and expanded our client base under this programme.

The Totalkredit alliance, which is a cornerstone of Nykredit's strategy, has also strengthened and is continuously further developing and expanding. This is reflected in increased lending and the introduction of new products such as secured homeowner loans and business mortgage loans.

Nykredit has in the past two years improved profitability by growing the core business, streamlining operations and cutting costs. These efforts will continue in coming years. We have become fewer people in 2014, 2015 and 2016, and our headcount will continue to reduce in 2017 and 2018. Our cost:income ratio is already today one of the lowest in the industry, and it will become even lower.

## Focus on full-service customers

Nykredit focuses on Danish homeowners, and we want to win homeowners over as full-service customers.

We implemented a number of initiatives in 2016 to strengthen our propositions and market position in the personal customer segment. The most important are:

- Further development of our homeowner banking programme, Nykredit BoligBank. A customised value proposition for homeowners offering clear benefits to full-service customers. This includes three banking propositions: BoligBank, BoligBank 360 and BoligBank 365. The propositions comprise a large number of banking and home finance services, including targeted and unique services such as BoligEftersyn, FørsteBolig and BoligSkifte as well as BoligPlan and MinBolig launched this year.
- Further development of Private Banking. Value propositions for personal wealth clients offering unique services. For more than ten years, Nykredit has offered private banking services to high net-worth clients. We are now offering our expertise and insight from these activities to a wider group of personal wealth clients. Our new Private Banking programme targets clients with investable assets of DKK 2m-7m, and Private Banking Elite services clients with investable assets in excess of DKK 7m.
- Ten retail customer centres have merged with customer centres situated in the same area to consolidate our resources in fewer and larger entities, and we will thus have

43 local customer centres throughout the country going forward. By joining forces in larger, more flexible and more resourceful customer centres, we can raise our customer service levels and create attractive and modern workplaces.

- Partnership with Lunar Way. Lunar Way is a mobile banking app targeted at people aged 18-26. With this app our customers can do their everyday banking on their mobile devices. There are no advisers or branches – everything is 100% mobile.

In order to strengthen and further develop Nykredit's position in the business customer segment, we rolled out a line of specific initiatives in 2016 such as:

- Further development of our business banking programme, Nykredit ErhvervsBank. A value proposition with focus on business owners – with special benefits for owner-managers. Nykredit's business customers have a choice between two banking propositions: ErhvervsBank and ErhvervsBank+. Customers of ErhvervsBank+ have access to a range of unique services such as online tools for customer and employee feedback as well as benefit programmes for customers' employees. Further, Nykredit has specialised in comprehensive advice to business owners in the health care sector covering their personal and business banking needs.
- Strengthening of local customer services for business and agricultural customers. Local representation is important to customers. At the same time, experience shows that we gain more full-service customers and provide better advisory services when advisers work in a professionally rich environment. Striking this balance is the foundation for Nykredit's strengthened local commitment to business and agricultural customers. We have therefore concentrated our advisory services in six resourceful agricultural teams, 18 business customer centres and 26 customer centres catering for small owner-managers.

## Expansion of partner activities

Nykredit wants to be a strong and loyal business partner to the local and regional banks.

In 2016 we took a number of specific initiatives to consolidate and further develop our partnership. The most important are:

- Payout of Totalkredit business mortgages. Totalkredit and its partner banks have expanded their partnership to include business mortgages as an integral part of the Totalkredit alliance. The new services are based on a voluntary opt-in model for the individual banks. More than half of the partner banks now offer Totalkredit business mortgages.
- Further development of Bolighed.dk. Bolighed is a new online universe for all Danish homeowners where owner-occupied dwellings are presented in the form of a real estate CV. The website had more than 1.5 million unique registered visits in its first year. The platform has been expanded with four new functionalities providing

homeowners with even more knowledge about their home and the area they live in – the features are KøberCV, MarkedsTemperatur, Områdeindsigt and BoligAktien. Bolighed is operated as a joint venture between Arbejdernes Landsbank, Sydbank, Spar Nord and Nykredit.

- Nærpension as Nykredit Bank's pension and life insurance provider. The change of pension provider is part of an objective to get a strong business partner in the pension area and to strengthen the partnership with the banks in the Totalkredit alliance around half of which use Nærpension as pension provider.
- Started development of new future-proof mortgage lending platform based on the needs of digital consumers and new technological opportunities. This solution will further develop and renew the platform currently used for the Totalkredit partnership.
- Nykredit Bank as a member of National Banks in Denmark (Landsdækkende Banker) (formerly Regionale Bankers Forening). As a member of National Banks in Denmark, Nykredit Bank will gain new opportunities for doing business with Sydbank, Spar Nord and Arbejdernes Landsbank to promote a healthy sector development and strengthen the ties between these banks even further. Nykredit Bank is still an associate member of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (Lokale Pengeinstitutter).

### **Increased efficiency and digitisation**

Nykredit has in the past three years made targeted efforts to streamline its business. Today's financial sector conditions warrant a constant focus on how to run our business at the lowest possible cost.

As a member of BEC, an IT provider, Nykredit has actively participated in the joint development of IT solutions. Nykredit will be applying BEC's solutions as far as possible in order to have the best and most effective IT solutions for the benefit of customers and banks in the BEC partnership.

It is Nykredit's objective to become more cost efficient by trimming and digitising the business even more. Our efficiency drive is reflected in a cost:income ratio of currently 40.1%.

In 2016 we launched a number of specific measures to further reduce total Group costs. The most important are:

- 227 job positions were abolished in Q4/2016. To limit the number of staff reductions as much as possible, a number of vacant positions were discontinued. This meant a staff reduction of 156 people on 15 November 2016, comprising both management and non-management staff. 31 of the 227 job positions abolished were management positions. Generally the staff reductions and reorganisations were evenly distributed across the Group. However, it has been a general objective to try to exempt customer-facing staff to the largest extent possible, and the majority of the staff reductions therefore affected management support and other support functions.

- Divestment of Nykredit's headquarters buildings. In Q4/2016, an agreement was concluded for the sale of two of our four headquarters buildings, the Glass Cube and the Crystal. Nykredit will remain as tenants in the buildings for expectedly some five years. Our new headquarters must be situated in the Copenhagen area.



## 2016 – IN BRIEF

### 2016 OVERVIEW

The period was characterised by cautious economic optimism with rising property prices and low interest rate levels, although interest rates edged up in the last months of the year.

Further, loan demand in Denmark was moderate. In spite of this, Nykredit increased its lending volumes – primarily bank lending, but mortgage lending to personal customers also saw a rise. Part of the bank lending growth was attributable to Nykredit's success in increasing the number of full-service customers, which is one of the Group's focus areas.

The Nykredit Group's profit before tax for 2016 increased to DKK 6,683m from DKK 4,680m in 2015. Exclusive of goodwill impairment, profit before tax came to DKK 6,645m in 2015.

Profit from core business rose to DKK 5,746m, up DKK 183m, or 3%, on 2015.

#### Profit from core business

Nykredit made two accounting restatements in 2016, implying changes in the valuation of Nykredit Bank's derivatives and the presentation of results from core business and derivatives. For more information, please refer to Special accounting circumstances on page 12.

#### Core income from business operations

Core income from business operations totalled DKK 12,159m, up DKK 33m on last year. The rise on the previous year partly reflected that income was positively affected by an increase in Totalkredit's administration margin income caused by the administration margin increase as at 1 July 2016. By contrast, H1/2015 saw a very high mortgage refinancing level and high activity in Nykredit Markets due in part to substantial interest rate volatility. Finally, the implementation of FVA impacted core income adversely by DKK 162m in 2016.

Core income from mortgage bank operations was DKK 8,558m. Nominal mortgage lending totalled DKK 1,107bn against DKK 1,114bn at end-2015. Totalkredit Partners recorded lending growth of DKK 9.5bn, whereas Retail and Wholesale Clients lending dropped by DKK 14.3bn and DKK 4.4bn, respectively. The lending decline in Wholesale Clients was primarily attributable to a drop in international mortgage lending, notably in Germany and, to a minor extent, also in Sweden.

Costs	2016	2015
DKK million		
Costs relating to ordinary activities	4,897	4,940
Provisions for restructuring	250	70
Mandatory mortgage bank contribution to Danish Resolution Fund	138	61
<b>Total costs</b>	<b>5,285</b>	<b>5,071</b>
Costs relating to ordinary activities as % of core income from business operations	40.3	40.7
Total costs as % of core income from business operations (cost:income ratio)	43.5	41.8

The Group's market share of total Danish private residential mortgage lending was 42.3% against 42.2% at end-2015, excluding loans arranged by Jyske Bank and others which are no longer part of the Totalkredit alliance. Nykredit's market share of the business customers segment, including agricultural customers, was 35.2%. The total market share, excluding loans arranged by Jyske Bank and others, was 39.3%, which is satisfactory considering the portfolio mix.

Core income from banking totalled DKK 3,397m and was the same as in 2015, except for the effect of FVA. This was attributable to rising income in Wealth Management, where Nykredit Private Banking Elite reported growth in the client base and assets under management. By contrast, income declined in Retail and Wholesale Clients, reflecting lower income from Corporate & Institutional Banking and Nykredit Markets. As mentioned above, the latter should partly be seen in the light that income in Nykredit Markets was at a high level in 2015 and that the risk appetite was lowered in 2016.

Bank lending rose by DKK 8.3bn, especially from the business segment, to DKK 55.0bn, while deposits increased by DKK 2.8bn to DKK 65.4bn from DKK 62.6bn at end-2015.

Nykredit Bank's deposits at end-2016 were affected by a DKK 1.7bn portfolio of deposits acquired from FIH Erhvervsbank A/S.

Nykredit Bank's deposits exceeded lending by DKK 10.4bn at end-2016 compared with DKK 15.9bn at the beginning of the year.

#### Senior and subordinated debt

Nykredit's senior debt issues, including bail-inable bonds, came to DKK 26.8bn at end-2016 against DKK 25.9bn at the beginning of the year, and net interest expenses amounted to DKK 257m against DKK 329m in 2015. Nykredit uses senior debt to fund supplementary collateral for covered bonds (SDOs) etc.

Nykredit had raised DKK 11.1bn of subordinated debt at end-2016 compared with DKK 11.0bn at the beginning of the year. Net interest expenses came to DKK 237m against DKK 281m in 2015.

#### Core income from securities

Income amounted to DKK 46m, up DKK 8m on 2015.

#### Operating costs, depreciation and amortisation

Costs relating to ordinary activities decreased from DKK 4,940m to DKK 4,897m in 2016, and costs as a percentage of core income from business operations consequently came to 40.3%.

In 2016 DKK 250m relating to restructuring, including staff reductions and other cost savings, was charged to profit or loss. In 2015, this came to an expense of DKK 70m.

The average staff number declined by 109 persons, or 3%, from 3,757 in 2015 to 3,648.

Costs in 2016 were also influenced by a new mortgage bank contribution of DKK 138m to the Danish Resolution Fund, which was established as at 1 July 2015. For 2015 the expense was DKK 61m, corresponding to six months' contribution.

The Parent Nykredit Holding A/S's own costs totalled DKK 25m in 2016 against DKK 5m the year before. The rise mainly related to preparations for the planned stock exchange listing of the Company.

### **Impairment losses on loans and advances**

Impairment losses on loans and advances reduced by DKK 240m from DKK 920m in 2015 to DKK 680m. Impairment losses equalled 0.07% of total mortgage lending and negative 0.15% of total bank lending.

Impairment losses on mortgage lending declined by DKK 220m to DKK 821m. Impairment losses on mortgage lending to personal customers dropped by DKK 343m to DKK 249m, equal to 0.04% of lending. Impairment losses on mortgage lending to business customers rose by DKK 123m to DKK 572m, equal to 0.14% of lending.

Impairment losses on bank lending improved by DKK 20m from a gain of DKK 121m in 2015 to a gain of DKK 141m.

Nykredit's impairment provisions for potential future losses on mortgage and bank lending totalled DKK 8.3bn at end-2016 against DKK 8.5bn at the beginning of the year. In addition, value adjustment of interest rate swaps of DKK 5.1bn were made, of which credit value adjustment amounted to DKK 4.1bn, of which DKK 3.3bn related to legacy derivatives and DKK 0.8bn related to other. Consequently, impairment provisions totalled DKK 13.4bn at end-2016.

Losses incurred on mortgage and bank lending for the year were DKK 1,283m against DKK 1,660m in 2015.

### **Legacy derivatives**

In previous years, the presentation included credit value adjustment of swaps involving an increased risk of loss. These value adjustments were not part of our core business.

This has been changed in the Financial Statements for 2016. In the financial highlights and the presentation of business areas, certain interest rate swaps are now presented as a separate item: Legacy derivatives, comprising all net income from a number of derivatives which we no longer offer to our customers. These derivatives include contracts with an initial maturity above 15 years entered into with housing cooperatives and agricultural customers as well as contracts with step-up interest rate structures. The portfolio will subsequently not be changed, except if existing contracts are terminated.

The purpose of separating out this area is to present Nykredit's results from core business based on the business in which Nykredit remains active.

Value adjustment for the year was a loss of DKK 763m against a gain of DKK 229m in 2015. The development in 2016 was due to several factors, including changes in interest rates and credit spreads as well as a positive effect from maturity reduction. In 2016 the item was further adversely affected by about DKK 300m following adjustment of the market value calculation, of which DKK 218m related to the FVA implementation.

Legacy derivatives made up a portfolio of a total market value of DKK 6.7bn against DKK 7.3bn at end-2015. The portfolio was written down at end-2016 to DKK 3.4bn due to increased credit risk against DKK 3.2bn at end-2015. The total market value change resulted partly from the termination of a few large swap contracts.

### **Gain on sale of owner-occupied properties**

In Q4/2016, Nykredit sold two of its owner-occupied properties dubbed the Glass Cube and the Crystal. Nykredit is expected to continue as tenant for a good 5 years. The sale generated a gain of DKK 369m.

### **Investment portfolio income**

Investment portfolio income was DKK 1,331m against DKK 853m in 2015. Investment portfolio income from bonds, liquidity and interest rate instruments was DKK 1,140m. Investment portfolio income from equities and equity instruments, which are value adjusted through profit or loss, was DKK 191m.

Investment portfolio income equals excess income obtained from portfolios not allocated to the business areas in addition to risk-free interest. To this should be added the realised capital gains/losses from the sale of equities classified as available for sale (strategic equities).

The securities portfolio mainly consists of liquid Danish and other Northern European government and covered bonds.

The interest rate risk associated with the bond portfolio was largely eliminated through offsetting government bond sales or the use of interest rate swaps.

### **Tax**

Tax calculated on profit for the period was DKK 1,377m, corresponding to 20.6% of profit before tax.

### **Equity**

Equity stood at DKK 70,955m at end-2016 against DKK 65,482m at end-2015.

Equity includes Additional Tier 1 capital notes of EUR 500m (DKK 3,760m), which Nykredit issued in February 2015. The notes are perpetual, and payment of principal and interest is discretionary, for which reason the issue is recognised in equity for accounting purposes. Correspondingly, interest

expenses relating to the issue are recorded as dividend for accounting purposes and are recognised in equity. Interest calculated for 2016 totalled DKK 233m against DKK 197m for 2015.

Common Equity Tier 1 (CET1) capital, which is the most important capital concept in relation to the capital adequacy rules, came to DKK 65.6bn at end-2016 against DKK 60.3bn at end-2015.

## RESULTS FOR Q4/2016

### Results relative to Q3/2016

The Group recorded a profit before tax of DKK 2,336m in Q4/2016 against DKK 2,086m in Q3/2016.

Profit from core business declined by DKK 113m to DKK 1,327m in Q4/2016 against DKK 1,440m in Q3/2016, partly as a result of the implementation of FVA in the valuation of derivatives and expenses of DKK 250m relating to restructuring.

Income from core business went up DKK 242m, or 8%, on Q3/2016 to DKK 3,200m. Operating costs grew by DKK 71m to DKK 1,294m, exclusive of provisions for restructuring of DKK 250m. The rise on Q3/2016 primarily reflects a time lag and does not represent an expected future level.

Impairment losses on loans and advances rose to DKK 295m in Q4/2016 from DKK 260m in Q3.

Legacy derivatives generated a gain of DKK 422m in Q4/2016 against a gain of DKK 66m in Q3/2016. Q4 was affected by positive market-derived value adjustments as well as the negative impact of the FVA implementation.

Gain on sale of owner-occupied properties was DKK 369m in Q4/2016.

Investment portfolio income came to DKK 218m against DKK 580m in Q3/2016.

### Results relative to Q4/2015

Compared with a profit before tax of DKK 1,573m in Q4/2015, profit was up by DKK 763m to DKK 2,336m in Q4/2016.

Profit from core business grew by DKK 197m to DKK 1,327m in Q4/2016 against DKK 1,130m in Q4/2015.

Income from core business grew by DKK 426m, or 15%, to DKK 3,200m on Q4/2015, primarily owing to high mortgage lending activity, but also higher administration margin in income and earnings in Nykredit Asset Management made a positive contribution. Operating costs excluding provisions for restructuring reduced by DKK 38m from DKK 1,332m to DKK 1,294m in Q4/2016. Provisions for restructuring went up from DKK 70m to DKK 250m.

Impairment losses on loans and advances increased by DKK 68m to DKK 295m from DKK 227m in Q4/2015.

Legacy derivatives generated a gain of DKK 422m in Q4/2016 against a gain of DKK 129m in Q4/2015.

Gain on sale of owner-occupied properties was DKK 369m in Q4/2016.

Impairment of goodwill and customer relationships was a loss of DKK 58m in Q4/2015.

Investment portfolio income dropped to DKK 218m from DKK 372m in Q4/2015.

## RESULTS RELATIVE TO FORECASTS

In the H1 Interim Report 2016, full-year guidance was DKK 5,000m-5,500m.

In Q4/2016, Nykredit included FVA in the value adjustment of derivatives and introduced a new presentation of the distribution of earnings from derivatives. The net effect on the announced guidance is, however, immaterial.

Actual profit from core business for 2016 amounted to DKK 5,746m. The upturn of DKK 246m relative to the high end of our guidance was partly attributable to a rise in business income from both banking and mortgage lending as well as low impairment levels in Q4/2016. Total capacity costs were in line with expectations.

## OUTLOOK FOR 2017

Nykredit expects continued moderate market activity in general combined with low interest rate levels in 2017.

A modest rise is expected in income from core business, while capacity costs are forecast just below the 2016 level as a result of the restructuring initiated in 2016. However, this will be offset by rent incurred following the divestment of the Group's largest headquarters buildings.

In aggregate, profit from core business before impairment losses is expected to rise compared with 2016.

Impairment losses on loans and advances may not be maintained at the very low 2016 level, but may rise slightly.

Against this backdrop, we thus forecast profit from core business in 2017 to be on a level with 2016.

The most significant uncertainty factors in respect of our guidance for 2017 relate to movements in interest rate markets and uncertainty about loan impairment losses.

## SPECIAL ACCOUNTING CIRCUMSTANCES

As part of the preparations for the stock exchange listing of Nykredit Holding A/S, the Financial Statements 2016 were prepared in accordance with the IAS/IFRS standards, of the accounting policies.

In addition, two accounting restatements were made in 2016, implying changes to the valuation of Nykredit Bank's derivatives and the presentation of core business.

### **Change to valuation of derivatives**

In 2016 Nykredit implemented Funding Value Adjustments (FVA) in the fair value measurement of Nykredit Bank's derivatives contracts with customers. FVA corresponds to Nykredit's funding costs resulting from customers having provided insufficient or no collateral.

The implementation entails a negative value adjustment, affecting profit before tax by DKK 380m, of which DKK 218m was attributable to legacy derivatives. The change only has a limited impact on Nykredit's own funds and total capital ratio, as the determination of capital already allowed for this.

### **Legacy derivatives**

In previous years, the presentation included credit value adjustment of swaps involving an increased risk of loss. These value adjustments were not part of our core business.

This has been changed in the Financial Statements for 2016. In the financial highlights and the presentation of business areas, certain interest rate swaps are now presented as a separate item: Legacy derivatives, comprising all net income from a number of derivatives which we no longer offer to our customers. These derivatives include contracts with an initial maturity above 15 years entered into with housing cooperatives and agricultural customers as well as contracts with step-up interest rate structures. The portfolio will subsequently not be changed, except if existing contracts are terminated.

The purpose of separating out this area is to present Nykredit's results from core business based on the business in which Nykredit remains active.

Comparative figures have been restated, and the change does not affect Nykredit's overall results or the regulatory income statement. Reference is furthermore made to accounting policies.

## **OTHER**

### **Nykredit Group prepares for stock exchange listing**

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

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

### **Price adjustments at Totalkredit**

As of 1 July 2016, the administration margins on all existing and new Totalkredit loans were raised. This administration margin rise was the result of the capital requirements already adopted and also aims to ensure a more limited use of interest-only loans and loans with frequent refinancing.

Customers with long-term fixed-rate repayment loans will thus experience the smallest increase.

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

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

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

### **KundeKroner**

KundeKroner is Nykredit's customer benefits programme. The programme will initially be introduced to customers of Totalkredit.

Under the programme, customers will receive cash discounts that will be deducted from the administration margins and fees paid by the customers to Nykredit. The Danish National Tax Board has affirmed that this will entail a reduction in their tax deduction on those administration margins and fees equal to the amount of the discount.

In the initial phase, customers will get a cash discount of around DKK 1,000 for each million kroner borrowed set off against their administration margin payments. The amount will be deducted from borrowers' four annual administration margin payments, beginning with the payment for Q3/2017. The final KundeKroner programme, applying after the initial phase, will be announced at a later date.

### **New centre organisation strengthens customer focus**

In mid-2016 Retail changed its organisation, focusing on customer proximity and creating a specialist environment, to attract more full-service customers. To accommodate the different needs of our customers, Nykredit has set up a team of advisers for SME owners, and Nykredit's advisory propositions for agricultural and other business customers are now concentrated at fewer locations with specialist skills across the country.

### **Issuance of bail-inable senior notes**

Nykredit has launched its first bail-inable senior notes, and at end-2016 notes in issue amounted to DKK 7.4bn. Issuance of the remaining requirement of DKK 5bn-10bn is scheduled for 2017. Going forward, the new funding will replace most of the issuance of senior secured and senior unsecured debt.

## Credit ratings

S&P Global Ratings announced in July 2016 that it had revised its outlook on Nykredit Realkredit and Nykredit Bank's ratings from negative to stable. The rating outlook of senior secured debt was also changed from negative to stable.

According to S&P Global Ratings, the outlook was changed thanks to Nykredit's progress in the build-up of ALAC (Additional Loss-Absorbing Capacity). ALAC is a buffer of bail-inable debt serving to protect unsecured creditors in case of default. As mentioned above, Nykredit Realkredit was the first financial business in Europe to issue so-called senior resolution notes, which count towards ALAC, in June and July 2016. Both issues amounted to EUR 500m.

## Change in Nykredit Holding's Board of Directors

At Nykredit Holding's annual general meeting held on 16 March 2016, Helge Leiro Baastad and Per W. Hallgren were elected new members of the Board of Directors, replacing Steen E. Christensen and Jens Erik Udsen. Olav Bredgaard Brusén and Inge Sand joined the Board of Directors as staff-elected members, replacing Gert Kryger and Ina Nielsen.

The Board of Directors subsequently elected Steffen Kragh as Chairman and Merete Eldrup and Nina Smith as Deputy Chairmen.

## Change in Nykredit's Group Executive Board

Effective from 1 September 2016, Nykredit Realkredit reorganised its Group Executive Board. In connection with the reorganisation, David Hellemann joined the Group Executive Board as Group Managing Director, responsible for the CFO/COO areas and the Totalkredit alliance. At the same time, David Hellemann also joined the Boards of Directors of Nykredit Bank A/S and Totalkredit A/S.

Bente Overgaard resigned from Nykredit Holding's Executive Board and Nykredit's Group Executive Board as well as the Boards of Directors of Nykredit Bank and Totalkredit as at 30 June 2016.

## 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 provisions for loan and receivable impairment, and unlisted financial instruments are described in detail in accounting policies (note 1 of the Financial Statements) to which reference is made.

## MATERIAL RISKS

The Group's most material risks are described in detail in note 46 of the Annual Report 2016, to which reference is made.

## EVENTS SINCE THE BALANCE SHEET DATE

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

### Nykredit Holding A/S

Shareholders at 31 December 2016

	Share capital, DKK	Share capital, %
Foreningen Nykredit	1,191,622,100	89.80
Østifterne f.m.b.a.	43,179,700	3.25
PRAS A/S	29,852,600	2.25
Industriens Fond	62,326,300	4.70
<b>Total</b>	<b>1,326,980,700</b>	<b>100.00</b>

## BUSINESS AREAS

Nykredit's governance and organisational structure is based on the following business areas:

- Retail, which serves Nykredit's personal customers and SMEs and is responsible for mortgage lending to Nykredit's personal customers arranged via Totalkredit.
- Totalkredit Partners, which is responsible for the Group's mortgage lending to personal and business customers arranged by local and regional banks.
- Wholesale Clients, which comprises Corporate & Institutional Banking (CIB) and Nykredit Markets.
- Wealth Management, which comprises Nykredit Asset Management, Nykredit Portefølje Administration and Private Banking Elite.
- Group Items, which comprises income and costs not allocated to the business areas as well as core income from securities and investment portfolio income.

Gross income from customer business is generally allocated to the business areas which have supplied the individual products. With the exception of Private Banking for the wealthiest clients under Wealth Management, gross income attributable to the sales activities of Retail is subsequently reallocated to Retail in full. Correspondingly, Retail pays a proportion of the capacity costs of Nykredit Markets and Nykredit Asset Management attributable to the sales activities.

### Adjustment of business areas

In Q1/2016, the Group set up a new business area, Wealth Management, comprising Private Banking Elite for the wealthiest clients, Nykredit Asset Management and Nykredit Portefølje Administration A/S, previously included in Wholesale Clients. In this connection, the distribution of income and costs between Private Banking Elite and Retail has been adjusted. Comparative figures have been restated accordingly.

### Adjustment of income statement format

The income statement format for the business areas has been adjusted compared with the Annual Report 2015, now stating profit from core business corresponding to profit before tax excluding the effect of certain derivatives, gain on sale of owner-occupied properties, goodwill impairment and investment portfolio income. In Q4/2016, the presentation of certain non-core business derivatives was altered, which changed the recognition in the income statement of these and core income from business operations. Comparative figures have been restated accordingly.

### Earnings

The Group's total profit from core business in 2016 grew by DKK 183m, or 3%, to DKK 5,746m against DKK 5,563m the previous year. The Group's total profit before tax by business area appears from the table below. The results of each business area are described in more detail on the following pages.

#### Results by business area<sup>1</sup>

DKK million	Retail	Totalkredit Partners	Wholesale Clients	Wealth Management	Group Items	Total
<b>2016</b>						
<b>Core income from</b>						
- customer activities, gross	5,697	2,973	2,366	1,034	89	12,159
- payment for distribution	569	-	(242)	(327)	-	-
<b>Total business operations</b>	<b>6,266</b>	<b>2,973</b>	<b>2,124</b>	<b>707</b>	<b>89</b>	<b>12,159</b>
- senior and subordinated debt	(100)	(136)	(7)	(1)	(250)	(494)
- securities	-	-	-	-	46	46
<b>Income from core business</b>	<b>6,166</b>	<b>2,837</b>	<b>2,117</b>	<b>706</b>	<b>(115)</b>	<b>11,711</b>
Operating costs	3,262	505	633	409	338	5,147
Mandatory mortgage bank contribution to Danish Resolution Fund	48	71	19	-	-	138
<b>Profit (loss) from core business before impairment losses</b>	<b>2,856</b>	<b>2,261</b>	<b>1,465</b>	<b>297</b>	<b>(453)</b>	<b>6,426</b>
Impairment losses on mortgage lending	911	10	(100)	-	-	821
Impairment losses on bank lending	42	-	(191)	14	(6)	(141)
<b>Profit (loss) from core business</b>	<b>1,903</b>	<b>2,251</b>	<b>1,756</b>	<b>283</b>	<b>(447)</b>	<b>5,746</b>
Legacy derivatives	(232)	-	(531)	-	-	(763)
Gain on sale of owner-occupied properties	-	-	-	-	369	369
Investment portfolio income	-	-	-	-	1,331	1,331
<b>Profit before tax</b>	<b>1,671</b>	<b>2,251</b>	<b>1,225</b>	<b>283</b>	<b>1,253</b>	<b>6,683</b>
Average allocated business capital <sup>2</sup>	25,894	12,277	11,738	623	8,836	59,368
Profit from core business as % of average business capital	7.3	18.3	15.0	45.4	-	9.7

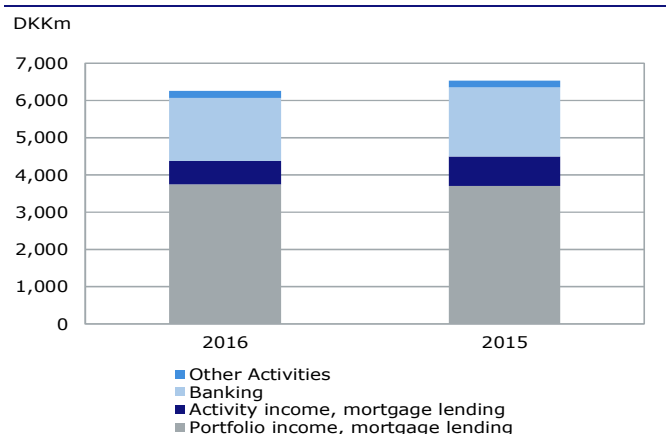
<sup>1</sup> Please refer to note 4 of these Financial Statements for complete segment financial statements with comparative figures.

<sup>2</sup> Based on Nykredit's internal determination and allocation of capital.

<b>Results – Retail</b>		
DKK million	2016	2015
<b>Core income from</b>		
- business operations	6,266	6,537
- senior debt	(100)	(122)
<b>Income from core business</b>	<b>6,166</b>	<b>6,415</b>
Operating costs	3,262	3,316
Mortgage bank contribution to Danish Resolution Fund	48	43
<b>Profit from core business before impairment losses</b>	<b>2,856</b>	<b>3,056</b>
Impairment losses on mortgage lending	911	739
Impairment losses on bank lending	42	55
<b>Profit from core business</b>	<b>1,903</b>	<b>2,262</b>
Legacy derivatives	(232)	112
Goodwill impairment	-	9
<b>Profit before tax</b>	<b>1,671</b>	<b>2,365</b>

<b>Activities – Retail</b>		
DKK million	2016	2015
<b>Mortgage lending</b>		
Gross new lending	57,189	78,379
Portfolio at nominal value	421,601	435,916
Impairment losses for the year as % of loans and advances	0.22	0.17
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	4,347	3,925
Total impairment provisions as % of loans and advances	1.03	0.90
<b>Banking</b>		
Loans and advances	30,079	27,054
Deposits	43,037	40,799
Impairment losses for the year as % of loans and advances	0.15	0.21
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	1,716	1,784
Total impairment provisions as % of loans and advances	5.39	6.19
Guarantees	4,510	4,342
Provisions for guarantees	43	44

#### Core income from business operations – Retail



## RETAIL

Retail consists of the business units Retail Personal Banking and Retail Business Banking and provides mortgage and banking services to personal customers and SMEs, including agricultural customers, residential rental customers and Private Banking Retail's wealth clients. Mortgage loans granted via Totalkredit to Nykredit's personal customers also form part of Retail. The activities of Nykredit Mægler A/S and Nykredit Leasing A/S are also included.

Nykredit serves its customers through 43 local customer centres, of which 18 serve business customers, and the nationwide sales and advisory centre Nykredit Direkte®. The estate agencies of the Nybolig and Estate chains constitute other distribution channels. Nykredit offers insurance in partnership with Gjensidige Forsikring.

Retail customers are offered products within banking, mortgage lending, insurance, pension, investment and debt management.

### 2016 in brief

In 2016 Retail Personal Banking continued to improve Nykredit's homeowner banking programme, BoligBank, providing home financing, wealth management and everyday banking services to homeowners, and Private Banking Retail. This has resulted in the introduction of a number of new services and price adjustments targeted at homeowners with the aim of making the homeowner banking programme even more competitive and attractive. The number of full-service customers grew satisfactorily over the year.

Retail Business Banking continued to improve the business banking programme, Nykredit ErhvervsBank. Further, focus has been intensified on small owner-managers, which are characterised by having both personal and business-purpose financial needs. The increase in business customers taking their daily banking to Nykredit has been satisfactory. The area has moreover focused on raising profitability and reducing risk exposures in line with Nykredit's capital targets.

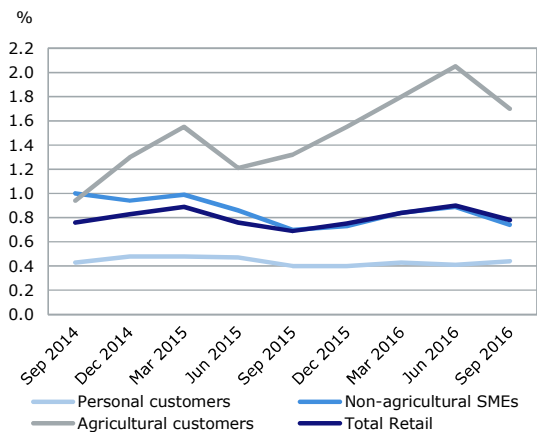
In 2016 Nykredit entered into a partnership with Lunar Way, a fintech company, which launched a 100% mobile banking solution targeting people aged 18-26, featuring simple banking products in December 2016. If the customers need more complex products, the Lunar Way app will refer them to Nykredit. Over the next five years, 140,000 customers are expected to use the app.

### Activities

Retail Personal Banking saw a lower activity level in 2016 compared with last year when activity was exceptionally high due to the massive interest rate declines and gross new lending decreased from DKK 32.6bn to DKK 25.0bn at end-2016.

Nominal mortgage lending in Retail Personal Banking came to DKK 183.4bn against DKK 191.7bn at end-2015.

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



Bank lending in Retail Personal Banking amounted to DKK 12.0bn against DKK 12.1bn at the beginning of the year. Bank deposits rose by DKK 1.9bn in the same period to DKK 25.7bn. The increase in bank deposits was attributable to, for instance, the acquisition of deposit accounts from FIH Erhvervsbank A/S by Nykredit in Q1/2016.

Mortgage lending activity levels in Retail Business Banking in 2016 were affected by a weak market with subdued demand and almost unchanged interest rate levels. By contrast, 2015 was characterised by massive interest rate declines prompting significant remortgaging activity and gross new lending reduced by DKK 13.7bn to DKK 32.1bn, while nominal mortgage lending totalled DKK 238.2bn, down DKK 6.0bn on end-2015.

Bank lending in Retail Business Banking, by contrast, increased by DKK 3.1bn to DKK 18.1bn, and deposits rose by DKK 0.3bn to DKK 17.3bn.

**Results**

Profit from core business was DKK 1,903m compared with DKK 2,262m in the previous year.

Income from business operations decreased by DKK 271m, or 4%, to DKK 6,266m, mainly due to lower activity income. Loan portfolio income from mortgage lending increased slightly owing to administration margin rises as of 1 July 2016.

Operating costs went down by 2% from DKK 3,316m in 2015 to DKK 3,262m.

Impairment losses on Retail's mortgage lending increased from DKK 739m in 2015 to DKK 911m, while impairment losses on bank lending dropped by DKK 13m to DKK 42m. Impairment losses represented 0.22% of mortgage lending and 0.15% of bank lending for the year under review.

Impairment losses on loans to personal customers grew by a total of DKK 66m, of which DKK 58m related to mortgage lending and DKK 8m to bank lending.

Impairment losses on loans to business customers rose by a total of DKK 92m, comprising a DKK 113m increase in relation to mortgage lending and a DKK 21m fall in relation to bank lending.

At end-2016, impairment provisions totalled DKK 6,063m against DKK 5,709m at the beginning of the year.

Legacy derivatives generated a loss of DKK 232m, which represented an increase of DKK 344m against 2015.

**Arrears**

At the September due date, Retail's 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.78% against 0.69% at the same date in 2015.



### Substantial security

The security underlying mortgage lending to the Retail segment remained substantial. The LTV ratios of mortgage loans are shown below with individual loans relative to the estimated values of the individual properties at year-end. Of mortgage lending to personal customers, 2% had a current LTV ratio in excess of 80%, which was unchanged from end-2015. Of mortgage lending to SMEs, 6% had a current LTV ratio in excess of 60% against 8% at end-2015.

### International activities

Nykredit offers Danish private residential mortgage loans for properties chiefly in France and Spain directly to customers or through business partners.

Core income from international mortgage lending totalled DKK 128m in 2016, up DKK 2m.

Mortgage lending at cash value was DKK 11.2bn against DKK 11.1bn at end-2015. The majority of the loans were granted in Spain and France, with DKK 5.7bn and DKK 4.7bn, respectively.

Impairment losses on international mortgage lending decreased by DKK 33m to a gain of DKK 3m in 2016.

#### Debt outstanding relative to estimated property values – Retail

LTV/%	Personal customers		Business customers		Agricultural customers		Private residential rental customers	
	2016	2015	2016	2015	2016	2015	2016	2015
0-40	68	67	77	72	70	71	64	61
40-60	21	21	17	20	20	19	22	23
60-80	10	10	4	5	8	7	10	12
80-90	1	1	1	1	1	1	2	2
90-100	0	1	0	1	1	1	1	1
>100	0	0	1	1	1	1	1	1
<b>LTV average<sup>1</sup></b>	<b>62</b>	<b>63</b>	<b>54</b>	<b>58</b>	<b>60</b>	<b>59</b>	<b>67</b>	<b>69</b>

<sup>1</sup> Determined as the top part of the debt outstanding relative to estimated property values.

Note: The figures are actual LTV ratios including any financed costs.

In the table, debt outstanding is distributed continuously by LTV category. Loans with security covering for example between 0% and 60% of the mortgageable value are distributed with two thirds of the debt outstanding in the LTV range 0-40% and one third in the LTV range 40-60%.

## Results – Totalkredit Partners

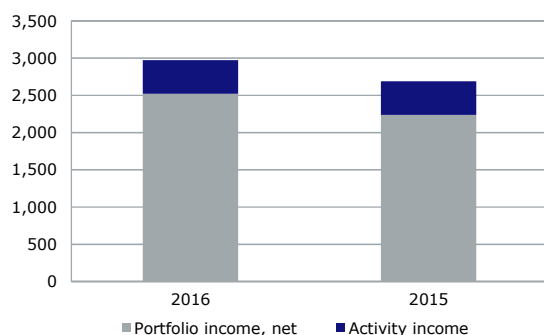
DKK million	2016	2015
<b>Core income from</b>		
- business operations	2,973	2,690
- senior debt	(136)	(168)
<b>Income from core business</b>	<b>2,837</b>	<b>2,522</b>
Operating costs	505	507
Mortgage bank contribution to Danish Resolution Fund	71	1
<b>Profit from core business before impairment losses</b>	<b>2,261</b>	<b>2,014</b>
Impairment losses on mortgage lending	10	411
<b>Profit from core business</b>	<b>2,251</b>	<b>1,603</b>
Goodwill impairment	-	1,907
<b>Profit (loss) before tax</b>	<b>2,251</b>	<b>(304)</b>

## Activities – Totalkredit Partners

DKK million	2016	2015
<b>Mortgage lending</b>		
Gross new lending	107,713	137,478
Portfolio at nominal value	503,767	494,250
Impairment losses for the year as % of loans and advances	0.00	0.08
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	987	1,231
Total impairment provisions as % of loans and advances	0.20	0.25

## Core income from business operations – Totalkredit Partners

DKKm



## TOTALKREDIT PARTNERS

Under the Totalkredit brand, Totalkredit Partners provides mortgage loans to personal and business customers arranged via 58 Danish local and regional banks. Mortgage loans arranged by Nykredit are included in the business area Retail.

Totalkredit Partners'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. The banks' share of realised losses is offset against future commission payments from Totalkredit to its partner banks and is recognised in the income statement as impairment of loans and advances.

### 2016 in brief

As of 1 July 2016, the administration margins for all existing and new Totalkredit loans were raised. This administration margin rise was the result of the capital requirements already adopted and also aims to ensure a more limited use of interest-only loans and loans with frequent refinancing.

Totalkredit and its local and regional partner banks have extended their partnership to include secured homeowner loans and business mortgages. The secured homeowner loan allows partner banks to transfer bank loans secured on real estate to Totalkredit, thus funding these loans. Totalkredit business mortgages are offered to the segments office and retail, residential rental as well as industry and trades. The first business mortgages have now been granted, and 38 banks, representing the majority of banks having business customers with mortgage needs, have started offering business mortgages.

### Activities

Totalkredit Partners saw a lower activity level in 2016 compared with the level last year when activity was exceptionally high due to the massive interest rate declines. Gross new lending amounted to DKK 107.7bn at end-2016 against DKK 137.5bn at end-2015.

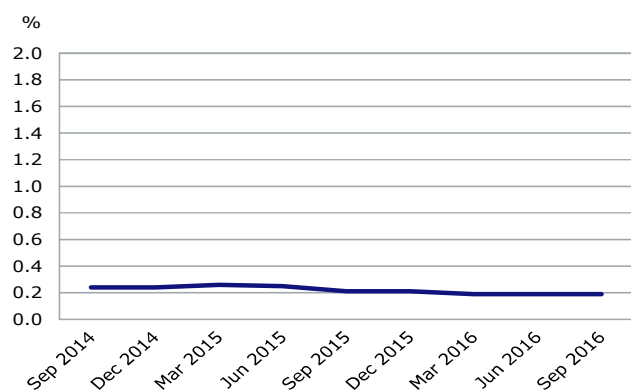
Nominal mortgage lending grew by DKK 9.5bn on end-2015 to DKK 503.8bn. Loans distributed through former Totalkredit partner banks, which are now managed directly by Totalkredit, amounted to DKK 34bn at end-2016 against DKK 45bn at end-2015. Since Jyske Bank's exit from the partnership, Totalkredit loans worth DKK 54bn have been prepaid. Of this amount, DKK 10bn has subsequently been refinanced by other Totalkredit partner banks.

### Results

Profit from core business went up by DKK 648m year-on-year to DKK 2,251m in 2016.

Income from business operations grew by DKK 283m, or 11%, to DKK 2,973m, driven by increasing loan portfolio income caused by the administration margin increase as at 1 July 2016 as well as increasing lending.

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



**Debt outstanding relative to estimated property values  
– Totalkredit Partners**

LTV/%	2016	2015
0-40	59	58
40-60	24	24
60-80	15	14
80-90	2	2
90-100	1	1
>100	1	1
<b>LTV average<sup>1</sup></b>	<b>72</b>	<b>72</b>

<sup>1</sup> Determined as the top part of the debt outstanding relative to estimated property values.

Operating decreased by DKK 2m to DKK 505m.

Net expenses relating to senior debt came to DKK 136m compared with DKK 168m in 2015. The reduction was attributable to lower volumes of senior secured debt as well as declining interest rates.

Totalkredit Partners's net loan impairment losses declined by DKK 401m, or 98%, to DKK 10m after set-off against commission payable to partner banks.

Total impairment provisions amounted to DKK 987m at end-2016 against DKK 1,231m at the beginning of the year.

In 2015 Totalkredit Partners's results were adversely affected by goodwill impairment of DKK 1,907m relating to the acquisition of Totalkredit A/S. The impact of goodwill impairment in 2016 was nil.

**Arrears**

At the September due date, 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.19% against 0.21% at the same date in 2015.

**Substantial security**

The security underlying mortgage lending remained substantial. The LTV ratios of mortgage loans are determined based on the estimated values of the individual properties at year-end. Of mortgage lending, 3% had a current LTV ratio in excess of 80% against 4% at end-2015.

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 and are recognised in the income statement as a reduction in loan impairment losses.

## Results – Wholesale Clients

DKK million	2016	2015
<b>Core income from</b>		
- business operations	2,124	2,298
- senior debt	(7)	(12)
<b>Income from core business</b>	<b>2,117</b>	<b>2,286</b>
Operating costs	633	679
Mortgage bank contribution to Danish Resolution Fund	19	17
<b>Profit from core business before impairment losses</b>	<b>1,465</b>	<b>1,590</b>
Impairment losses on mortgage lending	(100)	(110)
Impairment losses on bank lending	(191)	(176)
<b>Profit from core business</b>	<b>1,756</b>	<b>1,876</b>
Legacy derivatives	(531)	118
<b>Profit before tax</b>	<b>1,225</b>	<b>1,994</b>

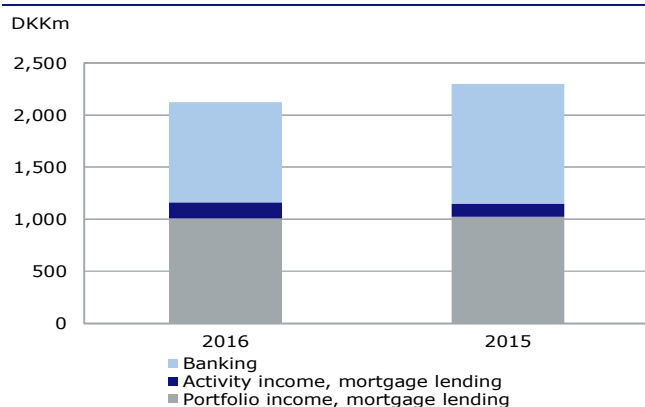
## Activities – Wholesale Clients

DKK million	2016	2015
<b>Mortgage lending</b>		
Gross new lending	28,047	36,578
Portfolio at nominal value	176,405	180,846
Impairment losses for the year as % of loans and advances	(0.06)	(0.06)
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	415	536
Total impairment provisions as % of loans and advances	0.24	0.30
<b>Banking</b>		
Loans and advances	21,554	17,762
Deposits	12,207	13,700
Impairment losses for the year as % of loans and advances	(0.67)	(0.92)
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	805	1,011
Total impairment provisions as % of loans and advances	3.60	5.39
Guarantees	1,445	1,565
Provisions for guarantees	9	55

## Income – Nykredit Markets

DKK million	2016	2015
Customer activities, gross	727	781
Payment for distribution	(324)	(298)
<b>Business income, net</b>	<b>403</b>	<b>483</b>

## Core income from business operations – Wholesale Clients



## WHOLESALE CLIENTS

Wholesale Clients consists of the business units Corporate & Institutional Banking and Nykredit Markets and comprises activities with Nykredit's corporate and institutional clients, the public housing segment, large housing cooperatives and mortgage lending to business customers for properties abroad. Wholesale Clients also handles Nykredit's activities within securities and financial derivatives trading.

### 2016 in brief

Corporate & Institutional Banking saw robust loan demand in 2016 and consequently participated in a number of large transactions despite continued fierce price competition. Moreover, the recent initiatives regarding strategic financial advisory services have attracted new clients.

Despite volatile market conditions, Nykredit Markets delivered satisfactory income in 2016. Further, the number of new clients and, particularly, wealth clients grew.

Nykredit Markets, Private Banking Elite and Retail Business Banking continue to step up their joint efforts to improve services to wealth clients. Nykredit Markets provides comprehensive advisory services and offers wealth clients tailored solutions using a mix of products from Nykredit Markets and Nykredit Asset Management.

### Activities

Corporate & Institutional Banking's activity levels were lower than the high level in 2015, and gross new lending totalled DKK 28.0bn.

Mortgage lending amounted to DKK 176.4bn at end-2016, down DKK 4.4bn on the beginning of the year. The fall was particularly attributable to Germany, where Nykredit has scaled down its lending by DKK 4.3bn.

Bank lending was up DKK 3.8bn on the beginning of the year to DKK 21.6bn. Bank deposits dropped by DKK 1.5bn to DKK 12.2bn.

Nykredit Markets's activities in 2016 centered around major political events, where customers and market participants focused on risk profiling and positioning. In general, there was an increased demand for interest rate derivatives.

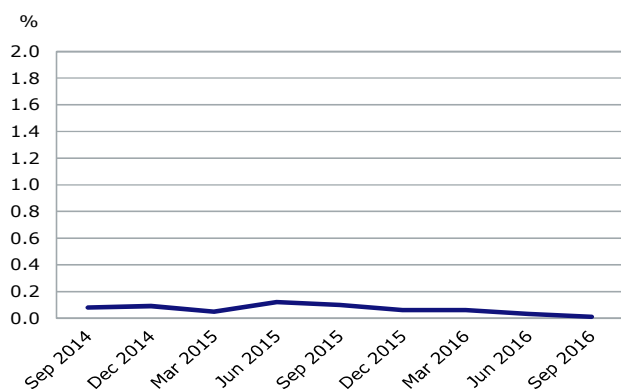
### Results

Profit from core business dropped by DKK 120m year-on-year to DKK 1,756m in 2016.

Income from business operations saw a reduction of DKK 174m, or 8%, to DKK 2,124m, primarily reflecting declining income from banking operations and unchanged mortgage activity income compared with 2015.

Relative to 2015, Corporate & Institutional Banking's income fell by DKK 94m to DKK 1,721m.

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



**Debt outstanding relative to estimated property values  
– Wholesale Clients**

LTV/%	2016	2015
0-40	74	73
40-60	20	21
60-80	4	5
80-90	0	1
90-100	0	0
>100	1	0
<b>LTV average<sup>1</sup></b>	<b>55</b>	<b>56</b>

<sup>1</sup> Determined as the top part of the debt outstanding relative to estimated property values.

Nykredit Markets's income after payment for distribution decreased by DKK 80m on 2015 to DKK 403m. This should be seen in the context of the high activity levels in 2015.

Operating costs reduced by DKK 46m to DKK 633m.

Impairment losses on mortgage lending in Wholesale Clients changed from a gain of DKK 110m to a gain of DKK 100m, while the gain from impairments on bank lending increased by DKK 15m to a gain of DKK 191m. Impairment losses represented negative 0.06% of mortgage lending and negative 0.67% of bank lending for the year under review.

At end-2016, impairment provisions totalled DKK 1,220m against DKK 1,547m at the beginning of the year.

Legacy derivatives generated a loss of DKK 531m, which represented an adverse development of DKK 649m compared with 2015.

**Arrears**

At the September due date, 75-day mortgage loan arrears as a percentage of mortgage payments due were 0.01% and thus remained at a low level. The arrears ratio was 0.10% at the same date in 2015.

**Substantial security**

The security underlying mortgage lending remained substantial. The LTV ratios of mortgage loans are determined based on the estimated values of the individual properties at year-end. Of mortgage lending, 6% had a current LTV ratio in excess of 60% – the same level as at end-2015.

**International activities**

For properties abroad, Nykredit offers Danish and certain international business customers mortgage loans subject to Danish legislation. Mortgage loans have been granted for properties in Sweden, Germany, the UK, Finland and Norway.

Core income from international mortgage lending reduced by DKK 27m to DKK 361m in 2016 from DKK 388m the year before.

Mortgage lending at cash value amounted to DKK 40.5bn at end-2016 against DKK 46.3bn at the beginning of the year. Lending broadly amounted to DKK 22.3bn in Sweden, DKK 12.6bn in Germany, DKK 3.0bn in the UK and DKK 2.2bn in Finland.

<b>Results – Wealth Management</b>		
DKK million	2016	2015
<b>Core income from</b>		
- business operations	707	555
- senior debt	(1)	(1)
<b>Income from core business</b>	<b>706</b>	<b>554</b>
Operating costs	409	354
Mortgage bank contribution to Danish Resolution Fund	-	-
<b>Profit from core business before impairment losses</b>	<b>297</b>	<b>200</b>
Impairment losses on mortgage lending	-	1
Impairment losses on bank lending	14	-
<b>Profit from core business</b>	<b>283</b>	<b>199</b>
Legacy derivatives	-	(1)
<b>Profit before tax</b>	<b>283</b>	<b>198</b>

<b>Activities – Wealth Management</b>		
DKK million	2016	2015
<b>Mortgage lending</b>		
Gross new lending	1,017	1,236
Portfolio at nominal value	5,362	3,312
Impairment losses for the year as % of loans and advances	0.00	0.03
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	2	3
Total impairment provisions as % of loans and advances	0.04	0.09
<b>Banking</b>		
Loans and advances	2,603	1,922
Deposits	9,522	7,828
Impairment losses for the year as % of loans and advances	0.53	0.00
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	17	4
Total impairment provisions as % of loans and advances	0.65	0.21
Guarantees	549	327
Provisions for guarantees	-	-
<b>Assets under management</b>	<b>157,056</b>	<b>143,812</b>
<b>Assets under administration</b>	<b>786,549</b>	<b>700,372</b>
- of which Nykredit Group investment funds	74,648	66,394

<b>Income – Wealth Management</b>		
DKK million	2016	2015
Customer activities, gross	1,034	879
Payment for distribution	(327)	(324)
<b>Business income, net</b>	<b>707</b>	<b>555</b>

## WEALTH MANAGEMENT

Wealth Management, which was established in Q1/2016 based on a number of former Wholesale clients, handles Nykredit's asset and wealth management activities. Wealth Management comprises the business units Nykredit Asset Management, Nykredit Portefølje Administration and Private Banking Elite. The latter is targeted at clients with investable assets in excess of DKK 7m.

Nykredit's asset management and portfolio administration services are undertaken by Nykredit Asset Management and Nykredit Portefølje Administration, and their products and solutions include Nykredit Invest, Private Portfolio, Savings Invest, Pension Invest and discretionary asset management and administration agreements with institutional clients, foundations, businesses, public institutions and personal wealth clients.

### 2016 in brief

Nykredit Asset Management delivered good investment results in 2016, but also made adjustments to the pricing of Nykredit's investment funds. In connection with the adaptation to MiFID II, almost all the funds ceased charging subscription fees at the beginning of the year.

60.5% of Nykredit Asset Management's investment strategies (GIPS composites) generated above-benchmark returns in 2016, and 87.1% have generated above-benchmark returns over the past three years. This is considered satisfactory. In 2016 especially investments in Danish government and covered bonds, including the hedge funds of Nykredit Alpha, have performed extraordinarily well.

For Nykredit Portefølje Administration, 2016 was characterised by decent client growth and the launch of a Luxembourg UCITS SICAV investment fund.

Private Banking Elite achieved decent client growth in 2016, both in terms of new clients and advancement of existing client relationships. The latter successfully achieved special focus in 2016.

### Activities

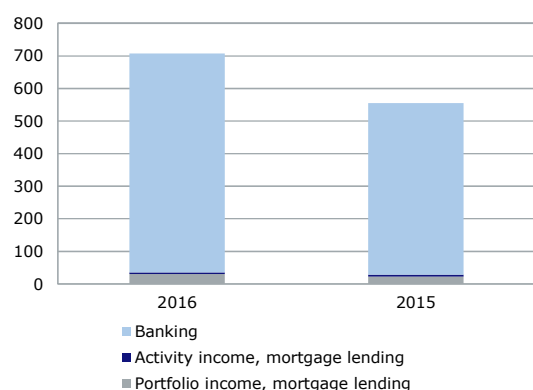
Assets under management grew by DKK 13.2bn to DKK 157.1bn at end-2016 as a result of positive net sales and positive value adjustments.

Total assets under administration rose by DKK 86.2bn to DKK 786.5bn at end-2016. The increase comprised net growth of DKK 29.3bn and capital gains of DKK 56.9bn.

Private Banking Elite, which is behind part of the total assets under administration, recorded satisfactory net growth in 2016.

## Core income from business operations – Wealth Management

DKKm



## Debt outstanding relative to estimated property values – Wealth Management

LTV/%	2016	2015
0-40	65	60
40-60	22	24
60-80	10	12
80-90	2	2
90-100	1	1
>100	0	1
<b>LTV average<sup>1</sup></b>	<b>65</b>	<b>69</b>

<sup>1</sup> Determined as the top part of the debt outstanding relative to estimated property values.

## Results

Profit from core business rose by DKK 84m year-on-year to DKK 283m in 2016.

Income from business operations grew by DKK 152m, or 27%, to DKK 707m, which was fully attributable to income from banking operations.

Operating costs increased by DKK 55m, or 16%, to DKK 409m, primarily as a result of a rising activity level in Private Banking Elite.

Impairment losses on mortgage lending in Wealth Management were nil compared with DKK 1m the year before, while impairment losses on bank lending increased from nil to DKK 14m. Impairment losses represented 0.00% of mortgage lending and 0.53% of bank lending for the year under review.

At end-2016, impairment provisions totalled DKK 19m against DKK 7m at the beginning of the year.

## Substantial security

The security underlying mortgage lending remained substantial. The LTV ratios of mortgage loans are determined based on the estimated values of the individual properties at year-end. Of mortgage lending, 3% had a current LTV ratio in excess of 80% against 3% at end-2015.

<b>Results – Group Items</b>		
DKK million	2016	2015
<b>Core income from</b>		
- business operations	89	46
- senior and subordinated debt	(250)	(307)
- securities	46	38
<b>Income from core business</b>	<b>(115)</b>	<b>(223)</b>
Operating costs	338	154
<b>Loss from core business before impairment losses</b>		
Impairment losses on mortgage lending	-	-
Impairment losses on bank lending	(6)	-
<b>Loss from core business</b>	<b>(447)</b>	<b>(377)</b>
Gain on sale of owner-occupied properties	369	-
Impairment of customer relationships	-	49
Investment portfolio income	1,331	853
<b>Profit before tax</b>	<b>1,253</b>	<b>427</b>

<b>Activities – Group Items</b>		
DKK million	2016	2015
<b>Bank lending</b>		
Loans and advances	767	8
Deposits	649	272
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	-	53
Total impairment provisions as % of loans and advances	-	86.49
Guarantees	190	708
Provisions for guarantees	-	-

## GROUP ITEMS

Some income statement and balance sheet items are not allocated to the business areas but are included in Group Items.

Group Items also includes Nykredit's total return on the securities portfolio, which is the sum of "Core income from securities" and "Investment portfolio income". The activities of the companies Nykredit Ejendomme A/S and Ejendoms-selskabet Kalvebod A/S also form part of Group Items, which includes a gain on the sale of owner-occupied properties.

### Results

Profit before tax improved by DKK 826m compared with the year before to DKK 1,253m in 2016, primarily owing to higher investment portfolio income and gain on the sale of owner-occupied properties.

Income from business operations grew by DKK 43m to DKK 89m, whereas net interest expenses on senior debt and Nykredit's subordinated debt saw a total decline of DKK 57m to DKK 250m in 2016.

Nykredit's core income from securities was DKK 46m, up DKK 8m on 2015. Core income from securities equals the return the Group could have obtained on investment portfolios at the risk-free interest rate. Core income from securities also includes net interest expenses for Tier 2 capital.

Unallocated operating costs rose by DKK 184m to DKK 338m.

Loan impairment losses were a gain of DKK 6m compared with nil the year before.

In Q4/2016 Nykredit sold two of its owner-occupied properties dubbed the Glass Cube and the Crystal. Nykredit is expected to continue as tenant for a good 5 years. The sale generated a gain of DKK 369m.

Group Items' 2015 results were adversely affected by impairment of customer relationships of DKK 49m. For 2016, this item was nil.

Nykredit's investment portfolio generated income of DKK 1,331m against DKK 853m in 2015. Investment portfolio income from bonds, liquidity and interest rate instruments was DKK 1,140m. Investment portfolio income from equities and equity instruments, which are value adjusted through profit or loss, was DKK 191m.

Investment portfolio income is the income exceeding risk-free interest obtained from investing in equities, bonds and derivative financial instruments. To this should be added the realised capital gains/losses on the sale of equities classified as available for sale (strategic equities). Price spreads and interest margins relating to the mortgage lending of Nykredit Realkredit and Totalkredit and the trading activities of Nykredit Markets are included not as investment portfolio income, but as core income from business operations.



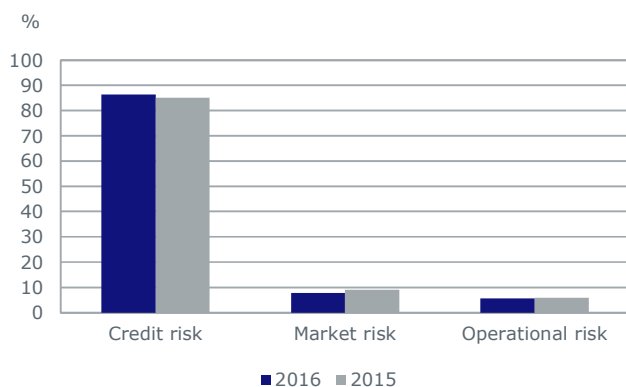
## CAPITAL, FUNDING AND LIQUIDITY

Nykredit's activities mainly consist of match-funded mortgage lending. Mortgage lending is secured by mortgages on real estate and is therefore characterised by a high degree of security. The Danish mortgage system is regulated by the Danish Financial Business Act, the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, and the Danish Executive Order on bonds. Danish legislation provides loan-to-value (LTV) limits for the mortgaging of properties, and the credit risk relating to mortgage lending is thus limited.

Mortgage lending and the matching funding are regulated by the balance principle. This means that Nykredit incurs limited interest rate risk, foreign exchange risk and liquidity risk on 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. Thus, credit risk is Nykredit's main risk.

In addition to mortgage lending, Nykredit's activities include banking activities, estate agency services, administration and management of investment funds, leasing and insurance mediation. These business activities including the management of the investment portfolio cause credit, market, liquidity and operational risks.

**Nykredit Realkredit Group**  
Risk exposure amount (REA) by risk type



### Balance principle and match funding

Nykredit focuses on having a risk management framework that ensures agreement between our risk profile, risk appetite and current legislation as well as having a robust capital structure. Risk management should ensure financial solutions that are viable in the short, medium and long term.

Reference is made to note 46 for a more detailed description of Nykredit's risk management. The report Risk and Capital Management 2016, available at [nykredit.com/reports](http://nykredit.com/reports), contains a detailed presentation of Nykredit's capital and risk policy.

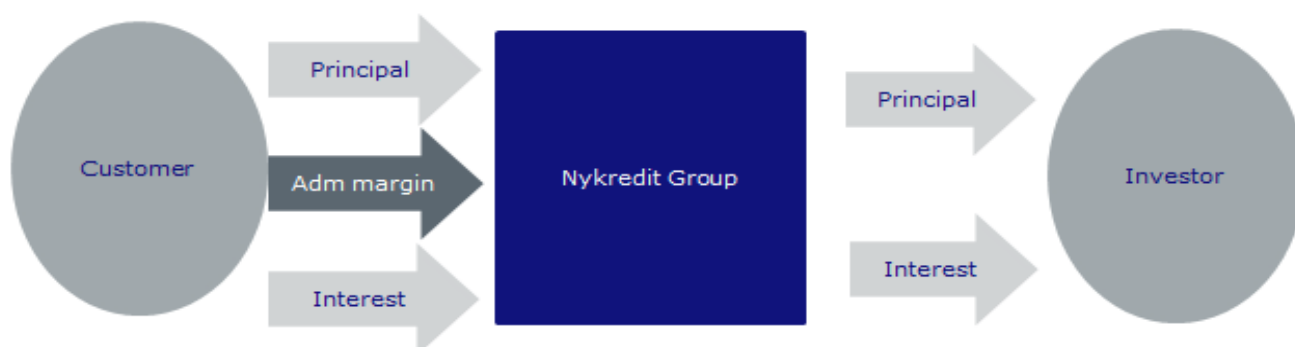
Nykredit's investment assets are marked to market. Changes in prices and interest rates will therefore result in some earnings volatility due to changes in related gains/losses on Nykredit's securities investments.

### Balance principle and match funding

Nykredit's mortgage lending is regulated by the balance principle. The balance principle limits the financial risk Nykredit may assume in relation to lending and funding.

Danish mortgage banks may apply either the specific balance principle or the general balance principle. Nykredit applies the general balance principle, but has structured its bond issuance in such a manner that Nykredit assumes only limited financial risk on lending and the related funding.

Like other Danish mortgage banks, Nykredit applies fair value when determining mortgage loans and bonds in issue for accounting purposes, and for both the determination is based on the fair value of the bonds. Accordingly, value adjustment of mortgage loans and bonds in issue is included in Nykredit's results with approximately the same amount, but with opposite signs. A change in bond prices will therefore not result in any fluctuation in Nykredit's financial results.



More than 99% of Nykredit's mortgage loans are match-funded. This means for instance that each loan is match-funded with bonds sold in the market. Nykredit issues bonds on a daily basis to fund loans.

In order to eliminate interest rate risk and foreign exchange risk, mortgage loans have the same interest rate and foreign exchange terms as the bonds funding the loans. Fixed-rate loans have fixed funding for the entire loan term. Adjustable-rate mortgages (ARMs) are funded by bonds with maturities that are shorter than the terms of the related loans. The loan rate is adjusted at refinancing to the yield-to-maturity of the new bonds sold.

Prepayment of loans reduces the outstanding funding. Borrowers cover Nykredit's costs incidental to prepayments.

The due dates of payment of interest and principal are fixed so that Nykredit receives the funds on or before the dates when the payments to bondholders fall due, provided borrowers make timely payments.

Match funding ensures a match between the interest and principal payments of a loan and the underlying funding. Therefore, Nykredit's earnings margin consists of a separate administration margin, which is chiefly calculated on the basis of the debt outstanding. In addition, various fees may be charged.

<b>Nykredit Holding Group</b>		
<b>Equity (incl Additional Tier 1 capital)</b>		
DKK million	2016	2015
<b>Equity, beginning of year</b>	65,482	58,675
Profit for the year	5,306	3,187
Fair value adjustment of equities available for sale	331	7
New Additional Tier 1 (AT1) capital	-	3,731
Other adjustments	(164)	(118)
<b>Equity, year-end</b>	<b>70,955</b>	<b>65,482</b>

<b>Nykredit Holding Group</b>		
<b>Capital and capital adequacy</b>		
DKK million	2016	2015
Credit risk	303,243	263,847
Market risk	25,437	27,958
Operational risk	19,679	18,489
<b>Total risk exposure amount (REA)<sup>1</sup></b>	<b>348,359</b>	<b>310,294</b>
Equity (incl AT1 capital)	70,955	65,482
AT1/hybrid capital	(5,409)	(3,774)
CET1 capital additions/deductions	36	(1,436)
<b>Common Equity Tier 1 (CET1) capital</b>	<b>65,582</b>	<b>60,272</b>
AT1/hybrid capital	2,546	1,188
AT1/hybrid capital deductions	(91)	(343)
<b>Tier 1 capital</b>	<b>68,037</b>	<b>61,117</b>
Tier 2 capital	8,510	3,616
Tier 2 capital additions/deductions	(40)	(335)
<b>Own funds</b>	<b>76,507</b>	<b>64,398</b>
CET1 capital ratio, %	18.8	19.4
Tier 1 capital ratio, %	19.5	19.6
Total capital ratio, %	21.9	20.7

Own funds and capital adequacy are specified further in note 2 of the Financial Statements.

<sup>1</sup> Capital and capital adequacy have been determined in accordance with Capital Requirements Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 as well as the Danish transitional rules laid down by the Danish FSA. Total REA subject to transitional rules was DKK 604bn at end-2016, equal to a minimum total capital ratio of 13.8%.

The determination includes a deduction of DKK 287m, cf the mention in note 2 of the Financial Statements.

<b>Nykredit Holding Group</b>		
<b>Required own funds and internal capital adequacy requirement</b>		
DKK million	2016	2015
Credit risk	24,260	20,999
Market risk	2,035	2,346
Operational risk	1,574	1,479
<b>Total Pillar I</b>	<b>27,869</b>	<b>24,824</b>
Slightly weaker economic climate (stress tests, etc)	2,773	3,731
Other risks	2,551	5,243
Model and calculation uncertainties	2,495	2,852
<b>Total Pillar II</b>	<b>7,819</b>	<b>11,826</b>
<b>Total required own funds</b>	<b>35,688</b>	<b>36,650</b>
Internal capital adequacy requirement (Pillar I and Pillar II),%	10.2	11.8

## EQUITY AND OWN FUNDS

### Equity

Equity was DKK 71.0bn at end-2016, up DKK 5.5bn on the beginning of the year. The increase in equity was mainly attributable to profit for the year of DKK 5.3bn.

Equity carried for accounting purposes includes Additional Tier 1 (AT1) capital of EUR 500m (DKK 3.8bn). For capital adequacy purposes, AT1 capital is included in Tier 1 capital rather than in Common Equity Tier 1 (CET1) capital.

### Capital, risk exposure and capital adequacy

Nykredit's own funds include CET1 capital, AT1 capital and Tier 2 capital after deductions.

Tier 1 capital consists mainly of CET1 capital. Tier 1 capital totalled DKK 68.0bn, CET1 capital totalled DKK 65.6bn, and AT1 capital totalled DKK 2.5bn. CET1 capital is the most important capital concept as this is the type of capital required to comply with most of the regulatory capital requirements.

In the Group's capital determination, a deduction has been made for parts of Totalcredit's non-distributable reserve fund. The deduction is based on the assessment of the Danish FSA that the non-distributable reserve fund cannot be recognised fully according to a decision made by the Danish FSA concerning the non-distributable reserve fund of another financial undertaking. Nykredit does not concur with the assessment of the Danish FSA and expects to discuss the issue with the FSA from a legal perspective in spring 2017 with a view to reaching a formal decision concerning the treatment of Totalcredit's non-distributable reserve fund for capital adequacy purposes.

At end-2016, Nykredit's risk exposure amount (REA) totalled DKK 348bn. With own funds at DKK 76.5bn, this corresponds to a total capital ratio of 21.9% against 20.7% at end-2015. The CET1 capital ratio was 18.8% against 19.4% at end-2015.

Nykredit's REA has increased from DKK 310bn to DKK 348bn since end-2015 owing to a combination of a general decline in credit risk, mainly due to increasing property prices and thus lower LTVs, and reduced market risk. At the same time, REA has increased by about DKK 52bn as a result of a number of changes to Nykredit's models which the Danish FSA approved for implementation in Q3/2016, cf below.

Reference is made to note 2 of the Financial Statements for more details on Nykredit's capital and capital adequacy.

### Required own funds and internal capital adequacy requirement

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

The determination of the required own funds takes into account the business objectives by allocating capital for all relevant risks, including any model uncertainties.

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

### **Pillar I**

Pillar I capital, covering credit, market and operational risks, was determined at DKK 27.9bn at end-2016.

### **Pillar II**

Pillar II capital covers other risks as well as an increased capital requirement during a slight economic downturn. The Pillar II capital requirement was determined at DKK 7.8bn at end-2016 against DKK 11.8bn at end-2015. The Pillar II addition has declined due to the implementation of new credit risk models transferring the risk from Pillar II to Pillar I, and due to a lower countercyclical charge resulting from new stress test models.

Nykredit applies model-based stress tests and capital projections to determine the required own funds. Reference is made to note 2 for a more detailed description of Nykredit's stress tests.

The determination of other factors in Pillar II includes assessments of reputation risk, control risk, strategic risk, external risk, concentration risk, validation and backtest results, interest rate risk on swaps and Credit Valuation Adjustments (CVA) etc.

Under Pillar II, a general capital charge or uncertainty buffer has been provided for uncertainties related to the models that Nykredit applies for calculating capital requirements. The uncertainty buffer amounts to 5% for Nykredit Bank, 7.5% for Nykredit Realkredit and the Nykredit Realkredit Group and 10% for Totalkredit, reflecting the continuous development of the different models. The buffer is calculated on the basis of the sum of all risks.

At end-2016, Nykredit's required own funds came to DKK 35.7bn. The internal capital adequacy requirement, calculated as the required own funds as a percentage of REA, amounted to 10.2%.

As a systemically important financial institution (SIFI), Nykredit is subject to a special SIFI buffer requirement to be met with CET1 capital. The requirement of 2% will be phased in gradually from 2015 to 2019. In 2016, the SIFI buffer requirement was 0.8%.

A capital conservation buffer, applicable to all financial institutions, will be phased in from 2016. This buffer will increase the statutory CET1 capital requirement. It will be phased in by about 0.6 percentage point per year and will be fully phased in by 2019.

Nykredit's capital policy, which is described in detail under "Capital targets 2019" below, allows for the capital requirement on a fully loaded basis.

### **Capital targets 2019**

The Board of Directors of the Nykredit Realkredit Group has set a CET1 capital ratio target of 17.5% for 2019. The capital policy is reviewed annually.

The Board's decision is based on the following:

- In 2019 the statutory requirement for the Nykredit Realkredit Group's CET1 capital ratio will be around 13% of the current REA assuming a Pillar II capital requirement of 2-3%, and depending on the economic climate, including whether the countercyclical capital buffer is activated or not. To this should be added requirements resulting from the stress test exercises of the European Banking Authority (EBA) and the Danish FSA.
- The capital level must be market-consistent, corresponding to the levels of other large Nordic financial issuers. Nykredit must hold sufficient capital to ensure ratings with the credit rating agencies that are compatible with the Group's strategy.
- In addition to this, especially three Nykredit characteristics must be allowed for in terms of capital. They are:
  - Nykredit is currently not listed and therefore has more restricted access to capital markets than listed companies
  - Nykredit is one of the largest private bond issuers in Europe
  - Nykredit has a sizeable mortgage loan portfolio. The mortgage loans typically have long loan terms and are non-callable by Nykredit.

Nykredit's total REA amounted to DKK 348bn at end-2016. The greater part of REA is made up of credit risk exposures.

In Q3/2016 the Group's REA changed in two material respects. Firstly, the Danish FSA approved the last part of the Group's advanced IRB models as well as new rating models for the business and agricultural segments etc. All in all, the IRB approach still results in a reduction of REA compared with the standardised approach. However, viewed separately the change in Q3 resulted in a DKK 35bn increase in REA, of which 70% concerned the Group mortgage lenders and 30% Nykredit Bank.

Also in Q3/2016, the notional maturity of business exposures of Nykredit Bank was changed from previously 2.5 years to their actual maturity, subject to a cap of 5 years. The change was made following talks with the Danish FSA. This caused a partial rise in REA of DKK 17bn.

In light of the latest model changes and the expected future regulatory requirements, the capital structure and capital levels in both Nykredit Bank and Totalkredit were adjusted in 2016. Nykredit Bank has raised a DKK 2bn Tier 2 capital loan with Nykredit Realkredit A/S in order to ensure an adequate buffer to comply with the regulatory requirements and to meet the capital targets of the Board of Directors when the

SIFI buffer requirement increases in 2017. Totalkredit has raised DKK 4bn of AT1 capital with Nykredit Realkredit A/S primarily with a view to meeting a future leverage ratio requirement of 3% at a comfortable margin.

Nykredit has some sensitivities as regards its capital and risk exposures. Nykredit's capital and REA are affected first of all by current operating results, including loan impairments, investment portfolio income and value adjustment of swaps.

In addition to this, REA is affected by developments in the general economic conditions and in property prices and interest rates. Viewed separately, a 5% change in property prices will impact REA by around DKK 15bn.

Finally, Nykredit's capital and REA are being affected by changes in regulation and supervisory practices these years.

For example, the international financial reporting standard IFRS 9 will be implemented from 1 January 2018, which is expected to increase the Group's total impairment provisions by about DKK 1.0bn-1.5bn, including the tax effect. This will reduce Nykredit's CET1 capital. The work of analysing the impact of IFRS 9 and adjusting Nykredit's models is still ongoing, and the estimate is therefore subject to high uncertainty.

At EU level, a proposal was submitted in November 2016 for revision of the regulatory capital requirements framework, which is expected to increase REA for market risk significantly, cf below. The Basel Committee is also discussing significant changes to the capital requirements framework, which must be expected to impact particularly all types of mortgage loans as well as market risk, cf also below. Lastly, there is an ongoing process, at national and EU levels, to harmonise the capital requirements for credit institutions.

Further, the Danish FSA and the European Banking Authority (EBA) are regularly conducting stress tests of credit institutions, cf the EBA's EU-wide stress test results of July 2016.

Owing to these factors, REA is changing continually, which is one of the reasons why Nykredit's Board of Directors decided to prepare Nykredit for listing on the stock exchange in order to ensure greater capital flexibility.

### **Risk of increased capital requirements**

There is a risk that the capital requirements will be tightened further in the coming years.

Thus, the Basel Committee is working on a proposal to be launched at the beginning of 2017 containing a number of changes to and restrictions on the calculation of risk exposures for banks and mortgage lenders using internal models.

The most important change is a possible proposal by the Basel Committee to introduce a new so-called capital floor requirement for credit institutions using internal models, implying that the institutions may become subject to a minimum capital requirement across risk types (credit, market

and operational risk) that makes up a proportion of the capital requirement calculated using the standardised approach.

The Basel Committee is contemplating a capital floor at 70% of the standardised approach, which will increase Nykredit's REA markedly compared with today.

The capital floor requirement may impact all Danish mortgage banks as they have a very low risk of loss. It may therefore result in significant increases in the capital requirement for mortgage loans in general, and for private residential mortgage loans with LTVs of 55-60% in particular.

The Basel Committee is also contemplating to propose the introduction of floors to the parameters used in the internal models for credit risk (PD and LGD) and to restrict the application of advanced internal models. However, if a general capital floor requirement is introduced, cf above, these model restrictions will have no immediate impact on Nykredit.

Moreover, on 23 November 2016 the European Commission proposed revisions to the EU's capital requirements framework, including the introduction of a leverage ratio in the EU and changes to the rules for calculating the capital requirements for market risk. Both measures have previously been recommended by the Basel Committee.

The possible changes in the rules for market risk may result in higher capital requirements and may also have a negative impact on covered bond markets, as it may become significantly more expensive for banks and mortgage lenders to trade in covered bonds. This may result in lower prices and higher residential mortgage rates.

Based on our current knowledge of the Basel Committee's discussions and the proposal for revision of the EU Capital Requirements Regulation, the increased capital requirements may potentially add an estimated DKK 15bn to Nykredit's CET1 capital requirement under the current capital policy, including the CET1 capital ratio target of 17.5% of REA.

Nykredit's total capital requirement will ultimately depend on the wording of the Basel standards, their implementation in the EU, and the new market and rating standards for large Nordic financial issuers.

In this connection it is important to bear in mind that markets will often expect the large established institutions to adapt to new legislation relatively fast, even if legislation prescribes a longer formal phase-in period of the requirements. In that case, having capital levels that differ significantly from those of other large Nordic institutions would not be a tenable situation for Nykredit. Nykredit must therefore be able to meet potentially stricter capital requirements faster than actually prescribed by the legislation. This is emphasised by the fact that, being the largest private issuer of covered bonds in Europe, Nykredit relies on being able to sell bonds at competitive prices, which makes it imperative that Nykredit's capital position can never be called into question.

Nykredit is working to preserve the existing principle of basing capital requirements on the observed risk of loss and thus the proven resilience of the Danish mortgage system.

## FUNDING

Nykredit's mortgage lending is funded through the issuance of covered bonds (SDOs and ROs). Bank lending is chiefly funded by deposits.

Nykredit's liquid assets mainly consist of highly liquid bonds, which are funded by deposits, senior secured debt, bail-inable senior debt (senior resolution notes), senior unsecured debt, subordinated debt and equity.

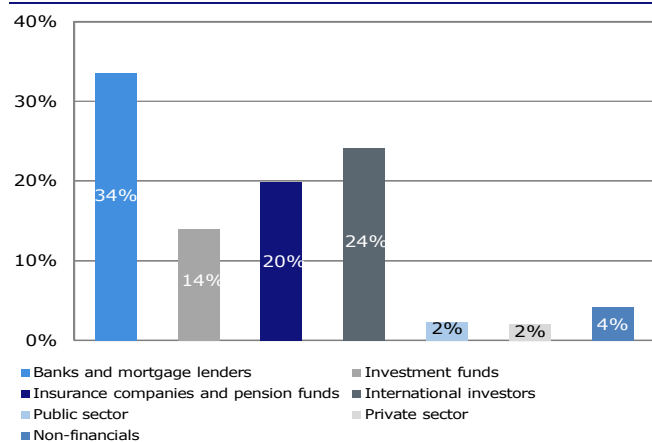
### Mortgage funding through covered bonds

Most of Nykredit's assets consist of lending secured by mortgages on real estate. These loans are funded through issuance of mortgage covered bonds (SDOs and ROs). Mortgage covered bonds are issued by way of daily tap issuance coupled with refinancing auctions for ARMs and floating-rate loans, etc.

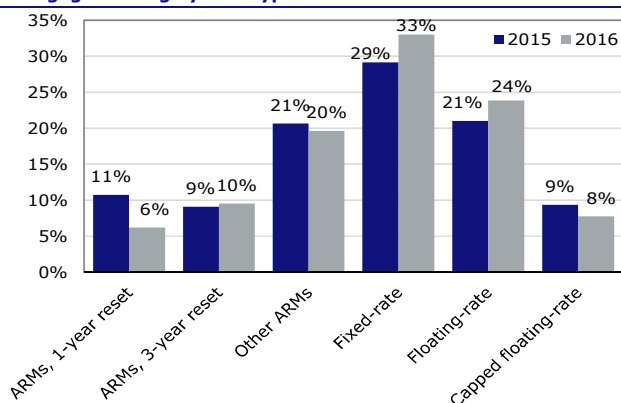
Funding of loans by covered bonds is subject to the following legal requirements:

- At the time of granting, a mortgage loan must not exceed a certain proportion of the value of the mortgaged property (LTV ratio).
- Subsequently, 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.
- If current LTV ratios exceed the statutory LTV limits, mortgage lenders must provide supplementary collateral for each loan secured by mortgage over real estate funded by SDOs. Nykredit funds part of the supplementary collateral by issuing different kinds of senior debt.

### Nykredit Realkredit Group Covered bond investor base



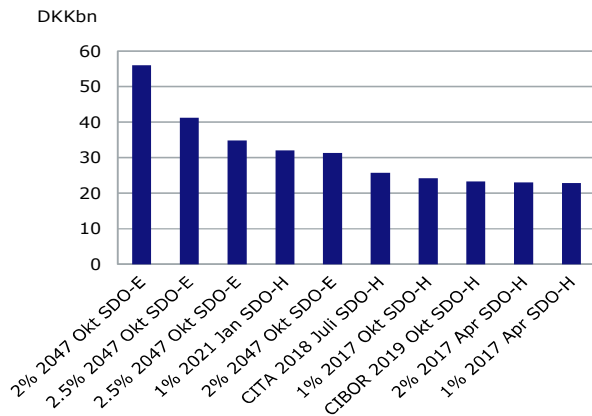
### Nykredit Realkredit Group Mortgage lending by loan type



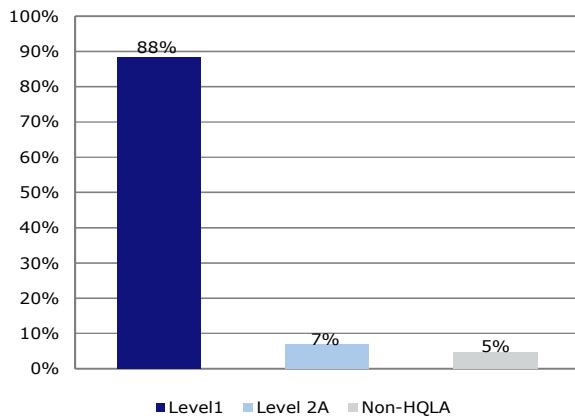
### Supervisory Diamond for mortgage lenders

Benchmark	Definition	Effective	Nykredit
Lending growth	Annual lending growth may not exceed 15% in each of the segments personal customers, commercial residential property, agriculture and other commercial.	2018	In recent years, Nykredit's lending growth has been below the benchmark.
Borrower's interest rate risk	The proportion of lending where the LTV ratio exceeds 75% of the LTV limit and where the loan rate is fixed for up to 2 years only may not exceed 25% of the total loan portfolio.	2018	Nykredit already meets the benchmark limits.
Interest-only (IO) loans to personal customers	The proportion of IO loans for owner-occupied and holiday housing with an LTV above 75% of the statutory LTV limit may not exceed 10% of total loans and advances.	2020	Nykredit focuses on reducing the proportion of IO loans with high LTV ratios. The realignment towards 2020 is thus well under way, and the limit value of maximum 10% is expected to be met before 2020.
Limitation of short-term funding (years)	The proportion of loans to be refinanced must be below 25% per year.	2020	In the wake of the substantial refinancing activity in 2015, the portfolio of loans with short-term funding has been reduced significantly.
Limitation of short-term funding (quarter)	The proportion of loans to be refinanced must be below 12.5% per quarter.	2020	
Large exposures as a % of equity	Sum of the 20 largest exposures must be less than equity.	2018	Nykredit already meets the benchmark limits.

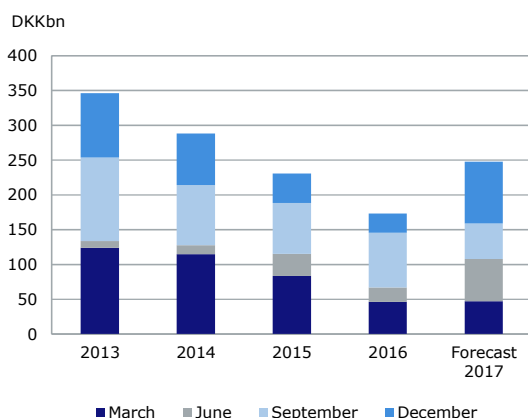
**Nykredit Realkredit Group**  
**Nykredit's largest series on Nasdaq Copenhagen, 14 Jan 2017**



**Nykredit Realkredit Group**  
**LCR of open covered bond series**



**Nykredit Realkredit Group**  
**Covered bond refinancing auctions**



**Covered bond market**

Nykredit is one of the largest private bond issuers in Europe, and the Group's issues chiefly consist of covered bonds. At end-2016, the Group had a nominal amount of DKK 1.013bn of SDOs in issue and DKK 203bn of ROs in issue.

Nykredit's investors mainly comprise Danish banks, mortgage lenders and investment funds, which hold a total of 48%, and insurance companies and pension funds, which hold 20%. Callable fixed-rate covered bonds offer a relatively high yield by international standards, which has led to higher demand from foreign investors. Foreign ownership amounts to 24%. Part of these investors are based in Denmark, but have asset managers domiciled abroad.

The higher savings ratio in Denmark means that secure assets are in keen demand from domestic investors. This demand has a stabilising effect on the covered bond market in times of turmoil in international financial markets.

In 2016 Nykredit issued bonds worth a total of DKK 380bn, of which daily tap issues amounted to DKK 186bn, while bonds issued for the purpose of refinancing auctions amounted to DKK 194bn.

**Changes to funding structure**

As a consequence of the new rating agency and regulatory requirements, including the FSA Supervisory Diamond, Nykredit launched initiatives in late 2014 to reduce the proportion of short-dated funding.

This has led to a new price structure that boosts borrowers' incentives to choose repayment mortgages and longer refinancing intervals.

The low interest rate level also encouraged many customers to switch to fixed-rate loans.

The period since 2014 has seen extensive refinancing of ARMs with 1-year interest reset into loan types with longer reset periods, mainly F-kort, Cibor and fixed-rate loans. This trend continued in 2016.

The proportion of ARMs with 1-year interest reset has been reduced by DKK 51bn, equivalent to a reduction from 11% to 6% of total lending.

The reduction of loans subject to frequent refinancing has contributed to a marked improvement of Nykredit's liquidity and funding ratios.

S&P's stable funding ratio improved from 85.4% to 88.9%. S&P's Broad Liquid Assets/Short-Term Wholesale Funding (BLAST) improved from 0.49 to 0.59.

The reduction of loans with frequent refinancing also improved the FSA Supervisory Diamond benchmark limit for short-term funding.

Nykredit complies with all Supervisory Diamond benchmark limits as at 31 December 2016 except for the interest-only loans benchmark limit. The proportion of interest-only personal loans has been declining steadily over the period in which Nykredit has monitored this benchmark.

Nykredit expects to stay within all the benchmark limits of the FSA Supervisory Diamond when they enter into force in 2018 and 2020.

The reduction of loan volumes with frequent refinancing has equally reduced the risk related to refinancing auctions.

### **Benchmark bond series**

Nykredit strives to build large, liquid benchmark bond series to obtain an effective pricing of its bonds. Nykredit Realkredit and Totalkredit's joint bond issuance contributes to creating large volumes and deep liquidity in the Group's key bond series. Liquidity is further underpinned by Nykredit's large market share. In 2016 Nykredit concluded primary dealer agreements with a number of securities brokers. The agreements are intended to:

- Underpin liquidity in the primary and secondary markets for Nykredit's bonds.
- Minimise the price fluctuations in Nykredit's bonds.
- Ensure that the participants have a consistent representation in the market for Nykredit's bonds.
- Ensure an efficient pricing of the bonds.

With the introduction of the LCR (Liquidity Coverage Ratio), banks increasingly prefer bonds with outstanding amounts of more than EUR 500m and high ratings. As much as 88% of the outstanding amounts in Nykredit's active bond series is today classified in the top LCR category, while 7% is in the second-best category.

Nykredit strives to have a product range that best suits our customers' needs and investors' increased preference for very liquid bond series.

In 2016 Nykredit has announced a number of initiatives to improve the liquidity of bond series. It has been decided that the refinancing of ARMs on 1 April and 1 October will be gradually phased out as the loans are refinanced. The adjustment will take place over a number of years to ensure an even distribution of refinancing volumes. In the longer term, the plan is to refinance ARMs on 1 January and 1 July. The Nykredit Group will continue the refinancing on 1 April and 1 October of other products, such as F-kort, which serves to deconcentrate the aggregate amount of bonds maturing on the individual payment dates.

### **Negative interest rates**

Denmark still has negative interest rates. Nykredit has adjusted its bond set-up so that negative interest is offset against redemptions for investors, and mortgage borrowers are compensated for the negative interest by way of an increased principal payment on the loan.

Bullet covered bonds are traded at a premium resulting in a negative yield-to-maturity for borrowers and investors.

Nykredit's mortgage loan margin is a margin that is added to the funding rate. Nykredit's margin is therefore not affected by the interest rate levels.

### **Refinancing risk**

Nykredit holds refinancing auctions four times a year. That way, auction volumes are deconcentrated, and the refinancing risk is reduced.

The chart with SDO and RO refinancing volumes on the preceding page shows that the volumes have reduced since 2013. The refinancing volumes at the auctions in June and December 2017 are expected to rise as a large amount of floating-rate bonds issued around 2007 are up for refinancing. Based on experience from 2015 and 2016, a large part of these loans will be prepaid and refinanced into other types of loan.

The new Act on refinancing risk introduced rules for the issuance of bonds to refinance mortgage loans where the term of the loan exceeds the maturity of the underlying bonds. The Act has introduced mandatory maturity extension of bonds in the following situations:

*Auction trigger:* Auction or similar sale cannot be completed.

*Interest rate trigger:* The yield-to-maturity rises by more than 5 percentage points at an auction of bonds with maturities of 0-2 years.

### **Subordinated debt**

Nykredit Realkredit did not issue any subordinated debt in 2016.

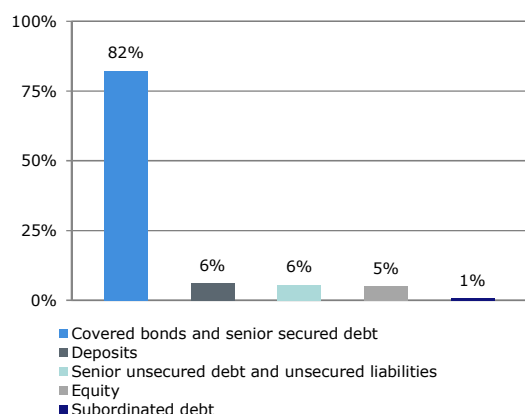
In 2016, Nykredit provided intercompany loans in the form of DKK 4bn of AT1 capital to Totalkredit A/S and DKK 2bn of Tier 2 capital to Nykredit Bank A/S.

### **Bail-inable senior debt**

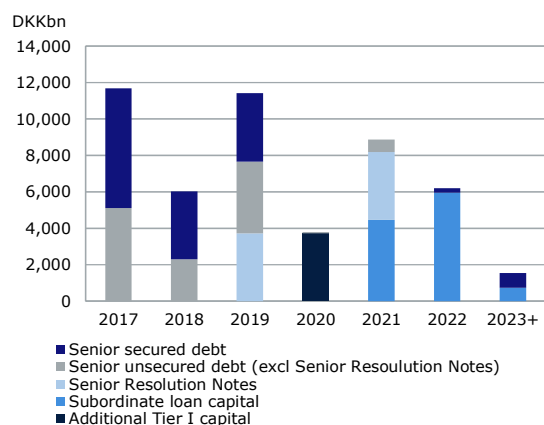
In 2016 Nykredit Realkredit was the first financial business in Europe to issue so-called senior resolution notes (SRN) – a special form of bail-inable senior debt.



**Nykredit Realkredit Group**  
**Funding structure**



**Nykredit Realkredit Group**  
**Maturity profile of capital market funding**



**Nykredit Realkredit Group**  
**Supplementary collateral requirement (Capital Centres E and H)**

DKK billion	2016	2015
Current supplementary collateral requirement	26.3	31.9
Supplementary collateral requirement at 10% fall in property prices	30.3	36.6
Assets serving as supplementary collateral in SDO capital centres	38.4	38.1
- of which funded by senior secured debt <sup>1</sup>	14.1	20.4

<sup>1</sup> Excluding Nykredit Realkredit A/S's portfolio of senior secured debt.

Nykredit has indicated that the Group will meet the additional loss-absorbing capacity (ALAC) criteria of S&P Global Ratings in order to maintain its long-term rating of A. The implication is that Nykredit must raise further bail-inable senior debt or other subordinated capital.

At end-2016 DKK 7.4bn worth of SRN had been issued.

**Senior secured and senior unsecured debt**

Nykredit Realkredit did not issue any senior secured or senior unsecured debt in 2016.

As part of its liquidity management, Nykredit Bank has regularly issued senior unsecured debt in the form of EMTN and ECP issues. The Bank's medium-term bonds in issue under the EMTN programme totalled DKK 6.9bn, and its short-term ECP issues amounted to DKK 3.1bn as at 31 December 2016.

**Supplementary collateral**

It is Nykredit's policy to have a sizeable collateral buffer in case of declining property prices. Owing to this buffer, no further supplementary collateral is required in case of a general property price fall of up to 5%. Nykredit regularly conducts a number of stress tests to assess the sensitivity of the supplementary collateral requirement to declining property prices etc.

Nykredit Realkredit and Totalkredit may apply their liquid assets to fulfil the supplementary collateral requirement. In addition, the companies may provide supplementary collateral by issuing different types of senior debt and placing the proceeds in liquid assets in SDO Capital Centres E and H.

The supplementary collateral requirement was DKK 26.3bn at end-2016. If property prices were to decline by 10%, the requirement would rise to a total of DKK 30.3bn. The requirement for supplementary collateral should be seen in the context of the Group mortgage banks' liquid assets totalling DKK 93bn.

**Funding of bank lending**

Nykredit Bank's deposits exceeded loans by DKK 10.4bn as at 31 December 2016 compared with DKK 15.9bn at end-2015.

**Issuance schedule for 2017**

Nykredit Realkredit will continue to issue covered bonds on tap and at refinancing auctions. Nykredit expects to refinance bonds worth DKK 47bn and DKK 61bn at the auctions in March and June 2017, and DKK 51bn and DKK 89bn at the auctions in September and December.

Because of the low interest rate levels, borrowers increasingly refinance into bonds with maturities from 5 to 30 years. This has reduced the refinancing volumes. Nykredit expects this trend to continue.

Nykredit must meet the debt buffer requirements towards 2020, amounting to at least 2% of total mortgage lending when fully phased in. In light of the debt buffer requirement and the ALAC criteria of S&P Global Ratings, Nykredit expects to issue another DKK 5bn-10bn of SRN in 2017. Going forward, SRN will replace most of the issuance of senior secured and senior unsecured debt.

Altogether this will result in a new funding structure that offers better protection for ordinary senior creditors.

On the back of rising house prices, which reduce the requirement for supplementary collateral, and the expected issuance schedule, Nykredit Realkredit does not expect to issue senior secured or unsecured debt in 2017.

Total run-off under Nykredit Bank's EMTN programme in 2017 will be DKK 4.5bn. The total EMTN and ECP issuance requirement depends on customer deposit and lending levels as well as the Bank's other business activities.

## **CREDIT RATINGS**

Nykredit Realkredit and Nykredit Bank have retained the services of the international credit rating agencies S&P Global Ratings (S&P) and Fitch Ratings regarding the credit rating of the companies and their funding.

### **S&P Global Ratings**

Nykredit Realkredit A/S and Nykredit Bank A/S each have a long-term rating of A and a short-term rating of A-1 with S&P. The rating outlook is stable.

Senior secured debt is rated AA- by S&P. The rating outlook is stable.

SDOs and ROs issued by Nykredit Realkredit and Totalkredit through rated capital centres are all rated AAA by S&P, which is the highest possible rating. The rating outlook is stable.

S&P announced in July 2016 that they had revised the rating outlook on Nykredit Realkredit A/S and Nykredit Bank A/S and on senior secured debt from negative to stable.

### **Fitch Ratings**

Nykredit Realkredit A/S and Nykredit Bank A/S each have a long-term rating of A and a short-term rating of F1 with Fitch Ratings. The rating outlook is stable.

### **Moody's Investors Service**

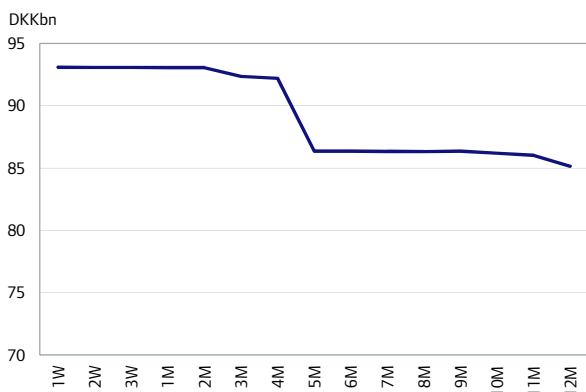
Moody's Investors Service continues to publish unsolicited ratings for some companies of the Nykredit Group.

### **Listing of ratings**

A table listing Nykredit's credit ratings with S&P and Fitch Ratings is available at [nykredit.com/ir](http://nykredit.com/ir) as well as in the publication Risk and Capital Management 2016 at [nykredit.com/reports](http://nykredit.com/reports).

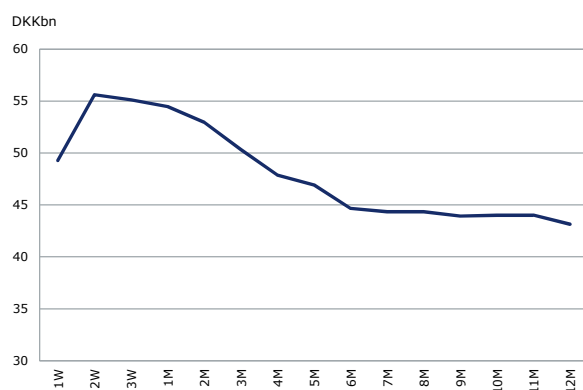
## Mortgage lending

### Liquidity stress testing (internal models)



## Banking

### Liquidity stress testing (internal models)



## Nykredit Realkredit Group

### Difference between mortgage lending and bonds in issue at year-end

DKK billion	2016	2015
Mortgage loans – nominal value, cf note 17a	1,107	1,114
Bonds in issue – nominal value, cf notes 30a and 30b	1,216	1,212
<b>Difference</b>	<b>109</b>	<b>98</b>
The difference comprises:		
- Bonds sold in connection with refinancing of ARMs <sup>1</sup>	31	32
- Ordinary principal payments and prepayments <sup>2</sup>	72	63
Issued bonds in respect of which the underlying loans have not been disbursed, including pre-issuance	5	3
<b>Total</b>	<b>109</b>	<b>98</b>

<sup>1</sup> Nykredit issues and auctions new bonds one month prior to the maturity of the existing bonds. The proceeds are used to buy back/redeem the bonds maturing on 2 January. For a period there is a double set of bonds of which Nykredit generally owns up to half.

<sup>2</sup> The loan portfolio is reduced by ordinary principal payments and prepayments, while the outstanding amount of bonds will be reduced on the next payment date, 2 January, and on subsequent payment dates in accordance with the terms of prepayment. Nykredit will generally place the proceeds in bonds maturing on one of the next payment dates.

## LIQUIDITY

Nykredit's liquid assets are mainly liquid Danish and other European government and covered bonds. These securities are eligible as collateral in the repo market and with central banks and are thus directly applicable for raising liquidity.

The unencumbered proportion of the liquid assets of the Group's mortgage banks, including proceeds from issued senior debt, totalled DKK 93bn at end-2016 against DKK 90bn at end-2015.

In June 2016, the Danish FSA introduced an additional liquidity requirement for Danish SIFIs. Danish SIFIs must fulfil the Liquidity Coverage Ratio (LCR) requirement not only in DKK but also in significant currencies except for SEK and NOK. The requirement will be phased in up to October 2017 and only concerns EUR in Nykredit's case.

Nykredit has been granted an exemption from including some of the mortgage-related cash flows in the determination of the LCR, and the Danish FSA has set a minimum liquidity requirement. In practice, the requirement means that Nykredit must hold a stock of liquid assets of DKK 28.1bn corresponding to at least 2.5% of total mortgage lending. The stock of liquid assets eligible to meet the minimum liquidity requirement amounted to DKK 55.8bn at end-2016.

At end-2016, the Nykredit Realkredit Group's LCR was 321%. The aggregate LCR of Nykredit's mortgage banks was 1,052%, while Nykredit Bank's LCR was 153%. At end-2016, the Nykredit Realkredit Group's LCR in EUR was 542%.

At end-2016, Nykredit Bank's excess liquidity coverage totalled DKK 18.5bn. The Bank's stock of liquid assets was DKK 53.5bn against DKK 39.3bn at end-2015 determined under the LCR.

## Bond portfolio

The gross bond portfolio of DKK 212bn comprises mortgage bank reserves, Nykredit Bank's liquid assets, portfolios relating to market making in the mortgage lending and banking areas, proceeds from the issuance of senior secured and unsecured debt as well as DKK 14bn of encumbered assets.

In compliance with the mortgage banking balance principle, part of Nykredit's bond portfolio includes a temporary portfolio of DKK 61bn relating to the refinancing of the covered bullet bonds used to fund Nykredit's ARMs and placement of funds prepaid such as ordinary principal payments, prepayments and funds from mortgage loans not yet paid out. The portfolio of self-issued bonds held in accordance with the balance principle chiefly comprises short-term bonds maturing on the next payment date. The portfolio is used to secure payment in connection with bond redemption.

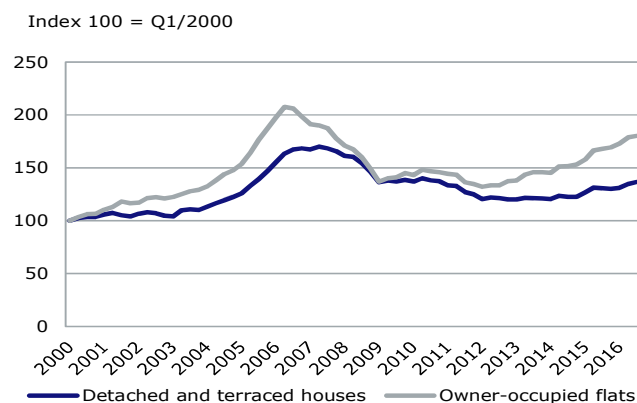
In the period preceding a payment date, the value of bonds in issue exceeds the value of the mortgage loan portfolio. The main reason is refinancing, as the new bonds are issued and sold at the auctions approximately one month prior to

the relevant payment date, whereas the existing bonds do not mature until the same payment date.

Self-issued bonds accounted for DKK 48bn of the liquidity reserves and DKK 50bn of liquid assets held under the balance principle.

# LENDING

## Housing prices in Denmark – inflation-adjusted



The Group recorded total mortgage and bank lending, excluding reverse repurchase lending, of DKK 1,162bn against DKK 1,161bn at the beginning of the year.

Mortgage lending at fair value was DKK 1,125bn, up DKK 5.6bn on the beginning of the year. Nominal mortgage lending amounted to DKK 1,107bn. Nykredit's share of total mortgage lending was 40.6% against 41.3% at the beginning of the year. The market share was 44.5% in the owner occupier mortgage lending segment and 35.2% in the business segment against 45.2% and 36.1%, respectively, at the beginning of the year.

Bank lending totalled DKK 55.0bn against DKK 46.7bn at the beginning of the year, up DKK 8.3bn. Reverse repurchase lending amounted to DKK 30.1bn against DKK 39.5bn at the beginning of the year.

Impairment provisions for mortgage and bank lending totalled DKK 8.3bn against DKK 8.5bn at the beginning of the year. Further, the Group had made impairment provisions for receivables from credit institutions of DKK 44m at end-2016.

Guarantees provided by Nykredit amounted to DKK 6.7bn at end-2016 against DKK 6.9bn at the beginning of the year.

### Nykredit Realkredit Group

#### Loans, advances, guarantees and impairment losses on loans and advances

DKK million	Loans, advances and guarantees		Total provisions for loan impairment and guarantees		Impairment losses on loans and advances, earnings impact	
	2016	2015	2016	2015	2016	2015
<b>Mortgage lending, nominal value</b>						
Nykredit Realkredit	516,176	543,518	4,620	4,351	770	586
Totalkredit	590,959	570,806	1,130	1,343	51	455
<b>Total</b>	<b>1,107,135</b>	<b>1,114,324</b>	<b>5,751</b>	<b>5,694</b>	<b>821</b>	<b>1,041</b>
<b>Bank lending</b>						
Nykredit Bank	55,003	46,747	2,538	2,852	(93)	(114)
<b>Total</b>	<b>55,003</b>	<b>46,747</b>	<b>2,538</b>	<b>2,852</b>	<b>(93)</b>	<b>(114)</b>
Receivables from credit institutions	-	-	44	44	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>44</b>	<b>44</b>	<b>-</b>	<b>-</b>
Reverse repurchase lending	30,091	39,467	-	-	-	-
Guarantees	6,694	6,942	52	100	(48)	(7)
Loan impairment, % <sup>1</sup>						
Nykredit Realkredit	-	-	0.89	0.80	0.15	0.11
Totalkredit	-	-	0.19	0.24	0.01	0.08
<b>Total</b>	<b>-</b>	<b>-</b>	<b>0.52</b>	<b>0.51</b>	<b>0.07</b>	<b>0.09</b>
Nykredit Bank	-	-	4.41	5.75	(0.16)	(0.23)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>4.41</b>	<b>5.75</b>	<b>(0.16)</b>	<b>(0.23)</b>

<sup>1</sup> Loan impairment excluding receivables from credit institutions, reverse repurchase lending and guarantees.

Note: Nominal mortgage lending, adjusted for intercompany lending and intercompany set-off.

Impairment provisions for mortgage and bank lending totalled DKK 728m against DKK 927m in 2015.

Incurred losses totalled DKK 1,283m in 2016, with DKK 969m on mortgage lending and DKK 314m on bank lending.

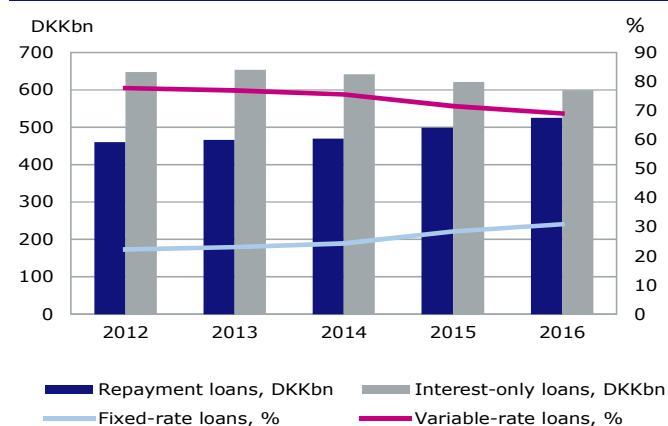
## MORTGAGE LENDING

### Loan portfolio

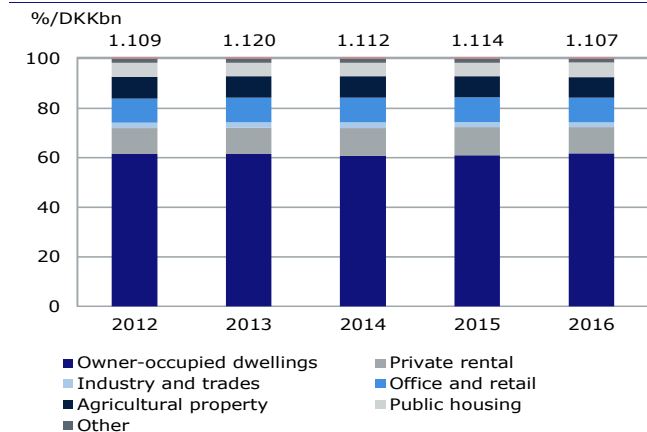
Nykredit's credit exposure in terms of nominal mortgage lending went down by DKK 7.2bn to DKK 1,107bn at end-2016. Of the decline, private residential rental lending amounted to DKK 8.1bn, corresponding to a drop in private rental lending of 6.9%, while owner occupier mortgage lending and public housing rose by DKK 3.3bn and DKK 3.4bn. Lending in Germany was reduced by DKK 4.3bn.

Nominal lending by property category was relatively unchanged. Owner occupier mortgage lending accounted for 61.8% and remained the largest segment. Lending for private rental, agricultural, and office and retail properties represented 10.6%, 8.4% and 9.9%, respectively.

**Nykredit Realkredit Group**  
Mortgage lending by loan type



**Nykredit Realkredit Group**  
Mortgage lending by property type



The remaining proportion, 9.3%, related to the property categories industry and trades, public housing, cooperative housing and other.

Geographically, 58.9% of lending was in Jutland. The Copenhagen area represented 24.1% of the loan portfolio, and the rest of Sealand represented 12.2%. The international share of the loan portfolio was unchanged at 4.8% at end-2016.

### Lending by loan type

In 2016 Nykredit registered a relatively heavy decline in the proportion of loans with an interest-only period (IO). IO loans represented 51.1% against 53.3% at the beginning of the year, while repayment loans rose from 46.7% to 48.9%.

The proportion of IO loans remains high, partly because two-tier lending for any one property consists of two loan types. The base loan (0-60% of the property value) mainly consists of an IO loan, whereas the top part is a repayment loan.

The proportion of adjustable-rate mortgage loans (ARMs) with 1-year interest reset almost halved in the course of 2016 and demand was very limited at end-2016. The proportion of ARMs with 1-year interest reset fell by DKK 53.3bn, corresponding to a 43.4% drop relative to the beginning of the year. Nykredit aims to reduce the amount of ARMs with 1-year interest reset significantly over a number of years. Conversely, other ARM types increased by DKK 16bn, or 5.1%. Fixed-rate callable loan volumes rose by DKK 25bn, or 11.4%, relative to the beginning of the year. Money market-linked loans rose by 4.0%, whereas index-linked loans fell by 3.1% relative to the beginning of the year.

### Security

The main type of security provided for loans is mortgages on real estate. The security provided is assessed regularly relative to the current market value of a property, reflected by the LTV ratios.

In addition to mortgages on real estate, Nykredit accepts guarantees issued by public authorities or banks. Guarantees issued by public authorities contribute to reducing the credit risk of mainly mortgage loans for subsidised housing. The guarantor assumes primary liability in respect of such guarantees. Mortgage lending guaranteed by public authorities amounted to DKK 56bn at end-2016.

The bank guarantees comprise guarantees for the registration of mortgages free from any adverse endorsements barring registration, guarantees for interim loans in connection with new building and loss guarantees. Mortgage lending guaranteed by banks amounted to DKK 219bn.

Furthermore, mortgage loans granted via Totalkredit are covered by set-off agreements with the partner banks arranging Totalkredit loans. Under these agreements, Totalkredit may set off part of losses incurred on mortgage lending against future commission payments to these partner banks. Lending covered by set-off agreements totalled DKK 380bn at end-2016.

Nykredit Realkredit Group									
Mortgage lending by property type <sup>1</sup>									
									/number
Fair value at end-2016	Owner-occupied dwellings	Public housing <sup>2</sup>	Cooperative housing	Private residential rental	Office and retail	Agricultural property	Industry and trades	Other	Total
<b>Mortgage lending</b>									
- Bond debt outstanding	692,592	67,831	38,404	82,480	110,363	95,439	21,056	16,527	1,124,693
- Number of loans	674,584	15,831	5,474	27,626	21,720	35,735	3,134	2,655	786,759
Bond debt outstanding by loans involving									
- public guarantees	0	53,011	2,237	16	4	208	-	118	55,593
- bank guarantees	219,247	-	-	-	-	-	-	-	219,247
- set-off agreements with partner banks	380,508	-	-	-	-	-	-	-	380,508
- no guarantee	92,837	14,820	36,167	82,464	110,359	95,231	21,056	16,410	469,345
<b>Total</b>	<b>692,592</b>	<b>67,831</b>	<b>38,404</b>	<b>82,480</b>	<b>110,363</b>	<b>95,439</b>	<b>21,056</b>	<b>16,527</b>	<b>1,124,693</b>
<b>Bond debt outstanding by loan type</b>									
Fixed-rate loans									
- repayment loans	184,110	25,843	9,146	5,615	12,115	6,451	1,563	3,659	248,503
- interest-only loans	85,479	12	2,120	5,782	1,517	4,752	29	210	99,899
Adjustable-rate mortgage loans (ARMs)									
- repayment loans, 1-year interest reset	16,009	77	176	1,817	2,549	2,631	600	206	24,065
- other repayment loans	66,505	19,293	1,785	8,678	13,283	8,528	2,861	1,391	122,323
- interest-only loans, 1-year interest reset	37,911	-	334	1,975	1,241	3,755	34	57	45,309
- other interest-only loans	157,544	19	5,950	17,314	13,229	13,914	1,605	293	209,867
Money market-linked loans									
Loans with interest rate cap									
- repayment loans	42,754	91	386	775	878	2,297	134	465	47,780
- interest-only loans	38,100	-	148	307	339	1,340	5	21	40,259
Loans without interest rate cap									
- repayment loans	18,336	349	883	9,884	24,332	15,736	7,654	5,990	83,163
- interest-only loans	45,844	121	15,516	30,222	40,872	35,885	6,572	4,094	179,127
Index-linked loans	1	22,027	1,960	110	9	151	-	141	24,398
<b>Total</b>	<b>692,592</b>	<b>67,831</b>	<b>38,404</b>	<b>82,480</b>	<b>110,363</b>	<b>95,439</b>	<b>21,056</b>	<b>16,527</b>	<b>1,124,693</b>
<b>Bond debt outstanding by region</b>									
- Capital region	165,838	24,460	20,516	22,043	28,747	2,500	1,104	5,555	270,763
- Sealand Region	92,005	7,809	3,618	4,894	11,001	14,455	2,278	1,535	137,595
- North Denmark Region	98,003	7,747	3,626	9,401	9,306	24,244	3,052	1,441	156,821
- Central Denmark Region	171,589	13,147	5,153	20,578	21,916	28,742	6,055	4,710	271,889
- South Denmark Region	151,869	14,667	5,379	12,360	17,312	25,464	3,541	2,953	233,546
- International	13,287	-	111	13,203	22,083	35	5,027	333	54,079
<b>Total</b>	<b>692,592</b>	<b>67,831</b>	<b>38,404</b>	<b>82,480</b>	<b>110,363</b>	<b>95,439</b>	<b>21,056</b>	<b>16,527</b>	<b>1,124,693</b>
<b>Bond debt by debt outstanding, DKKm</b>									
0-2	503,145	5,340	1,604	16,866	12,080	18,776	1,618	1,026	560,456
2-5	170,862	7,029	5,716	14,659	13,615	29,196	2,017	1,833	244,927
5-10	17,566	25,474	18,038	22,195	24,377	40,823	4,200	5,362	158,036
20-50	919	18,040	7,730	10,391	14,036	5,693	1,917	3,507	62,232
50-100	99	8,179	2,010	5,079	10,664	848	1,237	1,288	29,405
100-	-	3,768	3,305	13,290	35,592	104	10,067	3,511	69,638
<b>Total</b>	<b>692,592</b>	<b>67,831</b>	<b>38,404</b>	<b>82,480</b>	<b>110,363</b>	<b>95,439</b>	<b>21,056</b>	<b>16,527</b>	<b>1,124,693</b>
<b>Bond debt outstanding by remaining loan term, years</b>									
0-10	21,418	4,064	495	9,031	30,736	2,020	4,953	1,366	74,084
10-15	25,298	8,736	818	9,333	26,943	3,573	7,575	1,722	83,999
15-20	107,013	8,991	8,627	12,773	28,917	21,108	5,161	4,582	197,173
20-25	211,951	13,765	15,151	18,794	10,915	29,120	3,330	5,318	308,345
25-30	326,912	26,196	12,788	32,548	12,852	39,618	37	3,537	454,487
30-35	-	6,078	523	-	-	-	-	2	6,603
35-	-	2	-	0	-	-	-	-	3
<b>Total</b>	<b>692,592</b>	<b>67,831</b>	<b>38,404</b>	<b>82,480</b>	<b>110,363</b>	<b>95,439</b>	<b>21,056</b>	<b>16,527</b>	<b>1,124,693</b>

<sup>1</sup> The breakdown by property type is not directly comparable with Nykredit's business areas.

<sup>2</sup> Public housing includes mortgage lending for subsidised urban renewal.

## Mortgage loan impairment

### Total impairment provisions

Total impairment provisions for mortgage lending remained low, equalling 0.52% of total mortgage lending compared with 0.51% at the beginning of the year.

Total impairment provisions increased by DKK 57m to DKK 5,751m at end-2016 compared with the beginning of the year. Of this increase, DKK 351m was mainly attributable to agriculture. Further, impairment provisions for office and retail, and other property categories rose by DKK 13m and DKK 3m, respectively. In contrast, provisions for owner-occupied dwellings, private rental, industry and trades and public housing were down DKK 310m. Compared with the beginning of the year, impairment provisions for owner-occupied dwellings were down, amounting to 0.31% of lending, whereas impairment provisions for agricultural property rose from 1.16% to 1.49% of lending.

Owner-occupied dwellings accounted for DKK 2,120m of impairment provisions at end-2016, while commercial property accounted for DKK 3,630m.

## Earnings impact

Impairment losses on mortgage lending were DKK 821m in 2016 against DKK 1,041m in 2015. Of loan impairment losses for the year, DKK 247m was attributable to the owner occupier segment, while DKK 628m related to agricultural property. This should be seen in contrast to a total gain of DKK 54m for the remaining property categories.

### Loans to weak customers

Nykredit's individually impaired mortgage loans to weak customers increased by DKK 450m to DKK 18.1m at end-2016, equal to 1.63% of total loans and advances. The increase was attributable to owner occupier mortgage lending, office and retail, agricultural and private rental.

Mortgage loans to weak customers which had not been individually impaired amounted to DKK 75.4bn at end-2016, equal to 6.81% of total loans and advances. These loans have an elevated risk of future default, but not necessarily a high risk of future losses, as the loss risk also depends on the security underlying the loans.

## Nykredit Realkredit Group

### Mortgage lending by property type<sup>1</sup>

DKK million/%

	2016			2015		
	Total impairment provisions	Total impairment provisions, %	Total earnings impact	Total impairment provisions	Total impairment provisions, %	Total earnings impact
Owner-occupied dwellings	2,120	0.31	247	2,230	0.33	562
Private rental <sup>2</sup>	1,333	1.05	(96)	1,465	1.16	50
Industry and trades	188	0.85	(23)	244	1.06	45
Office and retail	529	0.48	82	516	0.46	104
Agricultural	1,447	1.19	628	1,096	1.16	342
Public housing	35	0.05	(11)	47	0.08	(60)
Other	99	0.60	(6)	96	0.55	(2)
<b>Total</b>	<b>5,751</b>	<b>0.52</b>	<b>821</b>	<b>5,694</b>	<b>0.51</b>	<b>1,041</b>

<sup>1</sup> The breakdown by property type is not directly comparable with Nykredit's business areas.

<sup>2</sup> Housing cooperatives are included in the property category Private rental.

## Nykredit Realkredit Group

### Credit exposure to mortgage lending by property type<sup>1</sup>

DKK million

	2016			2015		
	Lending, year-end	Loans to weak customers, individually impaired	Loans to weak customers, not individually impaired	Lending, year-end	Loans to weak customers, individually impaired	Loans to weak customers, not individually impaired
Owner-occupied dwellings	683,759	7,863	46,161	680,402	6,252	47,388
Private rental	117,892	4,409	5,680	126,046	5,097	6,842
Industry and trades	21,082	420	599	22,999	559	413
Office and retail	109,625	1,455	5,629	111,094	1,733	5,898
Agricultural	92,976	3,591	16,839	94,438	3,417	9,560
Public housing <sup>2</sup>	65,415	176	320	63,971	403	348
Other	16,386	163	161	17,374	166	210
<b>Nominal value</b>	<b>1,107,135</b>	<b>18,077</b>	<b>75,389</b>	<b>1,114,324</b>	<b>17,628</b>	<b>70,659</b>
<b>Fair value</b>	<b>1,124,659</b>	<b>18,077</b>	<b>75,389</b>	<b>1,119,101</b>	<b>17,628</b>	<b>70,659</b>

For a complete breakdown of mortgage lending by rating category, see note 46.

<sup>1</sup> The breakdown by property type is not directly comparable with Nykredit's business areas.

<sup>2</sup> Public housing includes subsidised cooperative housing and subsidised urban renewal



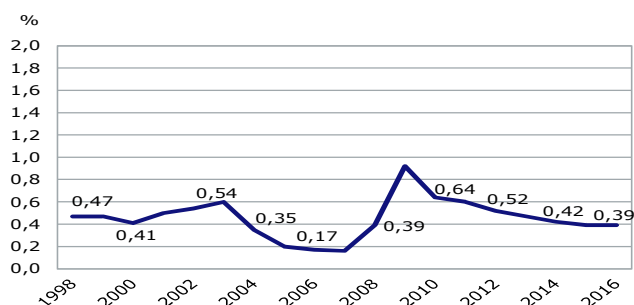
## Nykredit Realkredit Group

### Arrears ratio – 75 days past due

Due dates	Arrears relative to total mortgage payments %	Debt outstanding affected by arrears relative to total debt outstanding %	Debt outstanding, year-end affected by Arrears DKK billion
<b>2016</b>			
- September	0.39	0.40	4.50
- June	0.43	0.48	4.80
- March	0.43	0.40	4.40
<b>2015</b>			
- December	0.38	0.41	4.50
- September	0.39	0.39	4.30
- June	0.42	0.48	5.40

## Nykredit Realkredit Group

### Arrears ratio – 75 days past September due date



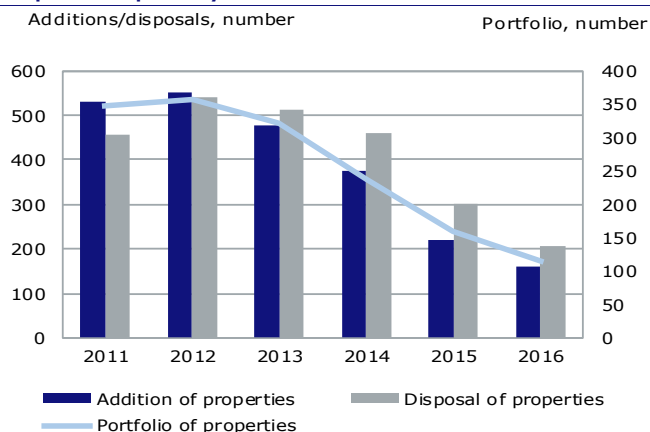
## Nykredit Realkredit Group

### Exposures with forbearance

DKK million	2016		2015	
	Performing	Non-performing	Performing	Non-performing
Other	3,246	6,453	3,657	6,625
Forbearance	460	1,244	906	1,515
<b>Total</b>	<b>3,706</b>	<b>7,697</b>	<b>4,563</b>	<b>8,140</b>

## Nykredit Realkredit Group

### Properties acquired by foreclosure



## Arrears

Mortgage loan arrears are determined 15 and 75 days past the due date. Mortgage loan arrears represented 0.39% of total mortgage payments due 75 days past the September due date against 0.39% at the same time the year before. Arrears determined 15 days past the September due date represented 0.88% against 0.95% at the same time the year before.

By contrast, bond debt outstanding affected by arrears as a percentage of total bond debt outstanding increased from 0.39% to 0.40% compared with the same time the year before.

## Lending with forbearance

Nykredit focuses on risk management that ensures agreement between risk profile, risk appetite and current legislation, as well as on a robust capital structure. Risk management should ensure financial solutions that are viable in the short, medium and long term.

Reference is made to note 46 for a more detailed description of Nykredit's risk management. The report Risk and Capital Management 2016, available at [nykredit.com/reports](http://nykredit.com/reports), contains a detailed presentation of Nykredit's capital and risk policy.

Forbearance has been granted to a small part of Nykredit's customers. Forbearance is offered to customers with temporary financial difficulties.

Customers treated with forbearance have a more realistic possibility of being able to meet their obligations to Nykredit. This could be in the form of a reduced interest margin or an extraordinary IO period. Forbearance treatment is granted solely in accordance with the credit policy guidelines and is an instrument to reduce the risk of loss or minimise losses.

Total forbore exposure was DKK 11.4bn at end-2016 against DKK 12.7bn at end-2015. Of this amount, DKK 7.7bn related to customers who defaulted on their obligations.

## Properties acquired by foreclosure

Nykredit acquires properties at forced sales on a current basis with a view to resale. The portfolio of acquired properties has declined slightly since 2012. The number of properties was down to 114 at end-2016 against 159 properties at the beginning of the year and 356 properties at end-2012. The owner occupier portfolio amounted to 66.

The value of acquired properties totalled DKK 311m. In 2016 the Group acquired 161 properties by foreclosure and sold 206.

## BANK LENDING

Bank lending at amortised cost amounted to DKK 55.0bn against DKK 46.7bn at the beginning of the year. The level reflected increasing loan demand. Bank lending before provisions for loan impairment was DKK 57.5bn against DKK 49.6bn at the beginning of the year.

Finance and insurance still accounted for the largest single sector exposure at DKK 34.7bn against DKK 45.4bn at end-2015. The exposure widely comprised reverse repurchase lending with bonds serving as security, and the DKK 10.7bn fall should partly be seen in light of a general decrease in reverse repurchase lending of DKK 9.4bn.

Finance and insurance accounted for 34.0% against 44.8% at end-2015, the real estate sector amounted to 11.3% against 10.3% at end-2015, while personal customers contributed 21.7% against 19.8% at end-2015.

Nykredit Bank's lending grew by 12.6%, excluding reverse repurchase lending, determined pursuant to the rules of the Danish FSA, including rules relating to the FSA Supervisory Diamond model. The Danish FSA's lending limit value indicates that growth of 20% or more may imply increased risk-taking.

Inclusive of reverse repurchase lending, the Bank's lending dropped by 1.3% on end-2015.

Lending to the real estate and construction sectors totalled DKK 14.8bn at end-2016 compared with DKK 12.7bn at end-2015. Of total loans, advances and guarantees, DKK 9.3bn derived from the category renting of real estate compared with DKK 8.8bn at end-2015.

At end-2016, loan impairment provisions for lending to the real estate sector totalled DKK 1.2bn against DKK 1.4bn at end-2015, equal to 7.3% of loans and advances to this sector compared with 9.8% at end-2015.

### Bank loan impairment and provisions for guarantees

Nykredit's individually impaired loans to weak customers dropped by DKK 355m to DKK 3,592m at end-2016.

Nykredit Realkredit Group		DKK million	
Bank lending and guarantees		2016	2015
Bank lending		55,003	46,747
Reverse repurchase lending		30,091	39,467
Guarantees		6,694	6,942
<b>Total</b>		<b>91,788</b>	<b>93,156</b>

Nykredit Realkredit Group		DKK million			
Credit exposure to bank lending, reverse repurchase lending and guarantees by sector		2016		2015	
		Lending, year-end	Loans to weak customers, individually impaired	Lending, year-end	Loans to weak customers, individually impaired
<b>Public sector</b>		597	-	296	-
Agriculture, hunting, forestry and fishing		2,661	137	2,384	84
Manufacturing, mining and quarrying		6,290	234	4,733	300
Energy supply		2,252	7	936	8
Construction		3,177	308	2,234	293
Trade		3,843	77	2,946	158
Transport, accommodation and food service activities		3,101	202	3,444	176
Information and communication		1,551	22	999	20
Finance and insurance		34,749	175	45,416	368
Real estate		11,589	1,401	10,431	1,513
Other		10,273	276	7,481	321
<b>Total business customers</b>		<b>79,486</b>	<b>2,839</b>	<b>81,004</b>	<b>3,242</b>
Personal customers		22,163	753	20,094	706
<b>Total</b>		<b>102,246</b>	<b>3,592</b>	<b>101,394</b>	<b>3,947</b>
- Of which provisions for intercompany guarantees		10,458		8,238	-

As the breakdown is based on public sector statistics, it is not directly comparable with the Bank's business areas. For a complete breakdown of bank lending by rating category, see note 46.

## Total impairment provisions

Nykredit's total provisions for bank loan impairment declined by DKK 314m in 2016 to DKK 2,538m at end-2016, equal to 4.41% of total bank lending. Provisions for guarantees amounted to DKK 52m against DKK 100m at the beginning of the year.

Individual impairment provisions for bank lending totalled DKK 2,560m against DKK 2,711m at the beginning of the year, and collective impairment provisions for bank lending were DKK 132m against DKK 141m at the beginning of the year.

The decline in individual impairment provisions of DKK 151m consisted of new impairment provisions of DKK 493m, reversals of DKK 521m and write-offs of DKK 277m.

The shift between individual and collective impairment provisions was attributable to the transfer of a single large exposure from collective to individual impairment provisioning.

Impairment provisions for receivables from credit institutions were unchanged at DKK 23m.

## Guarantees

The Bank provides guarantees on a current basis. Guarantees provided were DKK 1,493m, down by DKK 497m on the beginning of the year.

At end-2016, provisions for guarantees amounted to DKK 52m against DKK 100m at the beginning of the year.

## Earnings impact

Under loan impairment losses for the year, DKK 93m was reversed, and DKK 48m was reversed under provisions for guarantees – totalling a gain of DKK 141m. By comparison, loan impairment losses and provisions for guarantees were DKK 121m in 2015.

<b>Nykredit Realkredit Group</b>				
<b>Provisions for bank loan impairment and guarantees by sector<sup>1</sup></b>				
	2016		2015	
	Total impairment provisions	Total earnings impact	Total impairment provisions	Total earnings impact
<b>Public sector</b>	-	-	-	-
Agriculture, hunting, forestry and fishing	96	14	102	7
Manufacturing, mining and quarrying	185	24	225	39
Energy supply	3	(1)	3	(6)
Construction	206	(41)	232	11
Trade	57	(36)	88	1
Transport, accommodation and food service activities	114	35	104	32
Information and communication	18	16	17	(2)
Finance and insurance	119	(97)	224	18
Real estate	950	(304)	1,140	(287)
Other	222	14	231	5
<b>Total business customers</b>	<b>1,969</b>	<b>(376)</b>	<b>2,366</b>	<b>(182)</b>
Personal customers	621	235	586	61
<b>Total</b>	<b>2,590</b>	<b>(141)</b>	<b>2,952</b>	<b>121</b>
- of which provisions for losses on guarantees	52	(48)	100	(7)
Impairment provisions for credit institutions	23	-	23	-
<b>Total including impairment provisions for credit institutions</b>	<b>2,613</b>	<b>(141)</b>	<b>2,975</b>	<b>121</b>

<sup>1</sup> As the breakdown is based on public sector statistics, it is not directly comparable with the Bank's business areas.

# ORGANISATION, MANAGEMENT AND CORPORATE RESPONSIBILITY

## ENGAGING WITH SOCIETY

For more than 160 years, Nykredit has helped Danish families buy their homes and Danish businesses grow.

### Nykredit Realkredit Group Organisation and responsibilities

#### Board of Directors

- Governance and strategic management
- Lays down overall policies and guidelines

#### Audit Board

- Monitors accounting and audit matters, including internal controls and risk management

#### Remuneration Board

- Prepares and recommends remuneration policy to the Board of Directors etc

#### Nomination Board

- Recommends candidates for the Board of Directors and Executive Board
- Prepares decisions on the skills profiles etc of the Board of Directors and Executive Board

#### Risk Board

- Advises the Board of Directors on the risk profile and risk management of the Nykredit Group

#### Group Executive Board

- Overall day-to-day management
- Strategic planning and business development
- Operationalises policies and guidelines

#### Group committees

- Governance and management within selected fields of business

#### Credits

- Manages and operationalises the credit policy
- Approves large exposures

#### Asset/Liability

- Overall capital, asset/liability and liquidity management
- SDO cover pool management

#### Risk

- Monitors risk profile and capital requirement
- General risk policy
- Approves risk models

#### Contingency

- Responsible for compliance with contingency plans and related IT security policy

#### Products

- Ensures development and maintenance of concepts and products

Together with the Board of Directors of Nykredit Realkredit A/S, the Board of Directors of Nykredit Holding A/S is responsible for the governance and strategic management of the Nykredit Group, using the Nykredit Realkredit Group as the basis. The Group's Boards and Committees were thus set up under Nykredit Realkredit A/S.

Our vision today is to be the preferred financial partner of Danish homeowners – and we will actively support growth in businesses and agriculture all over Denmark.

Nykredit is rooted in the proud traditions of Danish mortgage finance. But we are also aware that the world around us is changing dramatically these years. Globalisation of the economy, digitisation of society and internationalisation of regulation provide new development opportunities, challenges and unpredictabilities.

A changing society needs sound financial enterprises to underpin growth and employment.

As Denmark's largest credit provider with contact to more than 1 million customers, our financial strength is of great importance to Denmark. This is essentially corporate social responsibility.

In 2016 we have therefore worked actively with our corporate social responsibility in several areas, addressing issues such as financial stability, responsible lending, access to home financing, climate and environment, socially responsible investment, staff conditions, responsible procurement and prevention of money laundering.

Nykredit has adopted the UN principles on sustainability (Global Compact) and responsible investment (UN PRI). Our financial reporting also complies with the Global Reporting Initiative (GRI).

### Corporate social responsibility

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

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

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

## ORGANISATION AND RESPONSIBILITIES

The Board of Directors of Nykredit Holding A/S counts 18 members, of which 12 are elected by the General Meeting for a term of one year and six are elected by and among the staff of the subsidiaries for a term of four years. The Board of Directors is basically identical to the Board of Directors of Nykredit Realkredit A/S. However, three Board members, two elected by the General Meeting and one by and among

the staff, are members of the Board of Directors of Nykredit Holding A/S only.

The Board of Directors is the supreme management body of the Company and, together with the Board of Directors of Nykredit Realkredit A/S, makes decisions of a strategic and fundamental nature and lays down guidelines for the day-to-day management undertaken by the Executive Board. The Executive Board is identical to the Executive Board of Nykredit Realkredit A/S (the Group Executive Board). Any company-specific matters relating to Nykredit Realkredit A/S and any credit matters are considered by the Board of Directors of Nykredit Realkredit A/S alone.

The Board of Directors must be composed so that it possesses the right mix of skills required to undertake the overall and strategic management of the business and to take any measures to ensure prudent business management; to this end, it must possess the knowledge and experience required to be able to take a critical approach to and challenge the work and proposals of the Executive Board.

The Board of Directors reviews its skills profile on an ongoing basis and has decided in this respect that the Board of Directors should have special skills and knowledge as regards:

- Strategy
- Sector and real estate expertise
- Economics, finance and accounting
- IPO processes and/or operation of companies of public interest
- Capital markets, securities and funding
- Politics, public administration and associations
- Financial regulation
- Corporate governance
- Digitisation, IT and processes
- Market conditions, customer relations and sales
- Organisation/HR and processes
- Risk management and credit matters

Further details on the skills profile of the Board of Directors, the special skills and experience of each Board member and the composition, size and diversity of the Board of Directors are available at [nykredit.com/organisationuk](http://nykredit.com/organisationuk).

#### **Board committees**

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

#### **Audit Board**

The principal tasks of the 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 select-

ing and submitting a recommendation for the appointment of auditors.

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

The Audit Board held four meetings in 2016.

#### **Remuneration Board**

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

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

The Remuneration Board held three meetings in 2016.

#### **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. The Nomination Board is further tasked with setting targets for the under-represented gender on the Board of Directors and laying down a diversity policy for the Board of Directors. In addition, the Nomination Board, reporting to the Board of Directors, is overall responsible for the skills profiles of the Board of Directors and the Executive Board and the continuous evaluation of their work and results.

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

The Nomination Board held three meetings in 2016.

#### **Risk Board**

The task of the Risk Board is to monitor Nykredit's overall risk profile and strategy, including to assess the long-term capital requirement and the capital policy. It also assesses

products, business model, remuneration structure and incentives as well as risk models and basis of methodology, etc. The Risk Board assists the Board of Directors in overseeing that the risk appetite laid down by the Board of Directors is implemented correctly in the organisation.

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

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

The Risk Board held four meetings in 2016.

### Committees

Nykredit has appointed six committees which perform specific tasks within selected fields. Each committee must report to the entire Group Executive Board, and the individual members may at any time request the Group Executive Board to decide on a case.

The *Credits Committee* is charged with approving credit applications and loan impairments as well as overseeing the management of risks in Nykredit's credits area. The Committee monitors Nykredit's credit portfolio and submits recommendations on credit policies etc to the individual Executive Boards and Boards of Directors. The Committee chiefly considers cases and manages portfolios in the credits area.

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

The *Risk Committee* is charged with overseeing the overall risk profile, capital requirements and risk models of the Nykredit Group 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 *Contingency Committee* has the overall responsibility for compliance with IT security policy rules in relation to contingencies (major accidents and catastrophes) and the Group's contingency plans covering IT as well as business aspects.

The *Products Committee's* overarching purpose is to ensure that the development and maintenance of new services, products and concepts potentially involving material risks for the Group, counterparties and/or customers complies with

the Group's business model and the guidelines approved by the Group Executive Board for development and approval of new concepts and products. Further, the Committee must monitor and evaluate the existing products and assess any need for changing or adjusting individual products or the entire product range.

The *Pricing Panel* may consider cases relating to pricing or levels of authorisation across the Retail and Wholesale business areas. The aim is to ensure that Nykredit's pricing policy always supports a profitable business model that will, in a timely and consistent manner and across business areas, address any changes in capital requirements, funding terms or other costs that may affect Nykredit's earnings.

## THE UNDER-REPRESENTED GENDER

Since 1995 Nykredit has worked actively to increase the proportion of women in management, with particular focus on recruiting female managers to top-level management. Targets have been set for the proportion of women on the Boards of Directors of all the Nykredit Group's financial companies, to be met by end-2017. The actual 2016 figures and the targets for 2017 are shown in the table below.

Nykredit's Boards of Directors have also adopted a policy for board diversity and for increasing the number of women at other managerial levels.

Further information on Nykredit's gender equality policy and objectives is available in Nykredit's CR Fact Book 2016, available at [nykredit.com/CRfactbook](http://nykredit.com/CRfactbook).

### Nykredit Holding Group Female board representation

	Actual 2016	Target 2017
%		
Nykredit Holding	17	25
Nykredit Realkredit	20	25
Nykredit Bank	0	25
Totalkredit	11	25

## CORPORATE GOVERNANCE

Years ago, the Boards of Directors of Nykredit Holding A/S and Nykredit Realkredit A/S decided that Nykredit should act as a listed company for external purposes and should be governed on the basis of sound business terms.

In consequence, Nykredit regularly considers the Recommendations on Corporate Governance of the Danish Committee on Corporate Governance subject to the adjustments that follow from Nykredit's special ownership and management structure and complies with the recommendations where appropriate. The recommendations form part of the rules of Nasdaq Copenhagen.

The recommendations concerning the composition and organisation of the Board of Directors, and in particular the independence of the Board of Directors and shareholders'

role and interaction with the company management, address an ordinary listed company with many shareholders.

Nykredit Holding A/S differs from ordinary listed companies, as the company has only a few shareholders, including the major shareholder Foreningen Nykredit, which holds 89.80% of Nykredit Holding A/S, and a limited number of other shareholders: Industriens Fond, Østifterne f.m.b.a and PRAS A/S. None of these shareholders has an ownership interest larger than 4.7%.

The purpose of the recommendations concerning shareholders' role and interaction with the company management is to create an appropriate setting encouraging shareholders to enter into a dialogue with the company management. The limited number of shareholders of Nykredit Realkredit A/S and Nykredit Holding A/S per se creates a good setting for a close dialogue with the company management. Therefore, the Board of Directors does not currently consider this part of the recommendations relevant to Nykredit.

In 1991 the mortgage association Nykredit was converted into a public limited company. Nykredit operates through Nykredit Realkredit A/S, the object of which is to carry on mortgage banking and other financial business. The company is wholly owned by Nykredit Holding A/S, the object of which is to carry on Nykredit's activities. Foreningen Nykredit is the largest shareholder of Nykredit Holding A/S, owning 89.80% of the shares. Its objects are to be a shareholder of Nykredit and to carry on financially sustainable mortgage banking and other financial business for the benefit of its customers.

Because of these overlapping interests, eight (of nine) members of the Board of Directors of Foreningen Nykredit elected by the Committee of Representatives used to be appointed also to the Boards of Directors of Nykredit Holding A/S and Nykredit Realkredit A/S, which consist of 12 and 10 members elected by the General Meeting. This practice was changed in 2016, and currently only five (of eight) members of Foreningen Nykredit's Board of Directors elected by the Committee of Representatives are now also appointed to the Boards of Directors of Nykredit Holding A/S and Nykredit Realkredit A/S. Thus, the members of Foreningen Nykredit's Board of Directors elected by the Committee of Representatives now only make up half (five of ten) of the members of the Board of Directors of Nykredit Realkredit A/S who are elected by the General Meeting and less than half (five of 12) of the members of the Board of Directors of Nykredit Holding A/S who are elected by the General Meeting.

Where appropriate, Nykredit also complies with the managerial code of conduct of FinanceDenmark (formerly of the Danish Bankers Association), which supplements the Recommendations on Corporate Governance.

Information on Nykredit's organisation and corporate governance is available at [nykredit.com/corporategovernanceuk](http://nykredit.com/corporategovernanceuk).

## REMUNERATION

### Material risk takers

Material risk takers in Nykredit are identified on the basis of the Nykredit Realkredit Group.

At end-2016, the Nykredit Realkredit Group had identified a total of 225 risk takers:

- Members of the Board of Directors: 29 (in addition to this, three members of the Board of Directors of Nykredit Holding)
- Group Managing Directors: 5
- Subsidiary managing directors: 7
- Other material risk takers: 184

The principles for identifying "Other material risk takers" are approved annually by the Board of Directors of Nykredit Realkredit A/S in accordance with current EU rules.

### Remuneration of material risk takers

Pursuant to the Danish Financial Business Act, material risk takers are subject to special restrictions, chiefly in relation to variable remuneration. Some of these restrictions are deferral of payout over a several-year period, partial payout through bonds subject to selling restrictions instead of cash payment and the possibility that Nykredit may retain the deferred amount under special circumstances.

Members of the Board of Directors and Group Managing Directors do not receive variable remuneration, nor bonus awards. The total remuneration of the Board of Directors and the Group Executive Board appears from note 11 of the Financial Statements.

The 2016 bonus provisions in respect of Managing Directors of subsidiaries of Nykredit Realkredit A/S and other risk takers amounted to DKK 58m compared with bonus provisions of DKK 47m for 2015. The 2016 bonus provisions corresponded to 25% of their fixed salaries.

The total remuneration of risk takers subject to variable remuneration appears from note 11 of the Financial Statements. Details on bonuses to risk takers, remuneration policy and practices are available at [nykredit.com/aboutnykredit](http://nykredit.com/aboutnykredit).

### Bonus programmes

A general bonus programme applies to Nykredit's top executives who report directly to the Group Executive Board.

Special individual bonus programmes apply to some of the staff of Nykredit Markets, Nykredit Asset Management and Group Treasury who have major earnings responsibility, in line with market standards for such positions. The remuneration of these staff members is chiefly based on their job performance. The 2016 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 64m compared with bonus provisions of DKK 56m for 2015. The 2016 bonus provisions corresponded to 48% of their fixed salaries.

In addition, a limited number of individual bonus programmes apply to selected staff members. The 2016 bonus

provisions in respect of these staff members (excl risk takers) amounted to DKK 10m compared with bonus provisions of DKK 8m for 2015. The 2016 bonus provisions corresponded to 19% of their fixed salaries.

Management executives and certain senior staff members participate in an individual bonus programme with a potential bonus of up to three months' salary. The 2016 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 8m compared with bonus provisions of DKK 9m for 2015. The 2016 bonus provisions corresponded to 5% of their fixed salaries.

The bonus programmes do not apply to other management or staff members, but they may receive an individual performance award. For 2016, provisions of DKK 15m were made for performance awards compared with performance awards of DKK 15m for 2015. The performance award provisions for 2016 corresponded to 0.8% of the total salaries of these staff members.

Total provisions for bonuses and performance awards for 2016 came to DKK 155m against total bonuses and performance awards of DKK 133m for 2015. The total provisions for bonuses and performance awards for 2016 corresponded to 7% of total fixed salaries.

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

Nykredit'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.

Nykredit regularly expands and improves its monitoring and control of risk. Risk exposure is reported on a continuous basis in all material areas such as credit risk, market risk, liquidity risk, operational risk and IT risk.

### **Financial reporting process**

The Board of Directors and the Executive Board have the overall responsibility for the financial reporting process and for compliance with relevant accounting legislation and any other regulation of financial reporting.

The financial reporting process is based on internal control and risk management systems, which together ensure that all relevant financial transactions are correctly reflected for accounting purposes and in financial statements. Nykredit's Management regularly reviews items in respect of which estimates may have a material impact on the value of assets and liabilities.

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

Prior to the process a number of meetings are held between Group Finance, internal and external auditors and, on an ad-

hoc basis, specialists from, for instance, the Group's risk and credits areas. Significant accounting issues will be discussed at the meetings, including any changes to accounting policies or measurement principles and any new relevant legislation.



Group Finance, which includes the finance functions of Nykredit Holding, 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.

The finance units of other subsidiaries, including Nykredit Leasing A/S, contribute to the Group's financial control and reporting. They are responsible for the financial reporting of the subsidiaries, which includes compliance with current legislation and the Group's accounting policies.

The finance units of each subsidiary is responsible for its own reporting. Financial data and Management's comments on financial and business developments are reported monthly to Group Finance.

### **Control environment**

Business procedures have been laid down and controls implemented for all material areas and risk areas, and overall principles and requirements for the preparation of business procedures and a process for the approval of business procedures in material risk areas have been established at Group level.

The Executive Board is responsible for risk delineation, management and monitoring.

In addition to this, the Audit Board oversees the effectiveness of Nykredit's internal control systems, financial reporting, internal audit and risk management. The Committees perform the current management and monitoring on behalf of the Executive Board.

Group Finance reports to the Audit Board on accounting matters four times a year, covering material areas, such as accounting policies, the use of significant estimates, measurement of financial instruments and notes describing significant changes in financial reporting standards, practices and executive orders. Moreover, annual and interim reports for the Nykredit Realkredit Group and the Nykredit Holding Group are submitted to the Audit Board for review.

Other important units in connection with financial reporting are Group Credits, Group Treasury, Capital, Risk and Administration Services, which are responsible for the current risk and capital management, including reporting, bookkeeping and monitoring of Group activities.

### **Risk assessment**

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

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

### **Controls**

The purpose of Nykredit'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.

The Executive Board has reassigned its daily control duties, and overall control is based on three functional levels:

- *Business units* – the management of each unit is responsible for identifying, assessing and handling the risks arising in connection with the performance of the unit's duties and for implementing satisfactory permanent internal controls for the handling of business operations.
- *Risk functions* – comprise a number of cross-functional areas, such as Group Credits, Group Finance, local finance functions, Capital, Risk, including the Chief Risk Officer, Compliance and IT Security. These areas may be in charge of providing policies and procedures on behalf of Management. Further, they are responsible for monitoring whether policies and procedures are observed and whether internal controls performed by the business units are satisfactory.
- *Audit* – comprises internal and external audit. On the basis of an audit plan approved by the Board of Directors, Internal Audit is responsible for carrying out an independent audit of internal controls in Nykredit and performing the statutory audit of the Company's financial statements and the consolidated financial statements together with the external auditors. The internal and external auditors endorse the Company's financial statements and the consolidated financial statements and in this connection issue a long-form audit report to the Board of Directors on any matters of which the Board of Directors should be informed.

The three functional levels are to ensure:

- The value of Nykredit's assets, including efficient management of relevant risks
- Reliable internal and external reporting
- Compliance with legislation, other external rules and internal guidelines.

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. These procedures and controls include fixed analysis and reconciliation routines and compliance with standard business procedures as well as ongoing dialogue with Nykredit's business units and management support functions for the purpose of obtaining a business assessment of the information in the financial statements.

Further, the financial statements are subject to coherence checks, and measurement and presentation principles etc are assessed against the IAS/IFRS and other accounting check lists.

#### **Communication and information**

The Board of Directors has adopted an overall communication policy, stating that Nykredit is committed to a transparent and credible business conduct – in compliance with legislation and the Stock Exchange Code of Ethics.

Internal and external financial reports are regularly submitted to Nykredit's Boards of Directors and Executive Boards. Internal reports include analyses of material matters in, for instance, Nykredit's business areas and subsidiaries.

Risk is reported to the Board of Directors, the Executive Board, the relevant management levels and the individual business areas. For further information on the Group's risk and capital management, please refer to the publication Risk and Capital Management 2016, available at [nykredit.com/reports](http://nykredit.com/reports).

Nykredit's Audit Board and Risk Board regularly receive reports from the Executive Board and internal/external audit on compliance with the guidelines, business procedures and rules provided.

# MANAGEMENT STATEMENT AND AUDIT REPORTS

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

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

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds. The Financial Statements and the Management Commentary are prepared in accordance with the Danish Financial Business Act.

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

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

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

Copenhagen, 7 February 2017

### Executive Board

Michael Rasmussen  
Group Chief Executive

Kim Duus  
Group Managing Director

David Hellemann  
Group Managing Director

Søren Holm  
Group Managing Director

Anders Jensen  
Group Managing Director

### Board of Directors

Steffen Kragh  
Chairman

Merete Eldrup  
Deputy Chairman

Nina Smith  
Deputy Chairman

Helge Leiro Baastad

Hans Bang-Hansen

Olav Bredgaard Brusen\*

Michael Demsitz

Per W. Hallgren

Marlene Holm\*

Allan Kristiansen\*

Bent Naur

Lasse Nyby

Anders C. Obel

Claus E. Petersen

Erling Bech Poulsen

Inge Sand\*

Lars Peter Skaarup\*

Leif Vinther\*

\* Staff-elected member

## INTERNAL AUDITORS' REPORT

### Opinion

In our opinion, the Consolidated Financial Statements and the Financial Statements of Nykredit Holding A/S give a true and fair view of the Group's and the Company's assets, liabilities, equity and financial position at 31 December 2016 and of the results of the Group's and the Company's operations and the Group's cash flows for the financial year 1 January – 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds in respect of the Consolidated Financial Statements, and in accordance with the Danish Financial Business Act in respect of the Financial Statements.

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

### Basis for opinion

We have audited the Consolidated Financial Statements and the Financial Statements of Nykredit Holding A/S for the financial year 1 January – 31 December 2016. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds. 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 Consolidated Financial Statements and 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 Consolidated Financial Statements and 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 Consolidated Financial Statements and 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 Consolidated Financial Statements or 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 Consolidated Financial Statements and the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management Commentary.

Copenhagen, 7 February 2017

Claus Okholm  
Chief Audit Executive

Kim Stormly Hansen  
Deputy Chief Audit Executive

## INDEPENDENT AUDITOR'S REPORT

### To the shareholders of Nykredit Holding A/S

#### Opinion

We have audited the Consolidated Financial Statements and the Financial Statements of Nykredit Holding A/S for the financial year 1 January – 31 December 2016, which comprise income statements, statements of comprehensive income, balance sheets, statements of changes in equity and notes, including accounting policies, for the Group as well as the Company and the consolidated cash flow statement. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds, and the Financial Statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's assets, liabilities, equity and financial position at 31 December 2016 and of the results of its operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds.

Further, in our opinion, the Financial Statements give a true and fair view of the Company's assets, liabilities, equity and

financial position at 31 December 2016 and of the results of its operations for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Business Act.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Consolidated Financial Statements and the Financial Statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our 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

#### Key audit matters

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

Key audit matters	How the matters were addressed in our audit
<p><b>Loan impairment losses</b></p> <p>Determining impairment losses on loans and advances is subject to significant uncertainty and is highly based on management judgement. Due to the significance of such management judgement and the loan volumes of the Company and the Group, impairment losses on loans and advances are a key audit matter. The Group's loans and advances amount to DKK 1,210,516m at 31 December 2016, and impairment losses thereon amount to DKK 680m in 2016.</p> <p>The principles for determining the impairment losses are described in the Summary of significant accounting policies, and Management has further described the management of credit risks and the review for impairment in notes 13 and 46 to the consolidated financial statements.</p> <p>In 2016, loans and advances to agriculture and cooperative housing associations required special audit attention due to the crisis in agriculture and pending cases in the cooperative housing segment.</p> <p>The most significant judgements requiring special audit attention are:</p> <ul style="list-style-type: none"> <li>• Assessment of whether loans and advances are impaired</li> <li>• Valuation of security, including properties in particular which form part of the determination of impairment losses</li> <li>• Management estimates</li> </ul>	<p>Our audit comprised a review of relevant central and decentral business procedures, test of controls and analysis of the amount of impairment losses.</p> <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Challenging the procedures and methodologies applied for the areas involving the highest level of management judgement by using our industry knowledge and experience</li> <li>• Assessing the changes in the assumptions for the areas requiring the highest level of management judgement against sector trends and historical observations</li> <li>• Performing a risk-based test of exposures to ensure timely identification of impairment of loans and advances and for impaired loans and advances to ensure appropriate impairment charging. In this connection, we focused particularly on agriculture and cooperative housing associations</li> <li>• Challenging management estimates with special focus on management consistency and bias, including special focus on documentation of the adequacy of management estimates related to agriculture and cooperative housing associations.</li> </ul>

Key audit matters	How the matters were addressed in our audit
<p><b>Fair value of swaps</b></p> <p>Determining the value of swaps is subject to significant uncertainty and complexity and is highly based on management judgement. Due to the significance of such management judgement, swaps are a key audit matter. The Group's swaps amount to DKK 27,123m and DKK 23,588m for positive and negative fair values at 31 December 2016.</p> <p>The principles for determining the value are described in the Summary of significant accounting policies, and Management has further described the management of market risks and the determination of value in notes 43 and 46 to the consolidated financial statements.</p> <p>In 2016, the value adjustment of swaps required particular attention due to customers' non-payment and the development in swap valuation practice.</p> <p>The most significant judgements and complexity requiring special audit attention are:</p> <ul style="list-style-type: none"> <li>• Assessment of customers' ability to pay</li> <li>• Practice for methodologies applied in the valuation of swaps</li> </ul>	<p>Our audit comprised a review of relevant business procedures, test of key controls and analysis of valuations.</p> <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing the model applied to calculate the risk of customers' non-payment by using our industry knowledge and experience</li> <li>• Assessing the changes in the assumptions against sector trends and historical observations</li> <li>• Performing a risk-based test of valuation of swaps with customers.</li> </ul>

#### Statement on the Management Commentary

Management is responsible for the Management Commentary.

Our opinion on the Consolidated Financial Statements and 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 Consolidated Financial Statements and 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 Consolidated Financial Statements or 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 Consolidated Financial Statements and the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management Commentary.

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

Management is responsible for the preparation of Consolidated Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds, and for the preparation of Financial

Statements that give a true and fair view in accordance with the Danish Financial Business Act.

Management is also responsible for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements and the Financial Statements, Management is responsible for assessing the Group's and 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 Consolidated Financial Statements and the Financial Statements unless Management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the Consolidated Financial Statements and the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements and the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements and these Financial Statements.

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

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements and 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 Group's and 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 Consolidated Financial Statements and 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 Group's and 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 Consolidated Financial Statements and 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 Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements and the Financial Statements, including the disclosures in the notes, and whether the Consolidated Financial Statements and the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 re-

quirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, related safeguards.

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

Copenhagen, 7 February 2017

Deloitte  
Statsautoriseret Revisionspartnerselskab  
CVR no 33 96 35 56

Anders O. Gjelstrup  
State-Authorised  
Public Accountant

Henrik Wellejus  
State-Authorised  
Public Accountant

# INCOME STATEMENT

DKK million

Nykredit Holding A/S				Nykredit Holding Group	
2015	2016		Note	2016	2015
<b>INCOME STATEMENT</b>					
0	0	Interest income	5	28,789	32,591
0	0	Interest expenses	6	17,319	20,714
<b>0</b>	<b>0</b>	<b>Net interest income</b>		<b>11,470</b>	<b>11,877</b>
-	-	Dividend on equities	7	108	104
-	-	Fee and commission income	8	2,381	2,498
-	-	Fee and commission expenses	9	2,677	2,697
<b>0</b>	<b>0</b>	<b>Net interest and fee income</b>		<b>11,282</b>	<b>11,783</b>
-	-	Value adjustments	10	775	652
-	-	Other operating income		589	194
5	25	Staff and administrative expenses	11	4,820	4,663
-	-	Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	12	185	2,185
-	-	Other operating expenses		285	188
-	-	Impairment losses on loans, advances and receivables	13	680	920
3,000	5,428	Profit from investments in associates and Group enterprises	14	8	8
<b>2,996</b>	<b>5,403</b>	<b>Profit before tax</b>		<b>6,683</b>	<b>4,680</b>
(1)	(1)	Tax	15	1,377	1,493
<b>2,997</b>	<b>5,405</b>	<b>Profit for the year</b>		<b>5,306</b>	<b>3,187</b>
<b>Distribution of profit for the year</b>					
2,997	5,405	Shareholders of Nykredit Holding A/S		5,074	2,990
-	-	Minority interests		(0)	-
-	-	Holders of Additional Tier 1 capital notes		233	197
<b>2,997</b>	<b>5,405</b>	<b>Profit for the year</b>		<b>5,306</b>	<b>3,187</b>
<b>Proposal for the distribution of profit</b>					
3,000	5,428	Statutory reserves			
(3)	(23)	Retained earnings			
-	-	Hybrid capital			



# STATEMENTS OF COMPREHENSIVE INCOME

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>2,997</b>	<b>5,405</b>	<b>5,306</b>	<b>3,187</b>
	<b>Profit for the year</b>		
	<b>OTHER COMPREHENSIVE INCOME</b>		
	<b>Items that cannot be reclassified to profit or loss:</b>		
-	- Actuarial gains/losses on defined benefit plans	10	10
-	- Fair value adjustment of owner-occupied properties	3	17
-	- Tax on fair value adjustment of owner-occupied properties	(1)	(2)
25	12 Share of comprehensive income in associates and Group enterprises	-	-
<b>25</b>	<b>12 Total items that cannot be reclassified to profit or loss</b>	<b>12</b>	<b>25</b>
	<b>Items that can be reclassified to profit or loss:</b>		
-	- Fair value adjustment of equities available for sale	330	122
-	- Tax on fair value adjustment of equities available for sale	1	(13)
-	- Realised value adjustment of equities available for sale reclassified to profit or loss	-	(103)
-	- <b>Total items that can be reclassified to profit or loss</b>	<b>331</b>	<b>7</b>
<b>25</b>	<b>12 Other comprehensive income</b>	<b>343</b>	<b>32</b>
<b>3,022</b>	<b>5,417 Comprehensive income for the year</b>	<b>5,649</b>	<b>3,219</b>
	<b>Distribution of comprehensive income</b>		
3,022	5,417 Shareholders of Nykredit Holding A/S	5,417	3,022
-	- Minority interests	(0)	-
-	- Holders of Additional Tier 1 capital notes	233	197
<b>3,022</b>	<b>5,417 Comprehensive income for the year</b>	<b>5,649</b>	<b>3,219</b>

# BALANCE SHEETS

DKK million

Nykredit Holding A/S		Nykredit Holding Group			
2015	2016	Note	2016	2015	01.01.2015
<b>ASSETS</b>					
-	-		2,087	3,095	4,644
15	1	16	32,742	20,158	37,644
-	-	17	1,155,155	1,158,926	1,172,805
-	-	18	55,361	47,036	50,958
-	-	19	111,981	106,200	127,972
<b>Equities</b>					
-	-		2,129	1,979	1,376
-	-		2,445	2,115	2,035
-	-	20	<b>4,574</b>	<b>4,094</b>	<b>3,411</b>
-	-	21	130	124	123
61,686	67,194	22	-	-	-
-	-	23	243	271	2,251
<b>Land and buildings</b>					
-	-		232	244	283
-	-		432	1,460	1,484
-	-	24	<b>664</b>	<b>1,704</b>	<b>1,767</b>
-	-	25	177	235	273
6	4	35	166	6	635
-	-	34	113	103	128
-	-	26	311	451	552
-	-	27	36,667	41,171	53,914
1	1		239	222	227
<b>61,708</b>	<b>67,199</b>		<b>1,400,611</b>	<b>1,383,796</b>	<b>1,457,306</b>

# BALANCE SHEETS

DKK million

Nykredit Holding A/S		Nykredit Holding Group			
2015	2016	Note	2016	2015	01.01.2015
<b>LIABILITIES AND EQUITY</b>					
-	-	28	21,681	30,226	44,863
-	-	29	65,414	62,584	65,211
-	-	30	1,152,383	1,137,314	1,167,163
-	-	31	21,292	23,945	29,457
-	-	32	17,735	10,126	18,451
-	-	35	14	142	146
-	-		29	29	29
1	7	33	39,408	42,305	61,162
-	-		11	7	3
<b>1</b>	<b>7</b>		<b>1,317,967</b>	<b>1,306,678</b>	<b>1,386,485</b>
<b>Provisions</b>					
-	-	36	155	175	203
-	-	34	126	123	198
-	-	37	55	63	74
-	-	38	52	100	107
-	-	39	224	169	169
-	-		<b>611</b>	<b>630</b>	<b>751</b>
-	-	40	11,078	11,006	11,394
<b>Equity</b>					
1,327	1,327		1,327	1,327	1,327
<b>Accumulated value adjustments</b>					
-	-		26	160	151
-	-		979	648	641
<b>Other reserves</b>					
43,505	49,013		-	-	-
-	-		35,198	26,787	30,975
16,876	16,852		29,662	32,786	25,581
<b>61,708</b>	<b>67,192</b>		<b>67,192</b>	<b>61,708</b>	<b>58,675</b>
-	-		3	-	-
-	-		3,760	3,774	-
<b>61,708</b>	<b>67,192</b>		<b>70,955</b>	<b>65,482</b>	<b>58,675</b>
<b>61,708</b>	<b>67,199</b>		<b>1,400,611</b>	<b>1,383,796</b>	<b>1,457,306</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
-	-	41	6,694	6,942	7,546
-	-		6,934	6,637	5,843
-	-		<b>13,628</b>	<b>13,579</b>	<b>13,389</b>

# STATEMENT OF CHANGES IN EQUITY

DKK  
million

Nykredit Holding A/S

	Share capital <sup>1</sup>	Statutory reserves <sup>2</sup>	Retained earnings	Total equity
<b>2016</b>				
<b>Equity, 1 January</b>	<b>1,327</b>	<b>43,505</b>	<b>16,876</b>	<b>61,708</b>
Profit (loss) for the year	-	5,428	(23)	5,405
Total other comprehensive income	-	12	-	12
<b>Total comprehensive income</b>	<b>-</b>	<b>5,440</b>	<b>(23)</b>	<b>5,417</b>
Adjustment for subsidiaries	-	67	-	67
<b>Equity, 31 December</b>	<b>1,327</b>	<b>49,013</b>	<b>16,852</b>	<b>67,192</b>
<b>2015</b>				
<b>Equity, 1 January, before goodwill impairment</b>	<b>1,327</b>	<b>41,322</b>	<b>16,879</b>	<b>59,527</b>
Impairment of goodwill relating to the acquisition of Forstædernes Bank A/S	-	(852)	-	(852)
<b>Equity, 1 January, as restated</b>	<b>1,327</b>	<b>40,469</b>	<b>16,879</b>	<b>58,675</b>
Profit (loss) for the year	-	3,000	(3)	2,997
Total other comprehensive income	-	25	-	25
<b>Total comprehensive income</b>	<b>-</b>	<b>3,025</b>	<b>(3)</b>	<b>3,022</b>
Adjustment for subsidiaries	-	11	-	11
<b>Equity, 31 December</b>	<b>1,327</b>	<b>43,505</b>	<b>16,876</b>	<b>61,708</b>

<sup>1</sup> The share capital is divided into shares of DKK 100 and multiples thereof. Nykredit Holding A/S has only one class of shares, and all the shares confer the same rights on shareholders.

<sup>2</sup> The item relates to transfer to reserves for net revaluation according to the equity method. The item includes an undistributable reserve fund of DKK 1,646m in Totalkredit. The reserves are non-distributable. There is an ongoing dialogue with the Danish Financial Supervisory Authority concerning the accounting treatment of the undistributable reserve fund in Nykredit Realkredit A/S's and the Nykredit Realkredit Group's Financial Statements, as well as the inclusion of such in capital adequacy. Reference is made to note 2.

Pursuant to the Danish Financial Business Act, the Nykredit Realkredit Group, the Nykredit Bank Group and Totalkredit A/S are subject to a number of restrictions, including regulatory capital requirements, which set the framework for any dividend payment by these companies to the Parent.

## Dividend policy

Nykredit Holding does not have a formal dividend policy, and any dividend distribution is decided based on a specific assessment. In 2007, 2010, 2011 and 2012, Nykredit Holding distributed total dividend of DKK 1,150m as part of an overall dividend strategy, which among other things meant that dividend distributed to Nykredit Holding was redistributed to the shareholders of this company.

It will be recommended for approval by the Annual General Meeting that no dividend be distributed for 2016.

# STATEMENT OF CHANGES IN EQUITY

Nykredit Holding Group

	Share capital <sup>1</sup>	Revaluation reserves	Accumulated value adjustment of equities available for sale	Series reserves	Retained earnings	Shareholder of Nykredit Realkredit A/S	Minority interests	Additional Tier 1 capital <sup>2</sup>	Total equity
<b>2016</b>									
<b>Equity, 1 January</b>	<b>1,327</b>	<b>160</b>	<b>648</b>	<b>26,787</b>	<b>32,786</b>	<b>61,708</b>	<b>-</b>	<b>3,774</b>	<b>65,482</b>
Profit (loss) for the year	-	-	-	-	5,074	5,074	(0)	233	5,306
Total other comprehensive income	-	2	331	-	10	343	-	-	343
<b>Total comprehensive income</b>	<b>-</b>	<b>2</b>	<b>331</b>	<b>-</b>	<b>5,084</b>	<b>5,417</b>	<b>(0)</b>	<b>233</b>	<b>5,649</b>
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	(233)	(233)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	14	14	-	(14)	-
Tax on Additional Tier 1 capital	-	-	-	-	48	48	-	-	48
Additions relating to acquisition of Group enterprise	-	-	-	-	-	-	3	-	3
Realised from the sale of properties	-	(136)	-	-	136	-	-	-	-
Adjustment according to capital adequacy regulations	-	-	-	8,411	(8,411)	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	(0)	5	5	-	-	5
<b>Equity, 31 December</b>	<b>1,327</b>	<b>26</b>	<b>979</b>	<b>35,198</b>	<b>29,662</b>	<b>67,192</b>	<b>3</b>	<b>3,760</b>	<b>70,955</b>
<b>2015</b>									
<b>Equity, 1 January, before goodwill impairment and change in accounting policies</b>	<b>1,327</b>	<b>151</b>	<b>-</b>	<b>30,975</b>	<b>27,074</b>	<b>59,526</b>	<b>-</b>	<b>-</b>	<b>59,526</b>
Impairment of goodwill relating to the acquisition of Forstædernes Bank A/S	-	-	-	-	(852)	(852)	-	-	(852)
Effect of change in accounting policies – IFRS	-	-	641	-	(641)	-	-	-	-
<b>Equity, 1 January, as restated</b>	<b>1,327</b>	<b>151</b>	<b>641</b>	<b>30,975</b>	<b>25,581</b>	<b>58,675</b>	<b>-</b>	<b>-</b>	<b>58,675</b>
Profit for the year, before change in accounting policies	-	-	-	-	2,997	2,997	-	197	3,194
Effect of change in accounting policies – IFRS	-	-	-	-	(7)	(7)	-	-	(7)
Profit for the year, after change in accounting policies	-	-	-	-	2,990	2,990	-	197	3,187
Total other comprehensive income, before change in accounting policies	-	15	-	-	10	25	-	-	25
Effect of change in accounting policies – IFRS	-	-	7	-	-	7	-	-	7
Total other comprehensive income, after change in accounting policies	-	15	7	-	10	32	-	-	32
<b>Total comprehensive income</b>	<b>-</b>	<b>15</b>	<b>7</b>	<b>-</b>	<b>3,000</b>	<b>3,022</b>	<b>-</b>	<b>197</b>	<b>3,219</b>
Issuance of Additional Tier 1 capital	-	-	-	-	-	-	-	3,731	3,731
Net transaction costs	-	-	-	-	(39)	(39)	-	-	(39)
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	(154)	(154)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	(0)	(0)	-	0	-
Tax on Additional Tier 1 capital	-	-	-	-	48	48	-	-	48
Realised from the sale of properties	-	(6)	-	-	6	-	-	-	-
Adjustment pursuant to capital adequacy rules	-	-	-	(4,188)	4,188	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	(0)	3	2	-	-	2
<b>Equity, 31 December</b>	<b>1,327</b>	<b>160</b>	<b>648</b>	<b>26,787</b>	<b>32,786</b>	<b>61,708</b>	<b>-</b>	<b>3,774</b>	<b>65,482</b>

<sup>1</sup> Additional Tier 1 (AT1) capital is perpetual, and payment of principal and interest is discretionary. For accounting purposes, the AT1 capital is consequently treated as equity. On 26 February 2015, Nykredit issued EUR 500m (nominal) of AT1 capital, which may be redeemed from 26 October 2020. The AT1 capital carries an interest rate of 6.25% pa up to 26 October 2020, after which date the interest rate will be fixed every five years. If the Common Equity Tier 1 (CET1) capital ratio of Nykredit Realkredit A/S, the Nykredit Realkredit Group or the Nykredit Holding Group falls below 7.125%, the loan will be written down.

# CASH FLOW STATEMENT

DKK million

Nykredit Holding Group	2016	2015
<b>Profit for the year</b>	<b>5,306</b>	<b>3,187</b>
<b>Adjustments</b>		
Net interest income	(11,470)	(11,877)
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	185	2,185
Profit from investments in associates	(8)	(8)
Impairment losses on loans, advances and receivables	680	920
Prepayments/deferred income, net	(13)	9
Tax calculated on profit for the year	1,377	1,493
Other adjustments	(201)	(473)
<b>Total</b>	<b>(4,143)</b>	<b>(4,564)</b>
<b>Change in working capital</b>		
Loans, advances and other receivables	(5,234)	16,882
Deposits and payables to credit institutions	(5,735)	(17,264)
Bonds in issue	12,417	(35,361)
Other working capital	9,645	(12,883)
<b>Total</b>	<b>11,093</b>	<b>(48,626)</b>
Interest income received	30,379	35,713
Interest expenses paid	(19,449)	(25,414)
Corporation tax paid, net	(1,624)	(885)
<b>Cash flows from operating activities</b>	<b>16,255</b>	<b>(43,776)</b>
<b>Cash flows from investing activities</b>		
Divestment of associates	-	1
Dividend received from associates	3	5
Purchase and sale of bonds and equities, net	(6,102)	21,089
Purchase of intangible assets	(72)	(87)
Purchase of property, plant and equipment	(45)	(350)
Sale of property, plant and equipment	1,580	344
<b>Total</b>	<b>(4,636)</b>	<b>21,003</b>
<b>Cash flows from financing activities</b>		
Issuance of subordinated debt	-	6,312
Redemption of subordinated debt	(100)	(6,699)
Issuance of Additional Tier 1 capital recognised in equity	-	3,731
Purchase and sale of self-issued subordinated debt instruments	1	55
<b>Total</b>	<b>(99)</b>	<b>3,399</b>
<b>Total cash flows for the year</b>	<b>11,521</b>	<b>(19,374)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>23,253</b>	<b>42,288</b>
Foreign currency translation adjustment of cash	56	339
<b>Cash and cash equivalents, year-end</b>	<b>34,829</b>	<b>23,253</b>
<b>Cash and cash equivalents, year-end:</b>		
Cash balances and demand deposits with central banks	2,087	3,095
Receivables from credit institutions and central banks	32,742	20,158
<b>Total</b>	<b>34,829</b>	<b>23,253</b>

## NOTES

1. Accounting policies	64	39. Other provisions	111
2. Capital and capital adequacy	76	40. Subordinated debt	112
3. Business areas	79	41. Off-balance sheet items	113
4. Reconciliation of internal and regulatory income statement	81	42. Related party transactions and balances	114
5. Interest income	82	43. Fair value disclosures	116
6. Interest expenses	82	43. Fair value disclosures (continued)	117
7. Dividend on equities	83	44. Derivative financial instruments	121
8. Fee and commission income	83	45. Repo transactions and reverse repurchase lending	123
9. Fee and commission expenses	83	46. Risk management	124
10. Value adjustments	84	47. Hedge accounting	137
11. Staff and administrative expenses	84	48. Currency exposure	138
12. Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	88	49. Other information	139
13. Impairment losses on loans, advances and receivables	89	50. Financial ratios, definitions	140
14. Profit from investments in associates and Group enterprises	90	51. Five-year financial highlights	141
15. Tax	91	52. Group structure	143
16. Receivables from credit institutions and central banks	92		
17. Loans, advances and other receivables at fair value	92		
18. Loans, advances and other receivables at amortised cost	94		
19. Bonds at fair value	96		
20. Equities	97		
21. Investments in associates	97		
22. Investments in Group enterprises	98		
23. Intangible assets	98		
24. Land and buildings	101		
25. Other property, plant and equipment	103		
26. Assets in temporary possession	103		
27. Other assets	103		
28. Payables to credit institutions and central banks	106		
29. Deposits and other payables	106		
30. Bonds in issue at fair value	106		
31. Bonds in issue at amortised cost	108		
32. Other non-derivative financial liabilities at fair value	109		
33. Other liabilities	109		
34. Provisions for deferred tax/deferred tax assets	110		
35. Current tax assets and liabilities	110		
36. Provisions for pensions and similar obligations	111		
37. Repayable reserves in pre-1972 series	111		
38. Provisions for losses under guarantees	111		

# NOTES

## 1. ACCOUNTING POLICIES

### FIRST-TIME ADOPTION OF IFRS

The Nykredit Holding Group's Financial Statements are prepared for the first time in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. Previously, the Financial Statements of both Nykredit Holding A/S and the Nykredit Holding Group were prepared in accordance with the Danish FSA Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

The Financial Statements of the Parent, Nykredit Holding A/S, are still prepared in accordance with the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. This is described last in the Accounting policies.

In accordance with IFRS 1, the opening balance sheet as at 1 January 2015 and comparative figures for 2015 are prepared in compliance with the IFRS/IAS and IFRIC/SIC applicable as at 31 December 2016. The opening balance sheet as at 1 January 2015 was prepared according to the same principles as if the standards mentioned above had been applied.

The effect of the transition on the Financial Statements may be summarised as follows:

The Financial Statements of the Nykredit Holding Group materially reflect the Consolidated Financial Statements of the subsidiary Nykredit Realkredit A/S, as Nykredit Holding A/S, except for equity interests in Nykredit Realkredit A/S, has only very limited activity of an administrative nature.

The Nykredit Realkredit Group has since 2005 prepared its Financial Statements in accordance with the principles of IAS/IFRS, and the Financial Statements of the Nykredit Holding Group have reflected this practice to a considerable degree. This means, *inter alia*, that the transition to IFRS/IAS does not affect the recognition and measurement principles of the Consolidated Financial Statements of the Nykredit Holding Group.

The transition to IFRS/IAS only results in reclassification of the Group's portfolio of strategic equities to "available for sale", which corresponds to the accounting classification of the portfolio in the Consolidated Financial Statements of the subsidiary Nykredit Realkredit A/S. The portfolio is still included in the balance sheet under "Equities" and measured at fair value. The classification implies that changes in the fair value up to a potential sale is recognised in equity through "Other comprehensive income". Changes in the fair value were previously recognised through profit or loss. Total comprehensive income is unchanged.

The value of total assets, equity and liabilities of the Nykredit Holding Group is unchanged compared with previous accounting policies.

As first-time adopter of IFRS/IAS for preparing consolidated financial statements, a number of optional exemptions exists under IFRS 1 regarding retrospective application of IFRS/IAS standards. As the Consolidated Financial Statements of Nykredit Holding have previously been prepared according to the same recognition and measurement principles as those applicable to the IFRS Financial Statements, Nykredit Holding has not utilised the optional exemptions.

### EFFECT OF TRANSITION TO IFRS/IAS

#### Nykredit Holding Group – summary financial statements

	Original policy	Changed policy
DKK million	Cf Financial Statements for 2015	Post transition to IFRS/IAS
<b>BALANCE SHEETS</b>		
<i>Equities</i>	4,094	4,094
<b>Total assets</b>	<b>1,383,796</b>	<b>1,383,796</b>
<i>Total payables</i>	1,306,678	1,306,678
<i>Provisions</i>	630	630
<i>Subordinated capital</i>	11,006	11,006
<i>Total equity</i>	65,482	65,482
<b>Total liabilities and equity</b>	<b>1,383,796</b>	<b>1,383,796</b>
<b>INCOME STATEMENT</b>		
<i>Value adjustments</i>	671	652
<b>Profit before tax</b>	<b>4,700</b>	<b>4,680</b>
<i>Tax</i>	1,506	1,493
<b>Profit for the year</b>	<b>3,194</b>	<b>3,187</b>
<b>Other comprehensive income</b>		
<i>Fair value adjustment of equities available for sale</i>	0	122
<i>Tax on fair value adjustment</i>	0	(13)
<i>Realised value adjustment of equities available for sale reclassified to profit or loss</i>	0	(103)
<b>Other comprehensive income</b>	<b>25</b>	<b>32</b>
<b>Total comprehensive income</b>	<b>3,219</b>	<b>3,219</b>



# NOTES

---

## GENERAL

The Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The Consolidated Financial Statements are furthermore prepared in accordance with additional Danish disclosure requirements for annual reports as stated in the IFRS Executive Order governing financial companies issued pursuant to the Danish Financial Business Act and formulated by Nasdaq Copenhagen for 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.

### Changed presentation of financial highlights as well as business areas

The income statement format for financial highlights on page 6 and the business areas (note 3) has been adjusted compared with the 2015 Annual Report. The presentation is based on the internal performance target "Profit from core business". The presentation is based on the same principles that apply to the determination of profit before tax for the year and profit for the year.

Profit from core business is determined exclusive of a number of special or individual items, including certain adjustments of derivatives, investment portfolio income, gain on the sale of owner-occupied properties and goodwill impairment etc. The sum of profit from core business and these items equals the Group's profit before tax.

Compared with the previous financial years, the presentation has been changed, and interest rate swaps with special credit value adjustments are no longer presented as a separate item.

In order to better illustrate earnings exclusive of business that Nykredit no longer offers its customers, such business has been separated out in 2016 under the item "Legacy derivatives".

These are derivatives, including instruments with step up interest rate structures and swaps, carrying an initial maturity over 15 years and entered into with eg housing cooperatives and agriculture. This item covers all net income from the relevant business activities and not merely credit value adjustments. A considerable part of the derivatives contracts concerned relates to the previously separated out portfolio for which credit value adjustments have been made. Compared with previous practice, viewed separately, this change means that DKK 114m are transferred to core income from business operations. Profit from core business is thus affected positively. The 2015 comparative figures have equally been changed by DKK 181m.

In Q1/2016, the Group set up a new business area, Wealth Management, comprising Private Banking Elite for the wealthiest clients and Nykredit Asset Management, including Nykredit Portefølje Administration A/S, previously included in Wholesale Clients. In this connection, the distribution of income and costs between Private Banking Elite and Retail has been adjusted.

The changes did not affect Nykredit Holding's or the Nykredit Holding Group's results, comprehensive income, balance sheet or equity.

Comparative figures have been restated. Reference is made to note 3.

### Other general comments on accounting policies

Apart from the above, the Group accounting policies are unchanged compared with the Annual Report 2015.

For a better overview and to reduce the amount of note disclosures where figures and qualitative disclosures are considered of insignificant importance to the Financial Statements, certain disclosures have been excluded.

### New and amended standards and interpretations

Implementation of new or amended standards and interpretations in force and effective for financial years beginning on 1 January 2016:

IAS 19 "Employee Benefits" (specification of standard) (effective from 1 February 2015).

Annual improvements to IFRS 2010-2012 (minor amendments to a number of standards as a result of the IASB's annual improvements) (effective from 1 February 2015).

IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (amendment to standard) (approved for use in the EU, effective from 1 January 2016).

IAS 27 "Equity Method in Separate Financial Statements" (amendment to standard) (approved for use in the EU, effective from 1 January 2016).

Annual improvements to IFRS 2012-2014 (minor amendments to a number of standards as a result of the IASB's annual improvements) (approved for use in the EU, effective from 1 January 2016).

IAS 1 "Presentation of Financial Statements" (amendment to standard) (approved for use in the EU, effective from 1 January 2016).

IFRS 10, IFRS 12 and IAS 28 "Consolidated Financial Statements", "Disclosure of Interests in Other Entities" and "Investments in Associates and Joint Ventures" (amendment to standards) (approved for use in the EU, effective from 1 January 2016).

IAS 16 and 38 "Property, Plant and Equipment" and "Intangible Assets" (specification of standard) (approved for use in the EU, effective from 1 January 2016).

### Reporting standards and interpretations not yet in force

At the time of presentation of the Annual Report, a number of new or amended standards and interpretations had not yet entered into force and/or had not been approved for use in the EU or were not effective for the financial year beginning on 1 January 2016.

IAS 7 "Statement of Cash Flows" (amendment to standard) (not approved for use in the EU, expected to be effective from 1 January 2017).

## NOTES

---

IFRS 9 "Financial Instruments" (new standard) (approved for use in the EU, effective from 1 January 2018).

IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (amendment to standards) (not approved for use in the EU, the effective date has been postponed).

IAS 12 "Income Taxes" (amendment to standard) (not approved for use in the EU, expected to be effective from 1 January 2017).

IFRS 14 "Regulatory Deferral Accounts" (new standard) (not approved for use in the EU, the effective date has been postponed).

IFRS 15 "Revenue from Contracts with Customers" (new standard) (approved for use in the EU, effective from 1 January 2018).

IFRS 16 "Leases" (new standard) The standard will imply capitalisation of a lessee's rights to the leased assets, including leasehold premises and the recognition of liabilities arising from the lease (not approved for use in the EU, expected to be effective from 1 January 2019).

Annual improvements to IFRS 2014-2016. Issued on 8 December 2016 and comprises minor amendments to standards as a result of the IASB's annual improvements (not approved for use in the EU, expected to be effective for financial years starting on 1 January 2017/2018).

IFRIC 22 Foreign Currency Transactions and Advance Consideration. Issued on 8 December 2016 (not approved for use in the EU, expected to be effective for financial years starting on 1 January 2018).

Amendment to IAS 40 "Transfers of Investment Property" issued on 8 December 2016 (not approved for use in the EU, expected to be effective for financial years starting on 1 January 2018).

In Management's view, the implementation of the above standards and amendments to standards, except for the implementation of IFRS 9, will have only a modest impact on Nykredit's Financial Statements.

### IFRS 9

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

For Nykredit, an important feature of IFRS 9 is the new principles for calculation of impairment losses on loans, advances and receivables as well as guarantees and unutilised credit facilities.

According to IFRS 9, measurement must be based on an expected loss principle whereas the method of the current IAS 39 is based on objective evidence of impairment (OEI) and losses incurred.

Previously provisions for guarantees and unutilised credit facilities were made on the basis of IAS 37, but in future these areas will also be covered by IFRS 9.

Compared with the current standard, IFRS 9 implies earlier recognition of impairment of loans and advances as impairment must be recognised for 12 months' expected losses already at the time of initial recognition.

In the event of later significant increases in the loan loss probability, the recognition of full lifetime expected losses on the asset/loan is generally required. The standard thus implies earlier recognition of impairment than previously and consequently higher total impairment losses at the time of implementation. Nykredit's Group Risk Management, which reports to the project's steering group is responsible for these processes and calculations. In addition, Group Risk, Group Credits and Group Finance participate 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 scope of both 12 months' expected losses as well as the lifetime expected losses on the asset/loan will be calculated based on models already applied as part of Nykredit's daily risk management. Impairment losses will thus reflect the Probability of Default (PD) and Loss Given Default (LGD).

The IFRS 9 provisions concern impairment losses on loans and advances at amortised cost. By contrast, impairment losses on loans and advances measured at fair value, including mortgage loans, are thus not covered by the standard.

However, Nykredit expects the new practice for impairment losses on loans and advances at amortised cost to have an impact on the calculation of impairment losses on loans and advances at fair value and that the principles will be adapted. Similar practices are applied today where the principles of IAS 39, to some extent, form the basis for impairment losses on loans and advances measured at fair value. The Danish Financial Supervisory Authority has not yet issued a new Danish Executive Order on the presentation of financial reports containing the new impairment rules, and therefore the calculated impact of the new standard is subject to uncertainty.

Nykredit will continue its efforts involving interpretations, analyses and setting of accounting policies as well as model adjustments in 2017, and any accounting estimates of the impact on Nykredit's impairments are currently subject to uncertainty.

Measurement of financial assets and liabilities is not otherwise expected to change significantly following implementation of IFRS 9.

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

Financial liabilities must generally be measured at amortised cost after initial recognition. However, certain liabilities, which are issued with a view to financing 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 are generally measured at amortised cost, the measurement may be carried out at fair value if the fair value measurement eliminates or reduces an accounting inconsistency (mismatch) that would otherwise follow from different measurements 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 on use of the fair value option. However, recognition in other comprehensive income does not apply if this leads to or amplifies a mismatch in the income statement.

## NOTES

Recognition in other comprehensive income is not expected to constitute a significant amount.

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. Hedging interest rate risk (hedge accounting) is still made according to the IAS 39 rules, among other things, due to the fact that IFRS 9 does not yet comprise provisions on macro hedging.

The measurement of financial assets is carried out on the basis of the business model for which the company has allocated the individual assets.

Financial assets attributable to a business model where Nykredit intends to collect such contractual cash flows on expiry are measured at amortised cost. An initial review shows that Nykredit's bank lending widely meets these criteria, as the actual sale of loans and advances only takes place in a few cases and only within a few product groups. Future measurements will thus correspond to the current practice and in principle include all 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 and advances. Both IFRS 9 and IAS 39 contain an option that allows the measurement at fair value with recognition of the value adjustment through profit and loss (fair value option) if doing so eliminates or significantly reduces an accounting mismatch. This option may be applied due to the fact that the loans are funded through the issuance of listed bonds which are traded extensively by Nykredit.

Financial assets may also be ascribed to a business model where the goal is achieved either by collecting the contractual cash flows or by selling the assets concerned. The business model is expected to include part of Nykredit's liquidity portfolio. Use of this business model entails recognition of changes in value through other comprehensive income.

Other financial assets, including securities in the form of bonds and equities must be measured at fair value through profit or loss after initial recognition. These are mainly financial instruments which are now part of the trading book.

### **SIGNIFICANT ACCOUNTING ESTIMATES AND ASSESSMENTS**

The preparation of the Consolidated Financial Statements involves the use of informed accounting estimates. These estimates and assessments are made by Nykredit'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:

#### ***Determination of the value of assets and liabilities recognised at fair value***

For a number of years, the market practice for valuation of derivatives has included market inputs in the valuation. In recent years, Nykredit has been using CVA and DVA adjustments in the measurement of derivatives.

Best practice has tended to include Funding Valuation Adjustment (FVA), which in practice corresponds to the funding costs resulting from customers having provided insufficient or no customer collateral.

Nykredit's profit before tax for 2016 was adversely affected by DKK 380m due to implementation of FVA. Of this, DKK 218m is attributable to legacy derivatives. This is an adjustment of an accounting estimate.

Note 43 specifies the methods applied to determine the carrying amounts and the specific uncertainties related to the measurement of financial instruments at fair value.

Based on level 2 or level 3 inputs of the fair value hierarchy, the fair value of financial assets and liabilities was DKK 89.7% and 0.5%, respectively, of the balance sheet total and the fair value of financial liabilities was 4.5% and 0.0%, respectively, at end-2016.

Particularly, the fair value measurement of unlisted derivative financial instruments involves significant estimates and assessments in connection with the choice of calculation methods and valuation and estimation techniques. Valuation of unlisted derivative financial instruments changes continuously, and Nykredit is closely monitoring market practice to ensure that the valuation of unlisted derivative financial instruments is consistent with market practice.

The valuation is based on yield curves, volatilities and market prices on which data is usually obtained through providers such as Reuters, Bloomberg and market makers. On valuation of derivatives, further input in the form of CVA, DVA and FVA adjustments is used, where credit and funding elements are included in the valuation. Nykredit has not previously carried out FVA adjustments, and this is thus the first time that adjustments have been made for the funding element in connection with measurement. The fair value of unlisted derivative financial instruments was 2% of the Group's assets at end-2016.

The fair value determination of financial instruments for which no listed prices in an active market or observable data are available implies the use of significant estimates and assessments in connection with the choice of credit spread, maturity and extrapolation of each instrument. The fair value of financial instruments for which no listed prices in an active market are available accounted for 94.2% of the Group's assets at end-2016.

#### ***Measurement of loans and advances – impairments***

Credit risk reflects the risk of loss following the non-performance of parties with whom Nykredit has contracted. Counterparty risk, which is the risk of loss that Nykredit may sustain if a counterparty defaults on its obligations under financial instruments, is an element of credit risk. Reference is made to note 46 for a more detailed description of credit risk.

Impairment losses on loans and advances involves significant estimates and assessments in the assessment of whether there is objective evidence of impairment (OEI) and in the determination of the size of the loss.

In connection with the determination of the size of the loss, realisable values of security received and expected dividend payments from bankrupt estates are subject to a number of estimates. Similarly, the determination of the timing interval in which the cash flows are received, involves significant estimates. Reference is made to "Impairment losses on loans, advances and receivables" below for a detailed description.

Credit risk is linked to the assessment of individual counterparties as well as groups of loans and advances.

In order to ensure consistency in the determination of credit risk and to underpin the estimation element with statistical data, Nykredit uses internally developed models (IRB models), and in H2/2016 the Danish Financial Supervisory Authority authorised Nykredit to use the advanced IRB method with internal LGD and CF estimates to Nykredit Bank's business exposures.

In a number of instances, the model-based collective impairment provisions need to be supplemented by management judgement. This is typically in connection with eg macroeconomic events that may affect the level of impairment provisioning, but which have not yet been captured by the statistical models. This estimate is made by managers and staff with in-depth knowledge of the credits area. The reasons may be changes in agricultural settlement prices due to changed economic trends and/or changed export opportunities as well as special financial and legal conditions in the cooperative housing sector that may affect credit risk beyond the result derived on the basis of model-based impairment provisions. The estimates are adjusted and evaluated on a regular basis.

Loans and advances made up 86.4% of the Group's assets at end-2016.

## RECOGNITION AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial instruments, including loans, advances and receivables, bonds in issue and other debt as well as derivative financial instruments represented more than 95% of the Group's assets as well as liabilities.

### Recognition

Financial instruments are recognised on the settlement date. With respect to financial instruments that are subsequently measured at fair value, 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" and "Other liabilities", respectively, 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 the Group has transferred all risks and returns related to ownership in all material respects.

Initially, financial instruments are recognised at fair value. Financial instruments are subsequently measured at amortised cost or fair value depending on the categorisation of the individual instrument. Financial instruments subsequently measured at cost are recognised inclusive or exclusive of the transaction costs inherent in the issue.

### Valuation and classification

Valuation principles and classification of financial instruments are described below as well as in note 43.

#### Financial instruments are classified as follows:

- Loans, advances and receivables as well as financial liabilities at amortised cost
- Financial assets and liabilities at fair value through profit or loss:
  - that are held for trading, or
  - under the fair value option
- Financial assets available for sale.
- 

#### Loans, advances and receivables as well as financial liabilities at amortised cost

Receivables from and payables to credit institutions and central banks not acquired as part of repo and reverse repurchase transactions, the Group's bank lending, corporate bonds in issue, a small part of senior debt in issue and subordinated debt as well as deposits and other payables are included in this category.

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

If the interest-rate risk of fixed-rate financial instruments is effectively hedged using derivative financial instruments, the fair value of the hedged interest rate risk is added to or deducted from the amortised cost of the asset.

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

#### Financial assets and liabilities held for trading at fair value through profit or loss

A financial asset/liability is classified as "held for trading" if:

- it is chiefly acquired with a view to a short-term gain
- it forms part of a portfolio where there is evidence of realisation of short-term gains, or
- it is a derivative financial instrument that is not a hedge accounting instrument.

The Group's equity and bond portfolios (exclusive of strategic equities), derivative financial instruments and negative securities portfolios are included in this category.

After initial recognition, equities and bonds in the trading book 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.

If no objective prices from recent trades in unlisted equities are available, these equities are measured at fair value using the International Private Equity and Venture Capital Valuation Guidelines for unlisted equities or in some instances at equity value if this is deemed to correspond to the fair value of the instrument.

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

Derivative financial instruments are classified as financial assets held for trading. 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".

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.

## NOTES

---

### **Financial assets and liabilities at fair value through profit or loss using the fair value option**

On initial recognition, a financial asset/liability is classified at fair value (the fair value option) if:

- a group of financial assets/liabilities is under management, and earnings are assessed by Nykredit's Management based on fair value in accordance with a documented risk management strategy or investment strategy. The majority of the Group's senior debt in issue is consequently recognised at fair value.
- this classification eliminates or materially reduces measurement inconsistency that would arise on using the general measurement provisions of IAS 39. Mortgage loans and issued covered bonds (ROs and SDOs) are consequently recognised at fair value.

The Group's reverse repurchase lending and repo deposits are included in this category.

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 delivery of the underlying bonds, and the Group 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. At the same time, 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 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.

In order to avoid the consequently inconsistent impact on results, 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.

After initial recognition, covered bonds in issue and the majority of senior 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 changes in the fair value of "Financial assets and liabilities at fair value by means of the fair value option through profit or loss" are recognised in "Value adjustments" in the income statement. However, value adjustments due to credit risk are recognised in "Impairment losses on loans, advances and receivables".

### **Financial assets available for sale**

The Group's strategic equity investments are classified as financial assets available for sale. The item includes both equities traded in an active market and unlisted equities. Up to a potential sale, unrealised value adjustments of equities available for sale are recognised in "Other comprehensive income" except for impairment losses resulting from material or permanent impairment. Such impairment losses are charged to "Value adjustments" in the income statement.

On realisation, the accumulated value adjustment recognised in "Other comprehensive income" is transferred to "Value adjustments" in the income statement.

### **Impairment losses on loans, advances and receivables**

Impairment losses on loans, advances and receivables are divided into individual and collective impairment provisions. The Group's loans and advances are generally placed in groups of uniform credit risk. 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, which is removed from the relevant group and treated separately.

### **Individual impairment provisions**

The Nykredit Holding Group 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
- Nykredit has eased the borrower's loan terms, which would not have been relevant had the borrower not suffered financial difficulties.

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. With respect to asset-backed financing, impairment is recognised for the difference between the carrying amount before impairment and the fair value of the security less all costs.

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

Similar individual impairment provisions are made for non-significant loans, advances and receivables if there is OEI and the event/s concerned is/are believed to have a reliably measurable effect on the size of expected future cash flows from the exposure/loan.

If there is OEI in respect of loans at fair value, Nykredit assesses the probability of losses, and the assessment is included in the calculation of individual impairment provisions. Asset-backed financing is fully impaired without the use of probability weights.

For portfolios of small uniform loans, typically loans to personal customers where OEI is identified for each loan, individual impairment provisions are calculated using a statistical model. The statistical model is partly based on experience of losses on similar loans.

### **Collective impairment provisions**

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

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

Collective impairment provisions are the total of inputs from a rating model and management judgement.

# NOTES

---

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

## **Impairment provisions in general**

Provisions for loan impairment are taken to an allowance account and deducted from the relevant asset items. Write-offs, changes in loan impairment provisions for the year and provisions for guarantees are charged to the income statement in "Impairment losses on loans, advances and receivables".

For mortgage loans granted via Totalkredit, the partner banks are subject to a set-off agreement. The agreement means that if a partner bank covers part of an incurred loss, "Impairment losses on loans, advances and receivables" will be reduced by this amount.

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

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

## **RECOGNITION, MEASUREMENT AND PRESENTATION IN GENERAL**

### **Recognition and measurement**

Assets are recognised in the balance sheet if it is probable as a result of a previous event that future economic benefits will flow to the Group, 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 Group are recognised in the income statement, including depreciation, amortisation, impairment losses, provisions and reversals as a result of changed accounting estimates of amounts previously recognised in the income statement.

### **Hedge accounting**

The Group applies derivative financial instrument (derivatives) to hedge interest rate risk on loans and advances, subordinated debt and bonds in issue measured at amortised cost as well as equity price risk on deposits where the return tracks an equity index.

Changes in the fair values of derivative financial instruments that are classified and qualify as fair value hedges of a recognised asset or liability are recognised in the income statement together with changes in the value of the hedged asset or liability that are attributable to the hedged risk.

The hedges are established for individual assets and liabilities and at portfolio level. The hedge accounting effectiveness is measured and assessed on a regular basis.

If the criteria for hedge accounting are no longer met, the accumulated value adjustment of the hedged item is amortised over its residual life.

### **Offsetting**

Financial assets and liabilities are offset and the net amount reported when the Group has a legally enforceable right of set-off and intends either to settle by way of netting or to realise the asset and settle the liability simultaneously. Offsetting mostly takes place in connection with repo transactions and derivative financial instruments cleared through recognised clearing centres.

### **Consolidation**

Nykredit Holding A/S (the Parent) and the enterprises in which Nykredit Holding A/S exercises direct or indirect control over the financial and operational management are included in the Consolidated Financial Statements. Nykredit Holding A/S and its subsidiaries are collectively referred to as the Nykredit Holding Group.

Enterprises in which the Nykredit Holding Group has joint control together with other enterprises which do not form part of the Group are considered joint ventures. The Group's investments in joint ventures are recognised and measured according to the equity method.

The Consolidated Financial Statements are prepared on the basis of the financial statements of the individual enterprises by combining items of a uniform nature. The financial statements applied for the consolidation are prepared in accordance with the Group's accounting policies. The financial statements for partly owned subsidiaries are fully consolidated, and minority interests' share of the Group's results and equity is stated as separate items in the income statement and under equity, respectively. All inter-company income and costs, dividends, intercompany shareholdings, inter-company derivatives and balances as well as realised and unrealised inter-company gains and losses are eliminated.

Acquired enterprises are included from the time of acquisition, which is when the acquiring party obtains control over the acquired enterprises' financial and operational decisions.

Divested enterprises are included up to the time of divestment.

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

The Group financial highlights in the Management Commentary as well as the segment financial statements are presented in a statement of profit from core business as well as certain items falling outside the scope of this statement, as Management finds that this presentation best reflects the activities and earnings of the Group.

Profit from core business reflects core income from business with customers, net costs of senior debt and subordinated debt, and core income from securities less operating costs, depreciation, amortisation and loan impairment losses. Net costs of senior debt consist of the difference between the interest payable on the senior debt in issue and the interest receivable on assets in which the proceeds are invested.

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

Net earnings from derivatives no longer offered by Nykredit are stated as a separate item in the income statement. These are interest rate swaps with an initial maturity over 15 years entered into with eg housing cooperatives.

## NOTES

---

Further, the gain on sale of owner-occupied properties and goodwill impairment is stated as separate items in the income statement.

Investment portfolio income is the income exceeding risk-free interest obtained from investing in equities, bonds and derivative financial instruments. To this should be added the realised capital gains/losses on the sale of equities classified as available for sale (strategic equities). Price spreads and interest margins relating to the mortgage lending of Nykredit Realkredit and Totalkredit as well as the trading activities of Nykredit Markets are included not as investment portfolio income, but as core income from business operations. Value adjustment of the senior debt in issue and the assets in which proceeds are invested is included in investment portfolio income.

### Segment information

Information is provided on business areas and core income and loans and advances in geographical markets. Nykredit has very few business activities outside Denmark. Business areas are defined on the basis of differences in customer segments and services. Items that cannot be allocated to the business areas are included in Group Items. The presentation of the business areas is based on internal management reporting. The business areas reflect the Group's return and risk and are considered the Group's core segments. Segment information is in accordance with the Group's accounting policies.

The presentation is based on the internal performance target "Profit from core business". The profit is based on the same recognition principles that apply to the determination of profit before tax for the year and profit for the year.

Profit from core business is determined exclusive of a number of special or individual items, including certain adjustments of types of derivatives, investment portfolio income, gain on the sale of owner-occupied properties and goodwill impairment etc. The sum of profit from core business and these items equals the Group's profit before tax.

Income and expenses included in the profit or loss before tax of the individual business areas comprise directly as well as indirectly attributable items. Indirect allocation is based on internal allocation keys and agreements between the individual business areas.

Financial assets and liabilities are allocated to the relevant business area in accordance with internal reporting.

The average business capital of the individual business areas is determined according to Nykredit's internal capital determination model, calculated as 17.5% of the risk exposure amount.

The business return is calculated as the business area's profit from core business relative to the average allocated business capital.

No risk-free interest is calculated on capital allocated to the business areas. Such interest is recognised under Group Items.

Segment information is provided exclusively at Group level.

### Currency

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

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

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

Currency translation differences arising on translation of non-monetary assets and liabilities are recognised in the income statement as part of the fair value gain or loss.

The financial statements of independent foreign entities (branches in Poland and Sweden) are translated into Danish kroner at the exchange rates prevailing on the balance sheet date with respect to balance sheet items and at average exchange rates with respect to income statement items.

### Repo transactions and reverse repurchase lending

Securities sold as part of repo transactions are retained in the appropriate principal balance sheet item, eg "Bonds". Repo transactions are measured at fair value as they are considered an integral component of the trading book.

The amount received is recognised under payables to the counterparty or in "Non-financial liabilities at fair value". The liability is fair value adjusted over the life of the agreement through profit or loss.

Securities acquired as part of reverse repurchase lending are stated as receivables from the counterparty or in "Loans, advances and other receivables at fair value". The receivables are fair value adjusted over the life of the agreement through profit or loss.

Where the Group resells assets received in connection with reverse repurchase lending, and where the Group is obliged to return the instruments, the value thereof is included in "Other non-derivative financial liabilities at fair value".

Repo transactions and reverse repurchase lending are recognised and measured at fair value, and the return is recognised as interest income and interest expenses in the income statement.

### Leases

Leases where Nykredit is the lessor are classified as finance leases when all material risk and returns associated with the title to an asset have been transferred to the lessee.

Receivables from the lessee under finance leases are included in "Loans, advances and other receivables at amortised cost". The leases are valued so that the carrying amount equals the net investment in the lease. Interest income from finance leases is recognised in "Interest income". Principal payments made are deducted from the carrying amount as the receivable is amortised.

Direct costs of establishment of leases are recognised in the net investment.

Other leases are classified as operating leases. Nykredit has entered into leases in respect of rent, including rent paid for certain owner-occupied properties, as well as minor leases concerning photocopying machines and cars.

### Business combinations

On acquisition of new enterprises where control is obtained over the acquired enterprise, the purchase method is applied. Acquisitions are reported using the uniting-of-interests method of accounting in case of mergers between enterprises with the same management.

# NOTES

---

## 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. The item also includes index premium on assets, forward premium on securities and foreign exchange trades as well as adjustments over the life of financial assets measured at amortised cost and where the cost differs from the redemption price.

Interest income from impaired bank loans and advances is included in "Interest income" at an amount reflecting the effective interest rate of the impaired value of loans and advances. Any interest income from the underlying loans and advances exceeding this amount is included in "Impairment losses on loans, advances and receivables".

Interest expenses comprise interest and similar expenses including adjustment over the life of financial liabilities measured at amortised cost and where the cost differs from the redemption price.

### Negative interest

Negative interest income is recognised under "Interest income" and negative interest expenses under "Interest expenses". Negative interest is specified in a note.

### Dividend

Dividend from equity investments is recognised as income in the income statement in the financial year in which the dividend is declared.

### Fees and commissions

Fees and commissions comprise income and costs relating to services, including management fees. Fee income relating to services provided on a current basis is accrued over their terms.

For accounting purposes, fees, commissions and transaction costs are treated as interest if they form an integral part of the effective interest of a financial instrument.

Other fees and commissions are fully recognised in the income statement at the date of transaction.

### Other operating income

"Other operating income" comprises operating income not attributable to other income statement items, including income under operating leases, as well as gain on the sale of investment and owner-occupied properties.

### 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.

Administrative expenses comprise IT and marketing costs as well as leasehold rent.

### Other operating expenses

"Other operating expenses" comprises operating expenses not attributable to other income statement items, including contributions to guarantee and resolution schemes for mortgage banks as well as one-off expenses.

## Tax

Tax for the year, consisting of current tax for the year and changes to deferred tax and adjustment of tax for previous years, is recognised in the income statement, unless the tax effect concerns items recognised in "Other comprehensive income". Tax relating to "Other comprehensive income" items is recognised in the same item.

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.

The Danish tax of the jointly taxed companies is payable in accordance with the scheme for payment of tax on account. Interest payable or deductible relating to voluntary payment of tax on account and interest receivable or payable on over-/underpaid tax are 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.

Deferred tax is determined on the basis of the intended use of each asset or the settlement of each liability. Deferred tax is measured using the tax rates expected to apply to temporary differences upon reversal and the tax rules prevailing on the balance sheet date.

Deferred tax assets, including the tax base of any tax loss carryforwards, are recognised in the balance sheet at the value at which they are expected to be realised, either by set-off against deferred tax liabilities or as net tax assets for set-off against tax on future positive taxable income. On each balance sheet date, it is assessed whether it is probable that a deferred tax asset can be used.

The Nykredit Group's Danish companies are jointly taxed with Foreningen Nykredit (the Nykredit Association). 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).

Current tax assets and current tax liabilities are offset when there is a legally enforceable right to do so.

## ASSETS

### Loans, advances and other financial assets

Reference is made to the above description under "Significant accounting estimates and assessments" and "Financial instruments" for these items.

### Investments in associates

Investments in associates include enterprises that are not Group enterprises, but in which the Nykredit Holding Group exercises significant influence but not control, and joint ventures. Enterprises in which the Group holds between 20% and 50% of the voting rights are generally considered associates.

Investments in associates are recognised and measured according to the equity method. Investments in associates are recognised and measured according to the equity method and are therefore measured at the proportional ownership interest of the enterprises' equity value carried less/plus the proportionate share of unrealised intercompany gains and losses plus goodwill.

The proportionate share of associates' and joint ventures' profit or loss after tax, after elimination of the proportionate share of intercompany gains and losses, is recognised in the consolidated income statement.



# NOTES

## Intangible assets

### Goodwill

Goodwill comprises positive balances between the cost of enterprises acquired and the fair value of the net assets of such enterprises at the time of acquisition. Goodwill is tested for impairment at least once a year, and the carrying amount is written down to the lower of the recoverable amount and the carrying amount in the income statement. Reference is made to note 23 for a detailed description of the parameters of the impairment test and sensitivities.

Impairment losses are recognised in the income statement and are not reversed.

### Other intangible assets

Costs relating to development projects are recognised as intangible assets provided that there is sufficient certainty that the value in use of future earnings will cover actual development costs.

Capitalised development costs comprise salaries and other costs directly and indirectly attributable to the Group's development activities.

Other development costs are recognised as costs in the income statement as incurred.

Capitalised development costs are measured at cost less accumulated amortisation. Capitalised development costs are amortised on completion of the development project on a straight-line basis over the period in which it is expected to generate economic benefits. The amortisation period is 3-5 years.

Fixed-term rights are recognised at cost less accumulated amortisation. Fixed-term rights are amortised on a straight-line basis over their remaining terms. Fixed-term rights lapse after a period of 5-10 years.

Customer relationships are recognised at cost less accumulated amortisation. Customer relationships are amortised on a straight-line basis over the estimated useful lives of the assets. The amortisation period is 3 years.

Other intangible assets are written down to the recoverable amount where OEI is identified.

Impairment losses recognised in the income statement are not reversed.

## Land and buildings

### Owner-occupied properties

Owner-occupied properties are properties which the Group uses for administration, sales and customer contact centres or for other service activities.

On acquisition, owner-occupied properties are recognised at cost and subsequently measured at a reassessed value, equal to the fair value at the revaluation date less subsequent accumulated depreciation and impairment losses. Revaluations are made annually to prevent the carrying amounts from differing significantly from the values determined using the fair value on the balance sheet date.

Subsequent costs are recognised in the carrying amount of the asset concerned or as a separate asset where it is probable that costs incurred will lead to future economic benefits for the Group, and the costs can be measured reliably. The costs of ordinary repair and maintenance are recognised in the income statement as incurred.

Fair value is determined in accordance with the return method, under which operating income from the properties is considered in relation to the required rates of return on the properties. The required rates of return under this method take into account the nature, location and state of

repair of the property concerned as well as sales efforts within a reasonable period. The valuation is performed by an internal valuer.

Positive value adjustments less deferred tax are added to revaluation reserves under equity via "Other comprehensive income". Impairment losses offsetting former revaluation of the same property are deducted from revaluation reserves via "Other comprehensive income", while other impairment losses are recognised through profit or loss.

When the asset is ready for entry into service, it is depreciated on a straight-line basis over the estimated useful life of 10-50 years, allowing for the expected scrap value at the expiry of the expected useful life. Land is not depreciated.

Gains and losses on divested assets are determined by comparing sales proceeds with carrying amounts and are recognised in the income statement. On divestment of revalued assets, revaluation amounts contained in the revaluation reserves are transferred to "Retained earnings" under equity without recognition in the income statement.

### Investment properties

Properties which are not occupied by the Group and which are held for the purpose of obtaining rental income and/or capital gains are classified as investment properties.

On acquisition, investment properties are recognised at cost, which includes the purchase price of the property and direct costs. Subsequently, investment properties are measured at fair value, and value adjustments are carried in the income statement.

Fair value is determined on the basis of open market prices or the return method. Where open market prices are applied, adjustment is made for any differences in the nature, location or state of repair of the asset concerned.

Under the return method, operating income from the properties is considered in relation to the required rates of return on the properties. The required rates of return under this method take into account the nature, location and state of repair of the property concerned as well as sales efforts within a reasonable period. The valuation is performed by an internal valuer.

## Other property, plant and equipment

### Equipment

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

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

- Computer equipment and machinery up to 5 years
- Equipment and motor vehicles up to 5 years
- Leasehold improvements; maximum term of the lease is 15 years.

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

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

## Assets in temporary possession

Assets in temporary possession include property, plant and equipment or groups thereof as well as investments in subsidiaries and associates in respect of which:

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

Properties acquired in connection with the termination of an exposure are recognised in "Assets in temporary possession".

Liabilities directly attributable to the assets concerned are presented as liabilities relating to assets in temporary possession in the balance sheet.

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. Assets are not depreciated or amortised once classified as assets in temporary possession.

Impairment losses arising on initial classification as assets in temporary possession and gains and losses on subsequent measurement at the lower of the carrying amount and the fair value less selling costs are recognised in "Impairment losses on loans, advances and receivables" in the income statement. Income and expenses relating to subsidiaries in temporary possession are recognised separately in the income statement if the effect is significant.

## LIABILITIES AND EQUITY

### Payables

Reference is made to the above description under "Financial instruments" for these items.

### Provisions

Provisions are recognised where, as a result of an event occurred on or before the balance sheet date, the Group 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.

### Pensions and similar obligations

The Group has entered into pension agreements with the majority of its staff. The agreements may be divided into two main types of plans:

- Defined contribution plans according to which the Group makes fixed contributions to staff pension plans on a current basis. The Group is under no obligation to make further contributions. The contributions to defined contribution plans are recognised in the income statement for the period concerned, and any contributions payable are recognised in "Other payables" in the balance sheet.
- Defined benefit plans under which the Group is obliged to pay certain benefits in connection with retirement. Defined benefit plans are subject to an annual actuarial calculation (the projected unit credit method) of the value in use of future benefits payable under the plans.

The value in use of defined benefit plans is based on assumptions of the future development in eg wages, interest rates, inflation and mortality. Discounting is based on an interest rate determined in accordance with IAS 19. The value in use is only calculated for benefits to which staff members have become entitled through their employment with the Group.

The fair value of assets relating to the pension plan less the actuarial value in use of the pension obligations is recognised in the balance sheet under "Other assets" or "Other liabilities". Actuarial gains and losses are recognised in "Other comprehensive income" in the year in which they arose.

A number of the Group's staff members are entitled to receive a bonus on attaining retirement age and when having been employed by the Group for 25 and 40 years. The obligations are recognised successively up to the date when the staff member is entitled to receive the benefit. The measurement of the size of the obligation allows for actuarial conditions, including the probability of staff members retiring before the benefit vests and therefore losing entitlement to the benefit. The obligations are recognised at present value using a zero-coupon rate plus a risk margin. The present value changes prompted by changes to the discount rate within the financial year are recognised in "Other interest income" or "Other interest expenses".

### Repayable reserves in pre-1972 series

Repayable reserves include reserves in pre-1972 series repayable after full or partial redemption of loans in compliance with the articles of association of the series concerned.

### Provisions for losses under guarantees

Provisions for losses under guarantees and loss-making contracts are recognised if it is probable that the guarantee or the contract will become effective and if the liability can be measured reliably.

### Subordinated debt

Subordinated debt consists of financial liabilities in the form of subordinate loan capital, Additional Tier 1 capital and hybrid capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.

Nykredit has raised subordinated debt in the form of bonds in issue which are subject to permanent write-down through profit or loss if Nykredit's Common Equity Tier 1 capital ratio drops to 7% or less. Until this level is reached, Nykredit is obliged to pay interest to bondholders, which combined with the current high capital level has resulted in the issue being classified as subordinated debt.

### Equity

#### Share capital

Shares in issue are classified as equity where there is no legal obligation to transfer cash or other assets to the shareholder.

#### Revaluation reserves

Revaluation reserves include positive value adjustment of owner-occupied properties less deferred tax on the value adjustment. Increases in the reassessed value of properties are recognised directly in this item unless the increase cancels out a decrease previously recognised in the income statement. The item is adjusted for impairment fully or partially cancelling out previously recognised value increases. The item is also reduced on divestment of properties.

#### Accumulated value adjustment of equities available for sale

The reserve includes unrealised value adjustment of equities available for sale less deferred tax on the value adjustment. If there is impairment of a significant or permanent nature, the accumulated unrealised loss is reclassified from the reserve to the income statement.

#### Series reserves

Series reserves include series reserves where there is no obligation to repay the borrowers.

# NOTES

---

## **Retained earnings**

Retained earnings comprise reserves which are in principle distributable to the Company's shareholders. However, under the Danish Financial Business Act, distribution must in certain circumstances ensure Nykredit's compliance with the so-called combined capital buffer requirement in respect of the Parent and the Group.

## **Proposed dividend**

Dividend expected to be distributed for the year is carried as a separate item in equity. Proposed dividend is recognised as a liability at the time of adoption at the Annual General Meeting (time of declaration).

## **Minority interests**

Minority interests comprise the share of a subsidiary's equity owned by other parties than the Group companies.

## **Additional Tier 1 capital**

Perpetual Additional Tier 1 capital with discretionary payment of principal and interest is recognised as equity for accounting purposes. Correspondingly, interest expenses relating to the issue are recorded as dividend for accounting purposes. Interest is deducted from equity at the time of payment.

## **CASH FLOW STATEMENT**

The consolidated cash flow statement is prepared according to the indirect method based on profit or loss for the year. The consolidated cash flow statement shows cash flows for the year stemming from:

- Operating activities
- Investing activities
- Financing activities.

•

Operating activities include the Group's principal and other activities which are not part of its investing or financing activities.

Investing activities comprise the purchase and sale of non-current assets and financial investments not included in cash and cash equivalents.

Financing activities comprise subordinated debt raised as well as redeemed, including the sale and purchase of self-issued subordinated debt, and payments to or from shareholders.

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

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

## **ACCOUNTING POLICIES APPLYING SPECIFICALLY TO THE PARENT NYKREDIT HOLDING A/S**

The Financial Statements of the Parent Nykredit Holding A/S are prepared in accordance with the Danish Financial Business Act and the FSA Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. In all material respects, these rules comply with the International Financial Reporting Standards (IFRS) and the Group's accounting policies as described above. An exception to these accounting policies includes recognition of "Equities available for sale". This exception and other special circumstances relating to the Parent are described below.

## **Changes to the Executive Order on the presentation of financial reports**

The Danish FSA did not make any amendments to the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc for 2016 that have affected the Parent Financial Statements.

## **Investments in Group enterprises**

Investments in Group enterprises (subsidiaries) are recognised and measured according to the equity method. Conversely, the IFRS did not allow the equity method in separate parent financial statements until the amendment to IAS 27 entered into force as at 1 January 2016. The IFRS prescribed measurement either at cost or at fair value until that date.

The proportional ownership interest of the equity value of the enterprises less/plus unrealised intercompany gains and losses is recognised in "Investments in Group enterprises" in the Parent's balance sheet. Any positive difference between the total cost of investments in Group enterprises and the fair value of the net assets at the time of acquisition is recognised in "Intangible assets" in the balance sheet.

Nykredit Holding's share of the enterprises' profit or loss after tax and elimination of unrealised intercompany gains and losses less depreciation, amortisation and impairment losses is recognised in the Parent's income statement.

Total net revaluation of investments in Group enterprises is transferred to equity in "Statutory reserves" through the distribution of profit for the year. The reserves are reduced by dividend distribution to the Parent and are adjusted for other changes in the equity of Group enterprises.

## **Statutory reserves**

The Parent's statutory reserves include value adjustment of investments in subsidiaries and associates (net revaluation according to the equity method). The reserves are reduced by dividend distribution to the Parent and are adjusted for other changes in the equity of subsidiaries and associates. The reserves are non-distributable.

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group		
2015	2016	2016	2015	
<b>2. CAPITAL AND CAPITAL ADEQUACY</b>				
61,708	67,192	Equity for accounting purposes	70,955	65,482
-	-	Minority interests not included	(1,649)	-
-	-	Carrying amount of Additional Tier 1 capital recognised in equity	(3,760)	(3,774)
<b>61,708</b>	<b>67,192</b>	<b>Equity excl Additional Tier 1 capital and minority interests</b>	<b>65,546</b>	<b>61,708</b>
-	-	Prudent valuation adjustment	(95)	(359)
-	-	Minority interests	988	-
-	-	Intangible assets excluding deferred tax liabilities	(199)	(223)
-	-	Provisions for expected losses in accordance with IRB approach	(329)	(1,116)
-	-	Other additions/deductions	(277)	(544)
-	-	Deduction for treasury shares	(279)	-
-	-	Transitional adjustment of deductions	228	806
-	-	<b>Common Equity Tier 1 capital deductions</b>	<b>36</b>	<b>(1,436)</b>
<b>61,708</b>	<b>67,192</b>	<b>Common Equity Tier 1 capital</b>	<b>65,582</b>	<b>60,272</b>
-	-	Additional Tier 1 capital/hybrid capital	2,546	1,188
-	-	Additional Tier 1 capital/hybrid capital deductions	(42)	(22)
-	-	Transitional adjustment of deductions	(49)	(322)
-	-	<b>Total Additional Tier 1 capital/hybrid capital after deductions</b>	<b>2,455</b>	<b>845</b>
<b>61,708</b>	<b>67,192</b>	<b>Tier 1 capital</b>	<b>68,037</b>	<b>61,117</b>
-	-	Tier 2 capital	8,510	3,616
-	-	Tier 2 capital additions/deductions	25	-
-	-	Transitional adjustment of deductions	(66)	(335)
<b>61,708</b>	<b>67,192</b>	<b>Own funds</b>	<b>76,507</b>	<b>64,398</b>
228,240	248,618	Credit risk (incl Credit Valuation Adjustments)	303,243	263,847
-	-	Market risk	25,437	27,958
93	42	Operational risk	19,678	18,489
<b>228,333</b>	<b>248,661</b>	<b>Total REA</b>	<b>348,359</b>	<b>310,294</b>
<b>Financial ratios</b>				
27.0	27.0	Common Equity Tier 1 capital ratio, %	18.8	19.4
27.0	27.0	Tier 1 capital ratio, %	19.5	19.6
27.0	27.0	Total capital ratio, %	21.9	20.7

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.

In the Group's capital determination, a deduction has been made for parts of Totalkredit's non-distributable reserve fund. The deduction is based on the assessment of the Danish FSA that the non-distributable reserve fund cannot be recognised fully according to a decision made by the Danish FSA concerning the non-distributable reserve fund of another financial undertaking. Nykredit does not concur with the assessment of the Danish FSA and expects to discuss the issue with the FSA from a legal perspective in spring 2017 with a view to reaching a formal decision concerning the treatment of Totalkredit's non-distributable reserve fund for capital adequacy purposes. The deduction totalled DKK 287m, consisting of a CET1 capital deduction of DKK 658m and additions to Tier 1 capital and own funds of DKK 50m and DKK 321m, respectively.

# NOTES

Nykredit Holding Group

## 2. CAPITAL AND CAPITAL ADEQUACY (CONTINUED)

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

The determination takes into account the business objectives and capital policy targets by allocating capital for all relevant risks, including any model uncertainties.

### Stress tests and capital projection

Nykredit applies a number of model-based stress tests and capital projections to determine the required own funds. The stress test calculations include the macroeconomic factors of greatest importance historically to Nykredit's customers.

The most important macroeconomic factors identified are:

- Property prices
- Interest rates
- Unemployment
- GDP growth

Nykredit operates with three macroeconomic scenarios: a base case scenario, a slightly weaker economic climate and a severe recession. Both in a slightly weaker economic climate and during a severe recession, the capital requirement for credit risk builds on correlations between the macroeconomic factors, customer default rates (PD) and the size of the loss in case of customer default (LGD). These correlations are an essential element of the capital projection model.

The scenarios operate with the impacts of both rising and falling interest rates.

Nykredit participates in the stress test exercises of both the Danish FSA and the European Banking Authority (EBA). The results are compared with the internal stress tests under the capital projection model and are included in the capital planning.

### Scenario: Base case

This scenario is a projection of the Danish economy based on Nykredit's assessment of the current economic climate.

### Scenario: Slightly weaker economic climate in 2017-2019

The scenario is designed to illustrate a slightly weaker economic climate relative to the base case scenario. The capital charge is calculated based on falling interest rates. The capital charge reflects how much Nykredit's capital requirement would increase if this scenario occurred.

The capital charge for a slightly weaker economic climate came to DKK 2.8bn at end-2016.

### Scenario: Severe recession

A central element of Nykredit's capital policy is to have sufficient capital resources, also in the long term. The assessments are also factored into the current assessment of equity targets going forward.

Nykredit continually calculates the impact of severe recession combined with a relatively high interest rate level. When determining the size of the countercyclical buffer, it is assumed that the current lending volume is maintained regardless of the economic downturn.

Nykredit's severe recession scenario reflects an unusual, but not unlikely, situation. The capital charge is calculated based on rising interest rates.

According to Nykredit's stress calculations, REA may increase by over DKK 100bn in a severe recession. It should be noted, however, that Management may make business decisions that can reduce such rise.

The report Risk and Capital Management 2016, available at [nykredit.com/reports](http://nykredit.com/reports), contains a detailed description of the determination of required own funds and internal capital adequacy requirement of Nykredit as well as all Group companies. The report is not audited.

## Nykredit Holding Group

### Stress scenarios for determination of capital requirement

	2017	2018	2019
<b>Base case</b>			
Property prices, growth	1.7	1.6	1.7
Interest rates <sup>1</sup>	0.3	0.6	1.0
Unemployment	3.5	3.5	3.5
GDP growth	1.5	1.7	2.0
<b>Slightly weaker economic climate (applied under Pillar II)</b>			
Property prices, growth	(2.5)	(2.5)	(2.5)
Interest rates <sup>1</sup>	(0.1)	(0.2)	(0.3)
Unemployment	4.8	5.7	6.5
GDP growth	(0.3)	-	-
<b>Severe recession (applied under capital targets)</b>			
Property prices, growth	(12.0)	(10.0)	(5.0)
Interest rates <sup>1</sup>	5.5	6.5	7.0
Unemployment	6.5	9.0	10.0
GDP growth	(3.0)	(2.0)	-

<sup>1</sup> Average of 3-month money market rates and 10-year government bond yields.

## NYKREDIT'S CAPITAL REQUIREMENTS

### Regulatory framework

Nykredit's future capital targets are based on the regulatory capital requirements, supplemented with credit rating agencies' and bond investors' expectations for the capitalisation of Nykredit as one of the largest private bond issuers in Europe.

The regulatory capital requirements may be met using different types of capital. Both applicable legislation and financial markets require that the majority of own funds is Common Equity Tier 1 (CET1) capital. Going forward, the most important capital instruments will be:

- CET1 capital generated through retained earnings is the most important element in the capital structure. In addition, Nykredit may issue non-voting shares for capitalisation purposes. Common Equity Tier 1 (CET1) capital is to contribute to safeguarding a strong Nykredit that is able to issue covered bonds with high credit ratings and attractive prices. The return on equity should be market-consistent and form the financial foundation for continuing business growth.
- 
- A small part of the capital requirement may presumably be met by using Additional Tier 1 capital. Additional Tier 1 capital is expected to be a less expensive capital instrument than preference shares.
- 
- A small part of the capital requirement and capital for rating purposes may be met using a special type of subordinate loan capital with a so-called write-down trigger which is activated if equity falls below 7% of REA.
- 
- Lastly, a small part of the formal capital requirements may be met by conventional subordinated debt. This type of capital may also be used to meet new, future rating agency requirements.

Under the coming capital requirements, the minimum CET1 capital requirement will be 10.5-13% of REA (13% in a favourable economic climate, 10.5% during other economic trends). To this should be added 5-6% of REA to be met by either equity or other types of capital instruments, cf above.

As part of the annual review of the Group's overall capital policy and risk appetite, the Board of Directors of the Nykredit Realkredit Group has set a CET1 capital ratio target of 17.5% for 2019.

The Board's decision is based on the following:

In 2019 Nykredit must fulfil a regulatory capital requirement of around 13%, to which should be added requirements resulting from the stress test exercises of the EBA and the Danish FSA. Furthermore, Nykredit must hold sufficient capital to ensure a rating with the credit rating agencies that is compatible with the Group's business plans.

At the same time, bond investors expect Nykredit to maintain a capital level that corresponds to those of the other large Nordic financial institutions.

In addition to this, especially three Nykredit characteristics must be allowed for in terms of capital:

- Nykredit is not listed and therefore has more restricted access to capital markets than listed companies.
- Nykredit is one of the largest private bond issuers in Europe
- Nykredit has a sizeable mortgage loan portfolio. The mortgage loans typically have long loan terms and are non-callable by Nykredit.

Nykredit's capital targets include a total capital ratio of at least 20% of REA. This target is motivated by the same factors as the CET1 capital target. It is merely a different capital concept.

Nykredit's capital targets are described in more detail under "Capital targets 2019".

A robust capital position is essential to be able to maintain active lending to Nykredit's full-service customers, also in a challenging economic climate. The capital targets are a central element of Nykredit's risk appetite. The overall capital policy and risk appetite are determined annually by the Board of Directors. In this connection, the Group's capital targets are set out. Nykredit's risk appetite and capital targets are described in the report Risk and Capital Management 2016.

# NOTES

DKK million

Nykredit Holding Group

## 3. BUSINESS AREAS

The business areas reflect Nykredit Group's organisation and internal reporting. Retail serves personal customers as well as small and medium-sized enterprises (SMEs). Wholesale Clients comprises activities with corporate and institutional clients, securities trading and derivatives trading. Wealth Management comprises wealth and asset management activities. Group Items comprises Nykredit Bank's Treasury area as well as unallocated costs.

The presentation is based on the segments used for the internal management reporting.

### RESULTS 2016

	Personal Bank- ing	Business Banking	Total Retail	Totalkredit Partners	Corporate & Institutional Banking	Markets	Total Whole- sale Clients	Wealth Management	Group Items	Total
<b>Core income from</b>										
- customer activities, gross	2,517	3,180	5,697	2,973	1,639	727	2,366	1,034	89	12,159
- payment for distribution	333	236	569	-	82	(324)	(242)	(327)	-	-
<b>Total business operations</b>	<b>2,850</b>	<b>3,416</b>	<b>6,266</b>	<b>2,973</b>	<b>1,721</b>	<b>403</b>	<b>2,124</b>	<b>706</b>	<b>89</b>	<b>12,159</b>
- senior and subordinated debt	(41)	(59)	(100)	(136)	(7)	-	(7)	(0)	(250)	(494)
- core income from securities	-	-	-	-	-	-	-	-	46	46
<b>Income from core business</b>	<b>2,809</b>	<b>3,357</b>	<b>6,166</b>	<b>2,837</b>	<b>1,714</b>	<b>403</b>	<b>2,117</b>	<b>706</b>	<b>(115)</b>	<b>11,711</b>
Operating costs and depreciation of equipment <sup>1</sup>			3,262	505	365	268	633	409	338	5,147
Mortgage bank contribution to the Danish Resolution Fund <sup>1</sup>			48	71	19	-	19	0	-	138
<b>Profit (loss) from core business before impairment losses</b>			<b>2,856</b>	<b>2,261</b>	<b>1,330</b>	<b>135</b>	<b>1,465</b>	<b>297</b>	<b>(453)</b>	<b>6,426</b>
Impairment losses on loans and advances	315	638	953	10	(291)	-	(291)	14	(6)	680
<b>Profit (loss) from core business</b>			<b>1,903</b>	<b>2,251</b>	<b>1,621</b>	<b>135</b>	<b>1,756</b>	<b>283</b>	<b>(447)</b>	<b>5,746</b>
Legacy derivatives	0	(232)	(232)	-	(440)	(91)	(531)	0	-	(763)
Gain on sale of owner-occupied properties	-	-	-	-	-	-	-	-	369	369
Investment portfolio income <sup>2</sup>	-	-	-	-	-	-	-	-	1,331	1,331
<b>Profit before tax</b>			<b>1,671</b>	<b>2,251</b>	<b>1,181</b>	<b>44</b>	<b>1,225</b>	<b>283</b>	<b>1,253</b>	<b>6,683</b>
* Of which transactions between business areas	344	119	463	(30)	(9)	(290)	(299)	(336)	202	-
Average allocated business capital	-	-	25,894	12,277	-	-	11,738	623	8,836	59,368
Profit from core business as % of average business capital	-	-	7.3	18.3	-	-	15.0	45.4	-	9.7
<b>BALANCE SHEET</b>										
<b>Assets</b>										
Mortgage loans at fair value	186,321	242,108	428,429	511,925	179,262	-	179,262	5,448	-	1,125,064
Reverse repurchase lending at fair value	-	-	-	-	-	-	-	-	30,091	30,091
Loans and advances at amortised cost	11,952	18,106	30,058	16	21,916	-	21,916	2,603	767	55,361
<b>Assets by business area</b>	<b>198,273</b>	<b>260,214</b>	<b>458,487</b>	<b>511,942</b>	<b>201,178</b>	<b>-</b>	<b>201,178</b>	<b>8,051</b>	<b>30,858</b>	<b>1,210,516</b>
Unallocated assets										190,095
<b>Total assets</b>										<b>1,400,611</b>
<b>Liabilities and equity</b>										
Bank deposits and other payables at amortised cost	25,760	17,277	43,037	-	12,203	4	12,207	9,522	648	65,414
<b>Liabilities by business area</b>	<b>25,760</b>	<b>17,277</b>	<b>43,037</b>	<b>-</b>	<b>12,203</b>	<b>4</b>	<b>12,207</b>	<b>9,522</b>	<b>648</b>	<b>65,414</b>
Unallocated liabilities										1,264,242
Equity										70,955
<b>Total liabilities and equity</b>										<b>1,400,611</b>

<sup>1</sup> Operating costs and depreciation of equipment for Retail Personal Banking and Retail Business Banking are presented and assessed jointly for internal reporting purposes.

<sup>2</sup> Investment portfolio income includes profit from and gain on sale of investments in associates of DKK 8m.

Effective from Q1/2016, the Group has launched a new business area, Wealth Management, comprising Private Banking Elite, Nykredit Asset Management and Nykredit Portefølje Administration A/S, which were previously included in Wholesale Clients. In this connection, the distribution of income and costs between Private Banking Elite and Retail has been adjusted.

As a result of the above changes, profit before tax for 2016 was reduced by DKK 64m in Retail, remained unchanged in Totalkredit Partners, decreased by DKK 219m in Wholesale Clients, increased by DKK 283m in Wealth Management and remained unchanged in Group Items.

### Geographical markets

Core income from international lending came to DKK 489m. (2015: DKK 522m). The international loan portfolio totalled DKK 52bn at end-2016 (2015: DKK 57bn)..

# NOTES

DKK million

Nykredit Holding Group

## 3. BUSINESS AREAS (CONTINUED)

	Personal Banking	Business Banking	Total Retail	Totalkredit Partners	Corporate & Institutional Banking	Markets	Total Wholesale Clients	Wealth Management	Group Items	Total
<b>RESULTS 2015</b>										
<b>Core income from</b>										
- customer activities, gross	2,656	3,334	5,990	2,690	1,740	781	2,521	879	46	12,126
- payment for distribution	330	217	547	-	75	(298)	(223)	(324)	-	-
<b>Total business operations</b>	<b>2,986</b>	<b>3,551</b>	<b>6,537</b>	<b>2,690</b>	<b>1,815</b>	<b>483</b>	<b>2,298</b>	<b>555</b>	<b>46</b>	<b>12,126</b>
- senior and subordinated debt	(51)	(71)	(122)	(168)	(12)	-	(12)	(1)	(307)	(610)
- core income from securities	-	-	-	-	-	-	-	-	38	38
<b>Income from core business*</b>	<b>2,935</b>	<b>3,480</b>	<b>6,415</b>	<b>2,522</b>	<b>1,803</b>	<b>483</b>	<b>2,286</b>	<b>554</b>	<b>(223)</b>	<b>11,554</b>
Operating costs and depreciation of equipment <sup>1</sup>			3,316	507	345	334	679	354	154	5,010
Mortgage bank contribution to the Danish Resolution Fund <sup>1</sup>			43	1	17	-	17	-	-	61
<b>Profit (loss) from core business before impairment losses</b>			<b>3,056</b>	<b>2,014</b>	<b>1,441</b>	<b>149</b>	<b>1,590</b>	<b>200</b>	<b>(377)</b>	<b>6,483</b>
Impairment losses on loans and advances	249	545	794	411	(286)	0	(286)	1	0	920
<b>Profit (loss) from core business</b>			<b>2,262</b>	<b>1,603</b>	<b>1,727</b>	<b>149</b>	<b>1,876</b>	<b>199</b>	<b>(377)</b>	<b>5,563</b>
Legacy derivatives	1	111	112	-	124	(6)	118	(1)	-	229
Amortisation of goodwill and customer relationships	9	-	9	1,907	-	-	-	-	49	1,965
Investment portfolio income <sup>2</sup>	-	-	-	-	-	-	-	-	853	853
<b>Profit (loss) before tax</b>			<b>2,365</b>	<b>(304)</b>	<b>1,851</b>	<b>143</b>	<b>1,994</b>	<b>198</b>	<b>427</b>	<b>4,680</b>
* Of which transactions between business areas	334	55	389	(30)	(51)	(109)	(160)	(324)	125	-
Average allocated business capital	-	-	27,576	12,561	-	-	13,382	441	8,275	62,235
Profit from core business as % of average business capital	-	-	8.2	12.8	-	-	14.0	45.1	-	8.9
<b>BALANCE SHEET</b>										
<b>Assets</b>										
Mortgage loans at fair value	192,549	245,376	437,925	496,528	181,679	-	181,679	3,327	-	1,119,459
Reverse repurchase lending at fair value	-	-	-	-	-	-	-	-	39,467	39,467
Loans and advances at amortised cost	12,077	14,977	27,054	45	18,007	-	18,007	1,922	8	47,036
<b>Assets by business area</b>	<b>204,626</b>	<b>260,353</b>	<b>464,979</b>	<b>496,573</b>	<b>199,686</b>	<b>-</b>	<b>199,686</b>	<b>5,249</b>	<b>39,475</b>	<b>1,205,962</b>
Unallocated assets										177,834
<b>Total assets</b>										<b>1,383,796</b>
<b>Liabilities and equity</b>										
Bank deposits and other payables at amortised cost	23,781	17,018	40,799	-	13,700	-	13,700	7,828	257	62,584
<b>Liabilities by business area</b>	<b>23,781</b>	<b>17,018</b>	<b>40,799</b>	<b>-</b>	<b>13,700</b>	<b>-</b>	<b>13,700</b>	<b>7,828</b>	<b>257</b>	<b>62,584</b>
Unallocated liabilities										1,255,730
Equity										65,482
<b>Total liabilities and equity</b>										<b>1,383,796</b>

<sup>1</sup> Operating costs and depreciation of equipment for Retail Personal Banking and Retail Business Banking are presented and assessed jointly for internal reporting purposes.  
<sup>2</sup> Investment portfolio income includes profit from equity investments and the sale of equity investments in associates of DKK 8m.

Effective from Q4/2015, Nykredit Leasing A/S's activities have been transferred from Wholesale Clients to Retail and a number of expenses including IT expenses and Group management-related costs previously carried under Group Items have been reallocated to the business areas.

As a result of these changes and the changes introduced as from Q1/2016, profit before tax for 2015 reduced by a total of DKK 46m in Retail, remained unchanged in Totalkredit Partners, reduced by DKK 152m in Wholesale Clients, increased by DKK 198m in Wealth Management and remained unchanged in in Group Items.



4. RECONCILIATION OF INTERNAL AND REGULATORY INCOME STATEMENT	2016			2015		
	Core business	Other Activities <sup>1</sup>	Total	Core business	Other Activities <sup>1</sup>	Total
Net interest income	10,709	761	11,470	10,654	1,223	11,877
Dividend on equities	8	100	108	4	100	104
Fee and commission income, net	(280)	(17)	(297)	(180)	(18)	(198)
<b>Net interest and fee income</b>	<b>10,437</b>	<b>844</b>	<b>11,281</b>	<b>10,478</b>	<b>1,305</b>	<b>11,783</b>
Value adjustments	1,059	(284)	775	882	(231)	651
Other operating income	215	374	589	194	-	194
Staff and administrative expenses	4,820	-	4,820	4,663	-	4,663
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	185	-	185	220	1,965	2,185
Other operating expenses	280	5	285	188	-	188
Impairment losses on loans and advances	680	-	680	920	-	920
Profit from investments in associates	-	8	8	-	8	8
<b>Profit (loss) before tax</b>	<b>5,746</b>	<b>937</b>	<b>6,683</b>	<b>5,563</b>	<b>(883)</b>	<b>4,680</b>

<sup>1</sup> Results from Other Activities comprise negative value adjustment of legacy derivatives of DKK 763m (2015: positive value adjustment of DKK 229m), goodwill impairment etc of DKK 0m (2015: DKK 1,965m) and investment portfolio income of DKK 1,331m (2015: DKK 873m). To this should be added a gain of DKK 369m (2015: DKK 0m) on the sale of two owner-occupied properties in 2016.

The presentation of financial highlights and business areas in the Management Commentary lists some key alternative performance targets: income from core business, profit from core business before impairment losses and profit from core business. These targets are presented in the external Financial Statements in order to create consistency with Nykredit's internal reporting. The same applies to the presentation of business areas in note 3.

Profit before tax equals the corresponding performance targets in the official income statement, as identical principles for recognition and measurement are applied. A reconciliation to the official income statement is shown above.

Income from core business was DKK 11,711m against DKK 11,554m in 2015. In 2016 "Income from core business" accounted for a proportion of the following items: Net interest and fee income by DKK 10,437m, value adjustments by DKK 1,059m and other operating income by DKK 215m.

Costs attributable to core business are also stated in the column "Core business" and accounted for DKK 5,285bn against DKK 5,071m in 2015. This item comprises expenses for staff and administration, other operating expenses and depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets.

Impairment losses on loans and advances are fully recognised in "Profit (loss) from core business".

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
	<b>5. INTEREST INCOME</b>		
-	- Receivables from credit institutions and central banks	(34)	(21)
-	- Loans, advances and other receivables	18,623	22,284
-	- Administration margin income	9,248	8,784
	<b>Bonds</b>		
-	- self-issued covered bonds (SDOs, ROs)	384	795
-	- other covered bonds	494	1,137
-	- government bonds	208	271
-	- other bonds	557	184
	<b>Derivative financial instruments</b>		
-	- foreign exchange contracts	146	176
-	- interest rate contracts	(510)	(250)
-	- equity contracts	(22)	(40)
-	- other contracts	6	8
0	- other interest income	91	118
<b>0</b>	<b>0 Total</b>	<b>29,190</b>	<b>33,445</b>
-	- Set-off of interest from self-issued covered bonds – note 6	(384)	(795)
-	- Set-off of interest from self-issued other bonds – note 6	(17)	(60)
<b>0</b>	<b>0 Total</b>	<b>28,789</b>	<b>32,591</b>
-	- Of which, negative interest income	167	131
	<b>Of which interest income from reverse repurchase lending entered as:</b>		
-	- Receivables from credit institutions and central banks	(31)	(17)
-	- Loans, advances and other receivables	(100)	(94)
	<b>Of total interest income:</b>		
0	0 Interest income accrued on financial assets measured at amortised cost	92	2,112
-	- Interest income accrued on impaired financial assets measured at amortised cost	79	107
-	- Interest income accrued on fixed-rate bank loans	89	106
-	- Interest income from finance leases	135	128
	Interest income accrued on individually impaired bank loans totalled DKK 107m (2015: DKK 90m). Nykredit Bank A/S generally does not charge interest on individually impaired loans. Interest income attributable to the impaired part of loans after the first time of impairment is offset against subsequent impairment.		
	<b>6. INTEREST EXPENSES</b>		
-	0 Credit institutions and central banks	(25)	(19)
-	- Deposits and other payables	(48)	93
-	- Bonds in issue	17,368	21,102
-	- Subordinated debt	367	363
0	- Other interest expenses	57	28
<b>0</b>	<b>0 Total</b>	<b>17,720</b>	<b>21,568</b>
-	- Set-off of interest from self-issued covered bonds – note 5	(384)	(795)
-	- Set-off of interest from self-issued other bonds – note 5	(17)	(60)
<b>0</b>	<b>0 Total</b>	<b>17,319</b>	<b>20,714</b>
-	- Of which, negative interest expenses	183	101
	<b>Of which interest expenses from repo transactions entered as:</b>		
-	- Credit institutions and central banks	(53)	(52)
-	- Deposits and other payables	(77)	(22)
	<b>Of total interest expenses:</b>		
0	0 Interest expenses accrued on financial liabilities measured at amortised cost	614	856

## NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>7. DIVIDEND ON EQUITIES</b>			
-	-	47	34
-	-	61	70
-	-	<b>108</b>	<b>104</b>
<b>8. FEE AND COMMISSION INCOME</b>			
-	-	190	150
-	-	1,026	861
-	-	1,165	1,487
-	-	<b>2,381</b>	<b>2,498</b>
<b>9. FEE AND COMMISSION EXPENSES</b>			
-	-	20	20
-	-	123	75
-	-	2,534	2,602
-	-	<b>2,677</b>	<b>2,697</b>

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>10. VALUE ADJUSTMENTS</b>			
<b>Assets measured at fair value through profit or loss</b>			
-	- Mortgage loans, a)	14,082	(16,783)
-	- Other loans, advances and receivables at fair value, b)	4	(2)
-	- Bonds, b)	1,522	(614)
-	- Equities, b)	154	245
-	- Investment properties	10	5
-	- Foreign exchange <sup>1</sup>	49	86
-	- Foreign exchange, interest rate and other contracts as well as derivative financial instruments <sup>2</sup> , b)	(1,067)	501
<b>Assets measured at fair value and recognised in "Other comprehensive income"</b>			
-	- Realised value adjustment of equities available for sale reclassified to profit or loss	-	103
<b>Liabilities measured at fair value through profit or loss</b>			
-	- Bonds in issue, a)	(13,959)	17,112
-	- Other liabilities	(20)	-
-	- <b>Total</b>	<b>775</b>	<b>652</b>
-	- <sup>1</sup> Of which value adjustment of assets and liabilities recognised at amortised cost	503	(1,110)
-	- <sup>2</sup> Of which value adjustment of interest rate swaps	(819)	410
a) Financial assets and liabilities classified at fair value on initial recognition. b) Financial assets and liabilities classified under the trading book.			
<b>Of which value adjustment relating to fair value hedging for accounting purposes</b>			
-	- Fair value hedging	(19)	(5)
Value adjustments mainly relate to financial assets, financial liabilities and derivative financial instruments included in the Group's trading activities. No value adjustments have been made for own credit risk on bonds in issue or other financial liabilities.			
<b>11. STAFF AND ADMINISTRATIVE EXPENSES</b>			
4	4 Remuneration of Board of Directors and Executive Board	64	47
-	- Staff expenses	3,055	2,878
0	21 Other administrative expenses	1,701	1,738
<b>5</b>	<b>25 Total</b>	<b>4,820</b>	<b>4,663</b>
<b>Remuneration of Board of Directors and Executive Board</b>			
<b>Board of Directors</b>			
4	4 Fees	8	8
<b>Executive Board</b>			
-	- Base salaries	36	42
-	- Pensions	5	(2)
-	- Post-employment salary and termination benefits for one Group Managing Director	15	-
<b>4</b>	<b>4 Total</b>	<b>64</b>	<b>47</b>

## 11. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

	Nykredit Holding		Nykredit Realkredit			Foreningen Nykredit		Total
	Fees paid to the Board of Directors	Fees paid to the Board of Directors	Audit Board	Risk Board	Remuneration Board	Fees paid to the Board of Directors		
Steffen Kragh <sup>1</sup>	509	371	38	13	69	56	1,055	
Merete Eldrup <sup>2</sup>	324	266	38	138	38	56	859	
Nina Smith <sup>3</sup>	324	266	13	38	38	179	856	
Hans Bang-Hansen <sup>4</sup>	231	169	-	-	13	116	529	
Olav Bredgaard Brusen	139	90	-	-	-	56	285	
Helge Leiro Baastad <sup>5</sup>	139	90	-	-	-	-	229	
Steen E. Christensen <sup>5</sup>	139	98	-	-	19	49	304	
Michael Demnitz	185	120	-	100	-	75	480	
Per W. Hallgren	139	104	75	-	-	75	393	
Marlene Holm <sup>5</sup>	185	120	-	-	-	19	324	
Allan Kristiansen <sup>6</sup>	185	120	-	-	-	-	305	
Gert Kryger	46	-	-	-	-	-	46	
Bent Naur	185	120	75	100	-	-	480	
Ina Nielsen <sup>5</sup>	46	30	-	-	-	19	95	
Lasse Nyby	185	-	-	-	-	-	185	
Anders C. Obel	185	120	138	38	-	75	555	
Claus E. Petersen <sup>7</sup>	185	-	-	-	-	-	185	
Erling Bech Poulsen	185	120	-	-	-	-	305	
Inge Sand <sup>5</sup>	139	90	-	-	-	56	285	
Lars Peter Skaarup <sup>5</sup>	185	30	-	-	-	19	234	
Jens Erik Udsen <sup>5</sup>	46	30	25	-	-	19	120	
Leif Vinther	185	120	-	-	50	75	430	
<b>I alt</b>	<b>4,070</b>	<b>2,474</b>	<b>400</b>	<b>425</b>	<b>225</b>	<b>944</b>	<b>8,538</b>	

<sup>1</sup> Commenced as Chairman of Nykredit Realkredit A/S, Nykredit Holding A/S and resigned from Foreningen Nykredit.

<sup>2</sup> Appointed as Deputy Chairman of Nykredit Realkredit A/S, Nykredit Holding A/S and resigned from Foreningen Nykredit.

<sup>3</sup> Appointed as Deputy Chairman of Nykredit Realkredit A/S, Nykredit Holding A/S and appointed as Chairman in Foreningen Nykredit.

<sup>4</sup> Previously Deputy Chairman, now board member of Nykredit Realkredit A/S, Nykredit Holding A/S and appointed as Deputy Chairman of Foreningen Nykredit.

<sup>5</sup> Commenced position/resigned from one or more companies.

<sup>6</sup> In addition, Allan Kristiansen received a fee of DKK 60,000 as staff-elected board member of Nykredit Bank A/S.

<sup>7</sup> In addition, Claus E. Petersen received a fee of DKK 150,000 as Deputy Chairman of Totalkredit A/S.

## Terms and conditions applying to the Board of Directors

The 18 members of the Board of Directors receive fixed fees and a refund of any costs incurred in connection with board meetings. The fees are unchanged relative to end-2015.

## Annual fees, end-2016

	Deputy		
	Chairman	Chairman	Director
Nykredit Realkredit A/S	390	315	120
Nykredit Holding A/S	555	370	185
Foreningen Nykredit	195	130	75

The chairmen of the Audit, Risk and Remuneration Boards receive fees of DKK 150,000, DKK 150,000 and DKK 75,000, respectively. Other members of the Audit, Risk and Remuneration Boards receive fees of DKK 100,000, DKK 100,000 and DKK 50,000, respectively.

Being both Chairman of the Audit or Risk Board and an ordinary member of one of the two boards will not result in remuneration exceeding DKK 200,000.

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.

Nykredit Holding Group

**11. STAFF AND ADMINISTRATIVE EXPENSES  
(CONTINUED)**

2016	Michael Rasmussen	Kim Duus	Søren Holm	Anders Jensen	David Hellemann	Bente Overgaard	Total
<b>Remuneration of the Executive Board</b>							
Contractual salary	9,805	6,070	6,070	6,070	2,024	3,035	33,074
Pension contributions <sup>1</sup>	2,270	-	-	1,396	466	698	4,830
<b>Total</b>	<b>12,075</b>	<b>6,070</b>	<b>6,070</b>	<b>7,466</b>	<b>2,490</b>	<b>3,733</b>	<b>37,903</b>
Defined benefit plans	-	1,717	1,717	-	-	-	3,434
Salary, pension and termination benefits in the notice period	-	-	-	-	-	15,332	15,332
<b>Total expenses for accounting purposes/earned income</b>	<b>12,075</b>	<b>7,787</b>	<b>7,787</b>	<b>7,466</b>	<b>2,490</b>	<b>19,065</b>	<b>56,670</b>
Various benefits <sup>2</sup>	27	13	20	23	4	66	153

<sup>1</sup> In addition to their contractual salaries, Michael Rasmussen, Anders Jensen, David Hellemann and Bente Overgaard receive a pension contribution of 23% for a pension plan of their own choice. Kim Duus and Søren Holm are covered by defined benefit pension plans for a maximum of 5 years from the age of 60.

<sup>2</sup> In addition to total expenses for accounting purposes/earned income, the Executive Board receive the following benefits: Telephone free of charge, critical illness insurance, group life insurance, accident and health insurance as well as covered costs for security surveillance.

With the exception of Michael Rasmussen, Executive Board members receive the same contractual salary, but are covered by different pension plans. The pension plans have varying impacts on expenses for accounting purposes. Members of the Executive Board entitled to pension contributions receive 23% of their contractual salary, whereas expenses for accounting purposes for defined pension plans constitute provisions for expected future pension contributions for the persons concerned. Defined benefit pension plans are determined based on, among other factors, a calculated retirement age of 60.

Members of the Executive Board receive fixed salaries covering all directorships and executive positions in Foreningen Nykredit as well as Group enterprises and associates. Neither bonus schemes nor other variable remuneration plans have been established for the members of the Executive Board.

Bente Overgaard stepped down from the Group Executive Board on 30 June 2016 and will receive post-employment salary and termination benefits totalling DKK 12m in accordance with her contract. She will further receive special termination benefits equal to six months' salary.

As at 1 September 2016, David Hellemann was appointed Group Managing Director with responsibility for the CFO/COO areas.

No other changes were made to the composition of the Executive Board in 2016.

Pension and termination benefits of the Executive Board	Michael Rasmussen	Kim Duus	Søren Holm	Anders Jensen	David Hellemann
Pension plan	-	Defined benefit	Defined benefit	-	-
Pension terms	-	60% of fixed salary for up to 5 years from the age of 60	60% of fixed salary for up to 5 years from the age of 60	-	-
Termination benefit	23 mths	- <sup>1</sup>	- <sup>1</sup>	12 mths	12 mths
Term of notice by the member of the Executive Board	6 mths	- <sup>1</sup>	- <sup>1</sup>	6 mths	6 mths
Term of notice by Nykredit	6 mths	- <sup>1</sup>	- <sup>1</sup>	6 mths	6 mths

<sup>1</sup> If the Group Managing Directors Kim Duus and Søren Holm decide to retire, they must give 12 months' notice from the age of 60 until the age of 70 and are entitled to pension benefits equal to 60% of their base salaries. Pension benefits are paid for a maximum of 5 years, and the benefits entitlement lapses when a Group Managing Director attains the age of 70. Further, Nykredit may ask a Group Managing Director to retire in this period subject to 6 months' notice.

Group Managing Directors will retire in the month they attain the age of 70 at the latest.

Nykredit Realkredit Group

**11. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)**

<b>2015</b>	<b>Michael Rasmussen</b>	<b>Kim Duus</b>	<b>Søren Holm</b>	<b>Anders Jensen</b>	<b>Bente Overgaard</b>	<b>Total</b>
<b>Remuneration of the Executive Board</b>						
Contractual salary	9,805	6,070	6,070	6,070	6,070	34,085
Pension contributions <sup>1</sup>	2,270	-	-	1,396	1,396	5,062
Anniversary bonus	-	-	-	-	150	150
Compensation for waiving defined benefit pension plan	-	-	-	-	4,000	4,000
<b>Total</b>	<b>12,075</b>	<b>6,070</b>	<b>6,070</b>	<b>7,466</b>	<b>11,616</b>	<b>43,297</b>
Defined benefit plans	-	2,447	2,443	-	(8,705)	(3,815)
<b>Total expenses for accounting purposes/earned income</b>	<b>12,075</b>	<b>8,517</b>	<b>8,513</b>	<b>7,466</b>	<b>2,911</b>	<b>39,482</b>
Various benefits <sup>2</sup>	20	12	15	19	63	129

<sup>1</sup> In addition to their contractual salaries, Michael Rasmussen, Anders Jensen and Bente Overgaard receive a pension contribution of 23% for a pension plan of their own choice. Kim Duus and Søren Holm will be covered by defined benefit pension plans for a maximum of 5 years from the age of 60.

<sup>2</sup> In addition to total expenses for accounting purposes/earned income, the Executive Board receive the following benefits: Telephone free of charge, critical illness insurance, group life insurance, accident and health insurance as well as covered costs for security surveillance.

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>11. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)</b>			
<b>Staff expenses</b>			
-	- Salaries	2,455	2,314
-	- Pensions	248	252
-	- Payroll tax	328	287
-	- Other social security expenses	23	25
-	- <b>Total</b>	<b>3,055</b>	<b>2,878</b>
<p>In the Nykredit Realkredit Group, provisions made for former employees accounted for DKK 102m in 2016 against a reversal of DKK 69m in 2015.</p> <p>In addition to the Board of Directors and Executive Board, Nykredit has designated the following number (average) of staff whose activities significantly affect Nykredit's risk profile (material risk takers). The average number:</p>			
-	-	182	171
<p>Details of Nykredit's remuneration policy appear from page 47 of the Management Commentary under Remuneration and at nykredit.com.</p> <p><b>Remuneration of material risk takers is included in "Staff expenses" and breaks down into:</b></p>			
-	- Base salaries	230	236
-	- Termination benefit	29	-
-	- Variable remuneration	58	47
-	- Adjustment of variable remuneration provided for in previous years	(1)	(2)
-	- <b>Total</b>	<b>316</b>	<b>282</b>
<p>Material risk takers are only covered by defined contribution pension plans.</p> <p>Variable remuneration comprises variable remuneration components in the financial year as well as bonus provided for at the end of the financial year. The final bonus is determined during the first quarter of the following financial year. The difference between the bonus provided for and the final bonus is recognised in "Adjustment of variable remuneration provided for in previous years".</p> <p><b>Number of staff</b></p>			
-	- Average number of staff for the financial year, full-time equivalents	3,648	3,757
<b>Fees to auditor appointed by the General Meeting</b>			
0	1 Deloitte	15	10
<b>Total fees include:</b>			
0	0 Statutory audit of the Financial Statements	4	5
-	0 Other assurance engagements	1	0
-	1 Tax advice	2	0
-	- Other services	8	5
<b>0</b>	<b>1 Total</b>	<b>15</b>	<b>10</b>
<b>12. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES FOR PROPERTY, PLANT AND EQUIPMENT AS WELL AS INTANGIBLE ASSETS</b>			
<b>Intangible assets</b>			
-	- - amortisation	99	86
-	- - impairment losses	-	1,981
<b>Property, plant and equipment</b>			
-	- - depreciation	104	118
-	- - impairment losses	1	0
-	- - reversal of impairment losses	(19)	-
-	- <b>Total</b>	<b>185</b>	<b>2,185</b>



# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>13. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES</b>			
<b>13 a. Earnings impact</b>			
-	-	670	935
-	-	(39)	(278)
-	-	469	573
-	-	(137)	(112)
-	-	(48)	(7)
-	-	<b>916</b>	<b>1,110</b>
<b>Total impairment losses on loans, advances and receivables, and provisions for guarantees</b>			
-	-	99	120
-	-	(99)	(42)
-	-	(236)	(268)
-	-	<b>680</b>	<b>920</b>
<b>13 b. Specification of impairment provisions for loans, advances and receivables</b>			
-	-	6,047	6,266
-	-	2,285	2,324
-	-	<b>8,332</b>	<b>8,590</b>
<b>Impairment provisions have been offset against the following items:</b>			
-	-	5,437	5,397
-	-	314	297
-	-	2,538	2,852
-	-	44	44
-	-	<b>8,332</b>	<b>8,590</b>
<b>13 c. Individual impairment provisions for loans and advances</b>			
-	-	<b>6,223</b>	<b>6,465</b>
-	-	1,906	2,159
-	-	(1,235)	(1,223)
-	-	(76)	(90)
-	-	(814)	(1,087)
-	-	<b>6,003</b>	<b>6,223</b>
<b>Impairment provisions, year-end</b>			

Of total individual impairment provisions for bank lending to business customers of DKK 1.7bn (2015: approximately DKK 2.0bn), approximately DKK 0.5bn, or 29% (2015: approximately 17%), can be attributed to exposures to customers whose financial circumstances have led to bankruptcy, bankruptcy proceedings or compulsory dissolution.

Of total individual impairment provisions for mortgage lending, 74% (2015: 76%), or DKK 2,660m, can be attributed to customers in serious financial difficulties but not in arrears. 10% (2015: 10%), or DKK 419m, of total individual impairment provisions can be attributed to customers subject to bankruptcy, bankruptcy proceedings, compulsory dissolution or who have died.

Loans are impaired if a customer is deemed to be in serious financial difficulty, or forbearance has been granted as a result of financial difficulty. When assessing whether loans are impaired, factors such as non-performance of contractual obligations, personal circumstances such as divorce, unemployment or long-term illness are taken into consideration.

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group		
2015	2016	2016	2015	
<b>13. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES (CONTINUED)</b>				
<b>13 d. Collective impairment provisions for loans and advances</b>				
-	-	<b>Impairment provisions, beginning of year</b>	<b>2,324</b>	<b>2,602</b>
-	-	Impairment provisions for the year, net	(39)	(278)
-	-	<b>Impairment provisions, year-end</b>	<b>2,285</b>	<b>2,324</b>
<b>13 e. Individual impairment provisions for receivables from credit institutions</b>				
-	-	<b>Impairment provisions, beginning of year</b>	<b>44</b>	<b>44</b>
-	-	<b>Impairment provisions, year-end</b>	<b>44</b>	<b>44</b>
<b>13 f. Specification of loans, advances and receivables from credit institutions with objective evidence of impairment</b>				
-	-	Loans and advances subject to individual provisioning before impairment	21,128	21,730
-	-	Impairment provisions	6,003	6,223
-	-	<b>Loans and advances after impairment</b>	<b>15,125</b>	<b>15,507</b>
-	-	Loans and advances subject to collective provisioning before impairment	129,878	116,156
-	-	Impairment provisions	2,285	2,324
-	-	<b>Loans and advances after impairment</b>	<b>127,593</b>	<b>113,832</b>
-	-	Receivables from credit institutions subject to individual provisioning before impairment	54	54
-	-	Impairment provisions	44	44
-	-	<b>Receivables after impairment</b>	<b>10</b>	<b>10</b>
<b>13 g. Impairment provisions for properties acquired by foreclosure</b>				
-	-	<b>Impairment provisions, beginning of year</b>	<b>287</b>	<b>414</b>
-	-	Transfer from "Individual impairment provisions for loans and advances" – note 13 c.	76	90
-	-	Impairment provisions for the year	150	130
-	-	Impairment provisions reversed	(51)	(10)
-	-	Impairment provisions written off	(190)	(337)
-	-	<b>Impairment provisions, year-end</b>	<b>272</b>	<b>287</b>
Impairment provisions for properties acquired by foreclosure have been offset against "Assets in temporary possession".				
<b>14. PROFIT FROM INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES</b>				
-	-	Profit from investments in associates	8	8
3,000	5,428	Profit from investments in Group enterprises	-	-
<b>3,000</b>	<b>5,428</b>	<b>Total</b>	<b>8</b>	<b>8</b>

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>15. TAX</b>			
<b>15 a. Tax on profit for the year</b>			
<b>Tax on profit for the year has been calculated as follows:</b>			
(1)	(1)	1,428	1,564
-	-	(41)	(86)
-	-	(24)	12
-	-	13	2
<b>(1)</b>	<b>(1)</b>	<b>1,377</b>	<b>1,493</b>
<b>Tax on profit for the year can be specified as follows:</b>			
704	1,189	3,465	1,361
<b>Tax effect of:</b>			
(705)	(1,194)	(2,087)	(352)
-	4	11	468
-	-	(12)	15
<b>(1)</b>	<b>(1)</b>	<b>1,377</b>	<b>1,493</b>
23.5	22.0	22.0	23.5
23.5	22.0	1.4	(8.4)
<b>(0.0)</b>	<b>(0.0)</b>	<b>20.6</b>	<b>31.9</b>
Permanent deviations are attributable to Group enterprises and associates as well as equities available for sale.			
<b>15 b. Payroll tax</b>			
In addition to corporation tax, the Nykredit Group paid payroll tax of DKK 328m (2015: DKK 287m). Payroll tax has been included in "Staff expenses", cf note 11.			

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>16. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS</b>			
-	-	21,400	6,772
15	1	10,064	12,284
-	-	1,279	1,102
<b>15</b>	<b>1</b>	<b>32,742</b>	<b>20,158</b>
<b>Receivables from credit institutions and central banks, by time-to-maturity</b>			
15	1	9,880	10,702
-	-	22,854	9,449
-	-	8	8
<b>15</b>	<b>1</b>	<b>32,742</b>	<b>20,158</b>
<b>17. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE</b>			
-	-	1,124,693	1,119,101
-	-	371	358
-	-	30,091	39,467
-	-	<b>1,155,155</b>	<b>1,158,926</b>
<b>17 a. Mortgage loans</b>			
-	-	<b>1,114,324</b>	<b>1,111,744</b>
-	-	199,973	257,128
-	-	113	152
-	-	(1,190)	926
-	-	(21,470)	(18,974)
-	-	(184,615)	(236,652)
-	-	<b>1,107,135</b>	<b>1,114,324</b>
-	-	(134)	(255)
-	-	160	231
-	-	<b>1,107,161</b>	<b>1,114,300</b>
-	-	22,969	10,198
<b>Adjustment for credit risk</b>			
-	-	(3,284)	(3,215)
-	-	(2,153)	(2,182)
-	-	<b>1,124,693</b>	<b>1,119,101</b>

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>17. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE (CONTINUED)</b>			
<b>As collateral for loans and advances, Nykredit has received mortgages over real estate and:</b>			
-	- Supplementary guarantees totalling	51,219	44,772
-	- Interim loan guarantees totalling	15,686	12,913
-	- Mortgage registration guarantees totalling	20,192	13,302
<b>Mortgage loans at nominal value by property category:</b>			
<b>Loans and advances as %, year-end</b>			
-	- Owner-occupied dwellings	59	58
-	- Holiday homes	3	3
-	- Public housing	9	9
-	- Private residential rental properties	7	8
-	- Industry and trades properties	2	2
-	- Office and retail properties	10	10
-	- Agricultural properties	8	9
-	- Properties used for social, cultural or educational purposes	1	2
-	- <b>Total</b>	<b>100</b>	<b>100</b>
For further specification of mortgage loans by loan type and property category, please refer to note 46.			
<b>17 b. Arrears and outlays</b>			
-	- Arrears before impairment provisions	411	385
-	- Outlays before impairment provisions	274	269
-	- Individual impairment provisions for arrears and outlays	(314)	(297)
-	- <b>Total</b>	<b>371</b>	<b>358</b>
<b>Arrears on non-impaired loans and advances past due at fair value</b>			
	5-90 days	690	928
	91-180 days	357	289
	181-270 days	214	202
	271-360 days	93	74
	Over 360 days	171	129
	<b>Total</b>	<b>1,525</b>	<b>1,623</b>
<b>Non-impaired loans and advances past due at fair value (as % of loans and advances)</b>			
	5-90 days	0.06	0.08
	91-180 days	0.03	0.03
	181-270 days	0.02	0.02
	271-360 days	0.01	0.01
	Over 360 days	0.02	0.01
	<b>Total</b>	<b>0.14</b>	<b>0.15</b>
<b>Mortgage loans, arrears and outlays as well as other loans and advances by time-to-maturity</b>			
-	- Up to 3 months	39,435	46,663
-	- Over 3 months and up to 1 year	24,055	21,124
-	- Over 1 year and up to 5 years	140,618	140,040
-	- Over 5 years	951,047	951,099
-	- <b>Total</b>	<b>1,155,155</b>	<b>1,158,926</b>
The breakdown by time-to-maturity is based on mortgage loans at fair value, arrears and outlays as well as other loans and advances after impairment provisions.			

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>18. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST</b>			
-	- Bank loans and advances	57,541	49,599
-	- Mortgage loans	16	19
-	- Other loans and advances	362	295
-	- <b>Balance, year-end</b>	<b>57,919</b>	<b>49,914</b>
<b>Adjustment for credit risk</b>			
-	- Individual impairment provisions	(2,406)	(2,711)
-	- Collective impairment provisions	(132)	(141)
-	- <b>Balance after impairment, year-end</b>	<b>55,382</b>	<b>47,061</b>
-	- Set-off of "Other loans and advances" against "Bonds in issue at amortised cost" – note 31	(21)	(25)
-	- <b>Total</b>	<b>55,361</b>	<b>47,036</b>
<p>The Nykredit Group hedges the interest rate risk of fixed-rate bank loans and advances on a current basis using derivatives. This enables the Group to manage its overall interest rate sensitivity taking into consideration expected the interest rate development.</p> <p>The bank loan portfolio has been fair value adjusted through profit or loss as a result of the use of hedge accounting.</p>			
-	- Of total loans and advances, fixed-rate bank loans represent	2,480	1,918
-	- Fair value of fixed-rate loans	928	1,929
<b>Loans, advances and other receivables at amortised cost by time-to-maturity</b>			
-	- On demand	11,277	9,868
-	- Up to 3 months	15,603	10,519
-	- Over 3 months and up to 1 year	4,735	5,383
-	- Over 1 year and up to 5 years	12,786	10,576
-	- Over 5 years	10,961	10,691
-	- <b>Total</b>	<b>55,361</b>	<b>47,036</b>
<p>The breakdown by time-to-maturity is based on loans and advances after impairment and after set-off of securities.</p>			
<b>Non-impaired loans and advances past due at amortised cost</b>			
	5-10 days	10	8
	11-30 days	18	52
	31-90 days	58	25
	91-360 days	189	86
	Over 360 days	21	27
	<b>Total</b>	<b>296</b>	<b>198</b>
<b>Non-impaired loans and advances past due at amortised cost (as % of loans and advances)</b>			
	5-10 days	0.02	0.02
	11-30 days	0.03	0.11
	31-90 days	0.11	0.06
	91-360 days	0.34	0.19
	Over 360 days	0.04	0.06
	<b>Total</b>	<b>0.54</b>	<b>0.44</b>

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
	<b>18. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (CONTINUED)</b>		
	<b>18 a. Bank loans and advances</b>		
	<b>Non-accrual loans or loans carrying a reduced interest rate</b>		
-	- Non-accrual loans	199	638
-	- Loans carrying a reduced interest rate	6	5
	<b>Bank loans, advances and guarantee debtors by sector</b>		
	Loans and advances as %, year-end		
-	- <b>Public sector</b>	0	0
	<b>Business customers</b>		
-	- Agriculture, hunting, forestry and fishing	4	4
-	- Manufacturing, mining and quarrying	10	7
-	- Energy supply	4	1
-	- Construction	5	4
-	- Trade	6	5
-	- Transport, accommodation and food service activities	5	6
-	- Information and communication	2	2
-	- Finance and insurance	8	11
-	- Real estate	17	16
-	- Other	15	11
-	- <b>Total business customers</b>	<b>76</b>	<b>67</b>
-	- Personal customers	24	33
-	- <b>Total</b>	<b>100</b>	<b>100</b>
	The sector distribution is based on the official Danish activity codes.		
	<b>Finance leases</b>		
	Of total loans and advances at amortised cost, finance leases represent		
-	- <b>Balance, beginning of year</b>	<b>4,031</b>	<b>3,457</b>
-	- Additions	2,144	1,957
-	- Disposals	(1,650)	(1,383)
-	- <b>Balance, year-end</b>	<b>4,525</b>	<b>4,031</b>
-	- Impairment provisions for finance leases represent	47	41
	Non-guaranteed residual values on expiry of the leases represent DKK 0.		
	<b>Finance leases by time-to-maturity</b>		
-	- Up to 3 months	428	321
-	- Over 3 months and up to 1 year	835	709
-	- Over 1 year and up to 5 years	3,146	2,589
-	- Over 5 years	116	412
-	- <b>Total</b>	<b>4,525</b>	<b>4,031</b>
	Where loans and advances under finance leases are concerned, amortised cost represents their fair value. The leases comprise equipment as well as real estate. The leases have been concluded on an arm's length basis. The term of the leases is generally 3 to 6 years, but may be up to 20 years for leased properties.		
	<b>Gross investments in finance leases</b>		
	<b>Gross investments in finance leases by time-to-maturity</b>		
-	- Up to 1 year	1,317	1,150
-	- Over 1 year and up to 5 years	3,226	2,862
-	- Over 5 years	423	427
-	- <b>Total</b>	<b>4,966</b>	<b>4,439</b>
-	- Non-earned income	441	408

## NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>19. BONDS AT FAIR VALUE</b>			
-	- Self-issued SDOs	81,077	72,801
-	- Self-issued ROs	21,099	34,506
-	- Self-issued corporate bonds	1,340	2,028
-	- Self-issued senior debt	206	370
-	- Other covered bonds	98,700	85,747
-	- Government bonds	8,142	12,969
-	- Other bonds	5,140	7,485
-	- <b>Total</b>	<b>215,703</b>	<b>215,905</b>
-	- Set-off of self-issued SDOs against "Bonds in issue at fair value" – note 30	(81,061)	(72,774)
-	- Set-off of self-issued SDOs against "Bonds in issue at amortised cost" – note 31	(16)	(26)
-	- Set-off of self-issued ROs against "Bonds in issue at fair value" – note 30	(21,099)	(34,506)
-	- Set-off of self-issued corporate bonds against "Bonds in issue at amortised cost" – note 31	(1,340)	(2,028)
-	- Set-off of self-issued senior debt against "Bonds in issue at fair value" – note 30	(206)	(370)
-	- <b>Total</b>	<b>111,981</b>	<b>106,200</b>
-	- As collateral security for the Danish central bank and foreign clearing centres, bonds have been deposited of a total market value of	12,441	13,092
	The deposits were made on an arm's length basis in connection with clearing and settlement of securities and foreign exchange trades. The deposits are adjusted on a daily basis and generally have a repayment term of very few value days.		
	Collateral security was provided on an arm's length basis.		
	As the majority – around DKK 112bn – of the Group's bond portfolio is included in the Group's trading activities, the actual maturities of these bonds are expected to be less than 1 year. Of the Group's bond portfolio, bonds of approximately DKK 15bn are expected to have a maturity over 5 years.		



Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
	<b>20. EQUITIES</b>		
-	- Equities measured at fair value through profit or loss	2,129	1,979
-	- Equities available for sale	2,445	2,115
-	- <b>Total</b>	<b>4,574</b>	<b>4,094</b>
	<b>20 a. Equities measured at fair value through profit or loss</b>		
-	- Listed on Nasdaq Copenhagen	396	370
-	- Listed on other stock exchanges	163	51
-	- Unlisted equities carried at fair value	1,570	1,559
-	- <b>Total</b>	<b>2,129</b>	<b>1,979</b>
	<b>20 b. Equities available for sale</b>		
-	- Listed on Nasdaq Copenhagen	1,502	1,235
-	- Unlisted equities measured at fair value	943	880
-	- <b>Total</b>	<b>2,445</b>	<b>2,115</b>
-	- <b>Balance, beginning of year</b>	-	-
-	- Equities measured at fair value through profit or loss reclassified to equities available for sale due to change in accounting policies	2,115	2,035
-	- <b>Balance, beginning of year</b>	<b>2,115</b>	<b>2,035</b>
-	- Additions	0	150
-	- Disposals	-	(193)
-	- Market value adjustment	330	122
-	- <b>Balance, year-end</b>	<b>2,445</b>	<b>2,115</b>
	Equities in Spar Nord Bank A/S, Sydbank A/S, DLR Kredit A/S and VP Securities A/S have been classified as equities available for sale. Equities available for sale are fair value adjusted in "Other comprehensive income" until a potential sale.		
	<b>21. INVESTMENTS IN ASSOCIATES</b>		
-	- <b>Cost, beginning of year</b>	<b>114</b>	<b>114</b>
-	- Disposals	(5)	(0)
-	- <b>Cost, year-end</b>	<b>109</b>	<b>114</b>
-	- <b>Revaluations and impairment losses, beginning of year</b>	<b>10</b>	<b>8</b>
-	- Profit	8	8
-	- Dividend	(3)	(5)
-	- Reversal of revaluations and impairment losses	5	(0)
-	- <b>Revaluations and impairment losses, year-end</b>	<b>22</b>	<b>10</b>
-	- <b>Balance, year-end</b>	<b>130</b>	<b>124</b>

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>22. INVESTMENTS IN GROUP ENTERPRISES</b>			
<b>18,181</b>	<b>18,181</b>		
-	-	-	-
		-	-
<b>18,181</b>	<b>18,181</b>	-	-
<b>22. INVESTMENTS IN GROUP ENTERPRISES</b>			
<b>40,469</b>	<b>43,505</b>	-	-
3,000	5,428	-	-
36	80	-	-
<b>43,505</b>	<b>49,013</b>	-	-
<b>22. INVESTMENTS IN GROUP ENTERPRISES</b>			
<b>61,686</b>	<b>67,194</b>	-	-
61,686	67,194	-	-
-	-	-	-
-	-	1,783	2,275
-	-	<b>1,783</b>	<b>2,275</b>
<b>23. INTANGIBLE ASSETS</b>			
-	-	14	14
-	-	16	20
-	-	136	117
-	-	69	100
-	-	9	20
-	-	<b>243</b>	<b>271</b>
<b>23 a. Goodwill</b>			
-	-	<b>2,782</b>	<b>2,782</b>
-	-	<b>2,782</b>	<b>2,782</b>
-	-	<b>2,768</b>	-
-	-	-	852
-	-	<b>2,768</b>	<b>852</b>
-	-	-	1,916
-	-	<b>2,768</b>	<b>2,768</b>
-	-	<b>14</b>	<b>14</b>

The Danish FSA has performed a partial review of Nykredit Realkredit's Financial Statements 2014, with special focus on the carrying amount of goodwill. According to the FSA, their review showed that goodwill was overvalued by DKK 852m in Nykredit Realkredit's Financial Statements 2014. As a result, goodwill has been adjusted by DKK 852m at end-2014.

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group		
2015	2016	2016	2015	
<b>23. INTANGIBLE ASSETS (CONTINUED)</b>				
<b>Goodwill (continued)</b>				
<b>The impairment test of Totalkredit A/S is based on the following assumptions:</b>				
		2016	2015	
Budget period	-	-	5 years	
Acquired goodwill	-	-	1,907	
Required rate of return before tax up to 2019	-	-	11.3%	
Required rate of return before tax as from 2019	-	-	12.3%	
Average annual business growth in the budget period	-	-	3.4%	
Fixed annual business growth in the terminal period	-	-	2.0%	
<p>In 2015 Nykredit wrote down goodwill relating to the acquisition of Totalkredit for impairment. The goodwill impairment reflected the annual impairment test, in which a reduction of the budget and projection periods from 10 to 5 years combined with higher required rates of return and costs of capital resulted in impairment of DKK 1,907m. Following talks with the Danish FSA, the budget period has been reduced from 10 to 5 years, which corresponds to the usual period under IAS 36. After impairment, goodwill relating to the acquisition of Totalkredit A/S was fully impaired in 2015. The impairment relates to the business area Totalkredit Partners.</p>				
<b>23 b. Fixed-term rights</b>				
-	-	<b>Cost, beginning of year</b>	<b>4,575</b>	<b>4,575</b>
-	-	- Additions	1	1
-	-	- Disposals	-	(1)
-	-	<b>Cost, year-end</b>	<b>4,576</b>	<b>4,575</b>
-	-	<b>Amortisation and impairment losses, beginning of year</b>	<b>4,555</b>	<b>4,553</b>
-	-	- Amortisation for the year	4	3
-	-	<b>Amortisation and impairment losses, year-end</b>	<b>4,560</b>	<b>4,555</b>
-	-	<b>Balance, year-end</b>	<b>16</b>	<b>20</b>
-	-	Fixed-term rights are amortised over 9 years.		
-	-	- Residual amortisation period at 31 December (average number of years)	5	5
<b>23 c. Software</b>				
-	-	<b>Cost, beginning of year</b>	<b>1,002</b>	<b>931</b>
-	-	- Additions	4	-
-	-	- Transferred from development projects in progress	98	71
-	-	<b>Cost, year-end</b>	<b>1,103</b>	<b>1,002</b>
-	-	<b>Amortisation and impairment losses, beginning of year</b>	<b>884</b>	<b>807</b>
-	-	- Transferred from development projects in progress	-	3
-	-	- Amortisation for the year	83	63
-	-	- Impairment losses for the year	-	11
-	-	<b>Amortisation and impairment losses, year-end</b>	<b>968</b>	<b>884</b>
-	-	<b>Balance, year-end</b>	<b>136</b>	<b>117</b>
-	-	Software is amortised over 3-5 years		
-	-	- Residual amortisation period at 31 December (average number of years)	2	2

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group		
2015	2016	2016	2015	
<b>23. INTANGIBLE ASSETS (CONTINUED)</b>				
<b>23 d. Development projects in progress</b>				
-	-	<b>Cost, beginning of year</b>	<b>100</b>	<b>87</b>
-	-	Additions	69	86
-	-	Transferred to software	(98)	(71)
-	-	Disposals	(2)	(2)
-	-	<b>Cost, year-end</b>	<b>69</b>	<b>100</b>
<b>Amortisation and impairment losses, beginning of year</b>				
-	-	Amortisation and impairment losses, beginning of year	-	-
-	-	Impairment losses for the year	-	5
-	-	Transferred to software	-	(3)
-	-	Disposals	-	(2)
-	-	<b>Amortisation and impairment losses, year-end</b>	<b>-</b>	<b>-</b>
-	-	<b>Balance, year-end</b>	<b>69</b>	<b>100</b>
<b>23 e. Customer relationships</b>				
-	-	<b>Cost, beginning of year</b>	<b>145</b>	<b>145</b>
-	-	<b>Cost, year-end</b>	<b>145</b>	<b>145</b>
<b>Amortisation and impairment losses, beginning of year</b>				
-	-	Amortisation and impairment losses, beginning of year	125	55
-	-	Amortisation for the year	12	20
-	-	Reversal of amortisation and impairment losses	-	49
-	-	<b>Amortisation and impairment losses, year-end</b>	<b>136</b>	<b>125</b>
-	-	<b>Balance, year-end</b>	<b>9</b>	<b>20</b>
Customer relationships are amortised over 3-13 years.				
-	-	Residual amortisation period at 31 December (average number of years)	1	2

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
	<b>24. LAND AND BUILDINGS</b>		
-	- Investment properties	232	244
-	- Owner-occupied properties	432	1,460
-	- <b>Total</b>	<b>664</b>	<b>1,704</b>
	<b>24 a. Investment properties</b>		
-	- <b>Fair value, beginning of year</b>	<b>244</b>	<b>283</b>
-	- Disposals for the year	(23)	(44)
-	- Fair value adjustment for the year	11	5
-	- <b>Fair value, year-end</b>	<b>232</b>	<b>244</b>
-	- Of which land and buildings leased under operating leases	232	244
-	- Lease income from investment properties	23	27
-	- Direct costs relating to investment properties generating rental income	7	7
	The valuation was carried out by an internal valuer based on the return method. The required rate of return is determined based on property type, location and state of repair. In 2016 the required rate of return ranged between 7.6% and 10.8% for commercial property and 3.4% for residential property (an average of 8.6% and 3.4%, respectively).		
-	- The carrying amount of mortgaged investment properties represents	118	235
	<b>Rental income under non-cancellable operating leases</b>		
-	- Up to 1 year	5	15
-	- Over 1 year and up to 5 years	11	6
-	- <b>Total</b>	<b>16</b>	<b>21</b>

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group		
2015	2016	2016	2015	
<b>24. LAND AND BUILDINGS (CONTINUED)</b>				
<b>24 b. Owner-occupied properties</b>				
-	-	<b>Cost, beginning of year</b>	<b>2,126</b>	<b>2,173</b>
-	-	Additions, including improvements	1	3
-	-	Disposals	(1,515)	(50)
-	-	Other changes	(71)	-
-	-	<b>Cost, year-end</b>	<b>540</b>	<b>2,126</b>
-	-	<b>Revaluations, beginning of year</b>	<b>307</b>	<b>299</b>
-	-	Additions for the year recognised in "Other comprehensive income"	3	17
-	-	Disposals for the year recognised in "Other comprehensive income"	(155)	-
-	-	Reversal of revaluations	(11)	(9)
-	-	Other changes	(114)	-
-	-	<b>Revaluations, year-end</b>	<b>30</b>	<b>307</b>
-	-	<b>Depreciation and impairment losses, beginning of year</b>	<b>974</b>	<b>989</b>
-	-	Depreciation for the year	15	18
-	-	Impairment losses for the year	3	-
-	-	Reversal of depreciation and impairment losses	(783)	(34)
-	-	Other changes	(71)	-
-	-	<b>Depreciation and impairment losses, year-end</b>	<b>138</b>	<b>974</b>
-	-	<b>Balance, year-end</b>	<b>432</b>	<b>1,460</b>
-	-	Owner-occupied properties are depreciated over a period of 20-50 years.		
-	-	Residual depreciation period at 31 December (average number of years)	2	18
-	-	The latest revaluation of owner-occupied properties was made at end-2016.		
-	-	The valuations were carried out by an internal valuer based on the return method. In 2016 the required rate of return ranged between 5.5% and 7.75% (6.18% on average) depending on the nature, location and state of repair of the owner-occupied property.		
-	-	If no revaluations had been made, the carrying amount of owner-occupied properties would have been:	415	1,143

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group		
2015	2016	2016	2015	
<b>25. OTHER PROPERTY, PLANT AND EQUIPMENT</b>				
-	-	<b>Cost, beginning of year</b>	<b>842</b>	<b>834</b>
-	-	Additions	45	69
-	-	Disposals	(148)	(61)
-	-	<b>Cost, year-end</b>	<b>738</b>	<b>842</b>
<b>Depreciation and impairment losses, beginning of year</b>				
-	-	Depreciation for the year	89	99
-	-	Reversal of depreciation and impairment losses	(134)	(53)
-	-	<b>Depreciation and impairment losses, year-end</b>	<b>561</b>	<b>607</b>
-	-	<b>Balance, year-end</b>	<b>177</b>	<b>235</b>
-	-	Other assets are depreciated over 4-15 years.		
-	-	Residual depreciation period at 31 December (average number of years)	2	3
<b>26. ASSETS IN TEMPORARY POSSESSION</b>				
-	-	Properties acquired by foreclosure for sale	311	451
-	-	<b>Total</b>	<b>311</b>	<b>451</b>
If the Nykredit Group acquires a mortgaged property through a forced sale by public auction to reduce its loss on exposures in default, the Group will seek to realise the mortgaged property at the highest obtainable price within 12 months. The assets are recognised in Group Items in the segment financial statements.				
<b>27. OTHER ASSETS</b>				
-	-	Interest and commission receivable	4,852	6,388
-	-	Positive market value of derivative financial instruments	28,895	31,579
-	-	Defined benefit plans	241	227
-	-	Other assets	2,679	2,977
-	-	<b>Total</b>	<b>36,667</b>	<b>41,171</b>
<b>27 a. Netting</b>				
-	-	Positive market value of derivative financial instruments, gross	41,090	41,905
-	-	Other receivables included in netting	12,495	12,073
-	-	Netting of positive and negative market values, cf note 33 a.	(24,690)	(22,399)
-	-	<b>Net market value</b>	<b>28,895</b>	<b>31,579</b>
		Further netting, master netting agreements	15,489	
		In connection with derivatives transactions, the Bank has received securities not included in netting of	3,541	
		<b>Total</b>	<b>9,865</b>	

Nykredit offsets financial assets and liabilities in connection with derivative contracts entered into with the same counterparty, where there is a right of set-off and netting of payments has been agreed.

Apart from netting, security is provided on a daily basis by way of a variation margin corresponding to the market value changes of the contracts entered into.

Set-off takes place for derivatives that have been cleared through London Clearing House and entered into on the standard terms and conditions of London Clearing House.

Furthermore, netting is carried out, in accordance with enforceable master netting agreements, of market values and collateral received under such agreements. No comparative figures have been prepared for these agreements for 2015.

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>27. OTHER ASSETS (CONTINUED)</b>			
<b>27 b. Defined benefit plans</b>			
The majority of the Group's pension plans are defined contribution plans. The contributions are charged against income on a current basis.			
The Group's defined benefit plans are funded through contributions from Nykredit Realkredit A/S into the pension fund in run-off Nykredits Afviklingspensionskasse, which acts in the members' interests by investing the contributions made to cover the pension obligations.			
Due to the excess coverage of the pension fund, Nykredit Realkredit A/S has not made any contributions since 2009. The pension fund is subject to Danish legislation on company pension funds. The plans are closed to new members and concern staff employed before 1972.			
-	-	- Present value of defined benefit plans	(496) (521)
-	-	- Fair value of plan assets	737 748
-	-	<b>- Net assets, year-end</b>	<b>241 227</b>
-	-	<b>- Obligations, beginning of year</b>	<b>(521) (555)</b>
-	-	- Calculated interest expenses relating to the obligations	(6) (6)
-	-	- Actuarial adjustments relating to demographic assumptions	(6) (13)
-	-	- Actuarial adjustments relating to financial assumptions	1 14
-	-	- Pension benefits paid	36 38
-	-	<b>- Obligations, year-end</b>	<b>(496) (521)</b>
-	-	<b>- Plan assets, beginning of year</b>	<b>748 769</b>
-	-	- Calculated interest expenses relating to the plan assets	10 9
-	-	- Actuarial adjustments relating to financial assumptions	15 9
-	-	- Pension benefits paid	(36) (38)
-	-	<b>- Plan assets, year-end</b>	<b>737 748</b>
-	-	<b>- Net assets, year-end</b>	<b>241 227</b>
<b>Pension costs/income relating to defined benefit plans recognised in "Staff and administrative expenses" in the income statement</b>			
-	-	- Calculated interest expenses relating to the net asset	4 3
-	-	<b>- Total</b>	<b>4 3</b>
<b>Pension costs/income relating to defined benefit plans recognised in "Other comprehensive income" in "Actuarial gains/losses on defined benefit plans"</b>			
-	-	- Actuarial adjustments relating to demographic assumptions	(6) (13)
-	-	- Actuarial adjustments relating to financial assumptions	16 23
-	-	<b>- Total</b>	<b>10 10</b>
<b>Plan assets break down as follows:</b>			
-	-	- Bonds	806 818
-	-	- Cash and other receivables	16 14
-	-	- Tax	(85) (84)
-	-	<b>- Total assets</b>	<b>737 748</b>

All pension fund assets are measured on the basis of listed prices (level 1 input).

The pension fund extensively seeks to match the maturity of its assets with the expected term of its obligations. Further, expected pension benefit increases are matched with investments in index-linked bonds.



# NOTES

DKK million

	2016	2015	2014	2013	2012
<b>27. OTHER ASSETS (CONTINUED)</b>					
<b>27 b. Defined benefit plans (continued)</b>					
<b>Average actuarial calculation assumptions</b>					
Inflation, %	2.0	2.0	2.0	2.0	2.0
Discount rate, %	1.1	1.2	2.1	1.8	2.8
Wage growth, %	0.8	0.5	2.0	2.0	2.0
<b>The Nykredit Group's pension obligations</b>					
Plan liabilities	(496)	(521)	(555)	(548)	(588)
Plan assets	737	748	769	736	792
<b>Net assets</b>	<b>241</b>	<b>227</b>	<b>214</b>	<b>188</b>	<b>204</b>
<b>Net actuarial adjustments</b>					
Actuarial adjustments to plan liabilities	(5)	1	(33)	9	43
Actuarial adjustments to plan assets	16	(2)	58	(46)	35
Tax adjustments	(1)	11	(3)	13	(17)
<b>Total actuarial adjustments</b>	<b>10</b>	<b>10</b>	<b>22</b>	<b>(24)</b>	<b>61</b>
<b>Expected expiry of the pension obligations</b>					
Within 1 year	(36)	(36)			
1-5 years	(132)	(135)			
5-10 years	(138)	(142)			
Over 10 years	(190)	(208)			
<b>Total pension obligations</b>	<b>(496)</b>	<b>(521)</b>			

The expected expiry of the pension obligations is based on the discounted obligation.

<b>Sensitivities</b>	End-2016		End-2015	
	+1%/-10%	(1)%/-10%	+1%/-10%	(1)%/-10%
<b>Effect (DKK million) pension obligations on adjustment of:</b>				
Discount rate (+/- 1 percentage point)	40	(46)	43	(50)
Wage growth and pension increases (+/- 1 percentage point)	(52)	44	(56)	47
Life expectancy (+/- 10%)	(23)	23	(24)	24

Sensitivities are computed subject to "all things being equal", meaning that one parameter is adjusted, while the remaining parameters are left unchanged. This will rarely be the case in practice, and assumption changes may also be correlated.

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
		<b>28. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS</b>	
-	-	13,913	8,543
-	-	7,769	21,683
-	-	<b>21,681</b>	<b>30,226</b>
		<b>Payables to credit institutions and central banks by time-to-maturity</b>	
-	-	10,769	3,679
-	-	8,087	24,158
-	-	2,136	1,625
-	-	689	764
-	-	<b>21,681</b>	<b>30,226</b>
		<b>29. DEPOSITS AND OTHER PAYABLES</b>	
-	-	54,563	49,947
-	-	2,096	2,334
-	-	5,923	7,536
-	-	2,832	2,767
-	-	<b>65,414</b>	<b>62,584</b>
		<b>Deposits and other payables by time-to-maturity</b>	
-	-	55,171	50,340
-	-	5,751	7,408
-	-	838	1,535
-	-	1,856	1,547
-	-	1,799	1,755
-	-	<b>65,414</b>	<b>62,584</b>
		<b>30. BONDS IN ISSUE AT FAIR VALUE</b>	
-	-	212,280	251,040
-	-	1,026,550	971,449
-	-	11,613	18,155
-	-	4,306	4,320
-	-	<b>1,254,749</b>	<b>1,244,964</b>
-	-	(102,366)	(107,650)
-	-	<b>1,152,383</b>	<b>1,137,314</b>

Changes in the fair values of covered bonds (ROs and SDOs) and senior debt issues attributable to the Nykredit Group's own credit risk can be determined relative to changes in option-adjusted yield spreads (OAS) against government bonds or relative to changes in yield spreads against equivalent 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 Nykredit Group's own credit risk in 2016 or since the issue, as there are no measurable price differences between bonds with identical properties issued by different lenders.

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>30. BONDS IN ISSUE AT FAIR VALUE (CONTINUED)</b>			
<p>The yield spread between government bonds and senior debt issues has widened, whereas the spread between government bonds and ROs/SDOs tightened in 2016. The yield spread changes in 2016 caused an increase in the fair value of bonds in issue of approx DKK 5.4bn attributable to Nykredit's own credit risk. Since 2007 spread widening between government bonds and ROs/SDOs has resulted in a fair value decline of approx DKK 13bn attributable to Nykredit's own credit risk, whereas spread tightening between government bonds and senior debt issues has resulted in a fair value increase of senior debt in issue of approx DKK 0.5bn.</p> <p>Equity and profit/loss have not been affected by the changes in fair value for ROs and SDOs, as the value of mortgage loans has changed correspondingly.</p> <p>The determination allows for both maturity and nominal holding, but is to some extent based on estimates.</p>			
<b>30 a. ROs</b>			
-	- ROs at nominal value	203,341	242,206
-	- Fair value adjustment	8,939	8,834
-	<b>- ROs at fair value</b>	<b>212,280</b>	<b>251,040</b>
-	- Self-issued ROs transferred from "Bonds at fair value" – note 19	(21,099)	(34,506)
-	<b>- Total</b>	<b>191,181</b>	<b>216,534</b>
-	- Of which pre-issuance	45	24
-	- ROs redeemed and maturing at next creditor payment date	29,541	16,191
<b>30 b. SDOs</b>			
-	- SDOs at nominal value	1,012,517	970,081
-	- Fair value adjustment	14,033	1,368
-	<b>- SDOs at fair value</b>	<b>1,026,550</b>	<b>971,449</b>
-	- Self-issued SDOs transferred from "Bonds at fair value" – note 19	(81,061)	(72,774)
-	<b>- Total</b>	<b>945,489</b>	<b>898,675</b>
-	- Of which pre-issuance	4,655	2,408
-	- SDOs redeemed and maturing at next creditor payment date	54,885	57,889
<b>30 c. Senior secured debt</b>			
-	- Senior secured debt at nominal value	11,146	17,503
-	- Fair value adjustment	467	652
-	<b>- Senior secured debt at fair value</b>	<b>11,613</b>	<b>18,155</b>
-	- Self-issued senior secured debt transferred from "Bonds at fair value" – note 19	(206)	(370)
-	<b>- Total</b>	<b>11,407</b>	<b>17,784</b>
-	- Senior secured debt maturing at next creditor payment date	-	118

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>30. BONDS IN ISSUE AT FAIR VALUE (CONTINUED)</b>			
<b>30 d. Senior unsecured debt</b>			
-	- Senior unsecured debt at nominal value	4,282	4,320
-	- Fair value adjustment	24	(0)
-	- <b>Total</b>	<b>4,306</b>	<b>4,320</b>
-	- Senior unsecured debt redeemed at next creditor payment date	-	-
<b>Bonds in issue at fair value by time-to-maturity</b>			
-	- Up to 3 months	55,552	54,379
-	- Over 3 months and up to 1 year	169,206	190,928
-	- Over 1 year and up to 5 years	539,483	288,026
-	- Over 5 years	388,142	603,982
-	- <b>Total</b>	<b>1,152,383</b>	<b>1,137,314</b>
Bonds in issue by time-to-maturity are stated at fair value after set-off against self-issued bonds.			
<b>31. BONDS IN ISSUE AT AMORTISED COST</b>			
-	- Corporate bonds	11,498	22,179
-	- SDOs	17	26
-	- Senior secured debt	3,759	3,789
-	- Senior unsecured debt	7,367	-
-	- Other securities	28	30
-	- <b>Total</b>	<b>22,669</b>	<b>26,024</b>
-	- Self-issued corporate bonds transferred from "Bonds at fair value" – note 19	(1,340)	(2,028)
-	- Self-issued SDOs transferred from "Bonds at fair value" – note 19	(16)	(26)
-	- Other self-issued securities transferred from "Loans, advances and other receivables at amortised cost" – note 18	(21)	(25)
-	- <b>Total</b>	<b>21,292</b>	<b>23,945</b>
<b>Bonds in issue at amortised cost by time-to-maturity</b>			
-	- Up to 3 months	1,913	5,053
-	- Over 3 months and up to 1 year	5,539	7,598
-	- Over 1 year and up to 5 years	13,815	10,947
-	- Over 5 years	25	347
-	- <b>Total</b>	<b>21,292</b>	<b>23,945</b>
Bonds in issue by time-to-maturity are stated at amortised cost after set-off against self-issued bonds.			
<b>31 a. Corporate bonds</b>			
<b>Issues</b>			
-	- EMTN issues*	7,686	13,734
-	- ECP issues*	3,657	8,202
-	- Other issues*	155	243
-	- <b>Total</b>	<b>11,498</b>	<b>22,179</b>

\* Listed on Nasdaq Copenhagen or the Luxembourg Stock Exchange.

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>32. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE</b>			
-	-	14,562	7,438
-	-	3,173	2,689
-	-	<b>17,735</b>	<b>10,126</b>
<b>Other non-derivative financial liabilities by time-to-maturity</b>			
-	-	223	111
-	-	14,422	10,015
-	-	3,090	-
-	-	<b>17,735</b>	<b>10,126</b>
<b>33. OTHER LIABILITIES</b>			
-	-	10,060	11,776
-	-	25,427	27,287
1	7	3,921	3,242
<b>1</b>	<b>7</b>	<b>39,409</b>	<b>42,305</b>
<b>33 a. Netting</b>			
-	-	46,422	46,289
-	-	3,495	3,397
-	-	(24,690)	(22,399)
-	-	<b>25,427</b>	<b>27,287</b>
-	-	15,489	
-	-	4,477	
-	-	<b>5,462</b>	

The netting of market values is exclusively attributable to clearing of derivatives through London Clearing House (CCP) and is entered into at London Clearing House standard terms.

Furthermore, netting is carried out, in accordance with enforceable master netting agreements, of market values and collateral received under such agreements. No comparative figures have been prepared for these agreements for 2015.

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>34. PROVISIONS FOR DEFERRED TAX/DEFERRED TAX ASSETS</b>			
<b>Deferred tax</b>			
-	-	(20)	(70)
-	-	40	86
-	-	(13)	(2)
-	-	-	(2)
-	-	(20)	(32)
-	-	<b>(13)</b>	<b>(20)</b>
<b>Deferred tax recognised in the balance sheet</b>			
-	-	113	103
-	-	(126)	(123)
-	-	<b>(13)</b>	<b>(20)</b>
<b>Deferred tax relates to:</b>			
-	-	(101)	(103)
-	-	1	-
-	-	32	27
-	-	(44)	(49)
-	-	5	(6)
-	-	31	23
-	-	(21)	(38)
-	-	88	78
-	-	126	57
-	-	(129)	(9)
-	-	-	0
-	-	<b>(13)</b>	<b>(20)</b>
<b>Deferred tax assets not recognised in the balance sheet:</b>			
-	-	25	105
-	-	<b>25</b>	<b>105</b>
The asset has not been recognised, as it is not likely to crystallise in the near future.			
<b>35. CURRENT TAX ASSETS AND LIABILITIES</b>			
<b>Current tax assets</b>			
4	6	6	635
-	-	(128)	(631)
1	1	(1,429)	1
1	(4)	1,623	1
-	-	26	-
-	-	1	-
-	-	67	-
<b>6</b>	<b>4</b>	<b>166</b>	<b>6</b>
<b>Current tax liabilities</b>			
-	-	142	146
-	-	(128)	(631)
-	-	-	(883)
-	-	-	12
-	-	-	1,565
-	-	-	13
-	-	-	(80)
-	-	<b>14</b>	<b>142</b>

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>36. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS</b>			
-	-	<b>175</b>	<b>203</b>
-	-	(23)	(27)
-	-	19	18
-	-	-	(4)
-	-	(16)	(16)
-	-	<b>155</b>	<b>175</b>
<b>37. REPAYABLE RESERVES IN PRE-1972 SERIES</b>			
-	-	<b>63</b>	<b>74</b>
-	-	(9)	(14)
-	-	0	3
-	-	<b>55</b>	<b>63</b>
<p>Repayable reserves in pre-1972 series stem from loan agreements under which the borrowers on full or partial repayment of their outstanding amounts are paid their share of the series reserve fund in compliance with the terms of the series concerned. This obligation will be gradually reduced up until 2033 as the borrowers repay their loans.</p>			
<b>38. PROVISIONS FOR LOSSES UNDER GUARANTEES</b>			
-	-	<b>100</b>	<b>107</b>
-	-	21	17
-	-	-	(23)
-	-	(68)	-
-	-	<b>52</b>	<b>100</b>
<b>39. OTHER PROVISIONS</b>			
-	-	<b>169</b>	<b>169</b>
-	-	96	97
-	-	-	(43)
-	-	42	(53)
-	-	(0)	0
-	-	<b>224</b>	<b>169</b>

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
	<b>40. SUBORDINATED DEBT</b>		
	Subordinated debt consists of financial liabilities in the form of subordinate loan capital and hybrid capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.		
	Subordinated debt is included in Nykredit's own funds in accordance with the EU's Capital Requirements Regulation.		
	<b>Subordinate loan capital</b>		
	Nom EUR 600m. The loan matures on 3 June 2036, but may be redeemed at par (100) from 3 June 2021. The loan carries a fixed interest rate of 4.0% pa up to 3 June 2021, after which date the interest rate will be fixed every 5 years. If the Common Equity Tier 1 capital ratio of Nykredit Realkredit, the Nykredit Realkredit Group or the Nykredit Holding Group falls below 7%, the loan will be written down.	4,647	4,602
-	-		
	Nom EUR 800m. The loan matures on 17 November 2027, but may be redeemed at par (100) from 17 November 2022. The loan carries a fixed interest rate of 2.75% pa up to 17 November 2022, after which date the interest rate will be fixed for the next 5 years.	6,058	5,932
-	-		
	Nom EUR 50m. The loan matures on 28 October 2030. The loan carries a fixed interest rate of 4% pa for the first 2 years after issuance. In the remaining loan term, the interest rate will be fixed every 6 months.	372	373
-	-		
-	- <b>Total subordinate loan capital</b>	<b>11,078</b>	<b>10,907</b>
	<b>Hybrid capital</b>		
	Nom DKK 100m. The loan is perpetual and carries an interest rate of 1.7% pa above 3M Cibor	-	100
-	-		
-	- <b>Total hybrid capital</b>	-	<b>100</b>
	Portfolio of self-issued bonds	-	(1)
-	-		
-	- <b>Total subordinated debt</b>	<b>11,078</b>	<b>11,006</b>
	<b>Subordinated debt that may be included in own funds</b>	<b>8,510</b>	<b>3,616</b>
-	-		
	Costs related to raising and redeeming subordinated debt	-	29
-	-		
	Extraordinary principal payments and redemption of subordinated debt in the financial period	100	6,699
-	-		
	<b>Hedge accounting</b>		
	The exposure to fair value changes in the price of the bonds as a result of changes in market rates is hedged. The Nykredit Group has countered this risk by entering into interest rate swaps:		
	Market value of interest rate swaps of EUR 50m (nominal)	1	0
-	-		
	Market value of interest rate swaps of EUR 600m (nominal)	208	154
-	-		
	Market value of interest rate swaps of EUR 800m (nominal)	133	(14)
-	-		
	Market value of subordinate loan capital of EUR 50m (nominal)	372	373
-	-		
	Market value of subordinate loan capital of EUR 600m (nominal)	4,461	4,478
-	-		
	Market value of subordinate loan capital of EUR 800m (nominal)	5,942	5,965
-	-		
-	- <b>Total</b>	<b>11,115</b>	<b>10,956</b>

<sup>1</sup> Following approval by the Danish FSA, Nykredit Bank's hybrid loan of DKK 100m was redeemed in May 2016.



# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>41. OFF-BALANCE SHEET ITEMS</b>			
Guarantees and warranties provided, irrevocable credit commitments and similar obligations not recognised in the balance sheets are presented below.			
-	-	6,694	6,942
-	-	6,934	6,637
-	-	<b>13,628</b>	<b>13,579</b>
<b>41 a. Contingent liabilities</b>			
-	-	1,285	1,706
-	-	208	284
-	-	5,201	4,952
-	-	<b>6,694</b>	<b>6,942</b>
"Other contingent liabilities" chiefly comprises purchase price and payment guarantees.			
<b>Contingent liabilities by time-to-expiry</b>			
-	-	3,845	4,336
-	-	2,334	1,798
-	-	515	808
-	-	<b>6,694</b>	<b>6,942</b>
The time-to-expiry is partly based on estimates as not all guarantees have a fixed expiry date and as the expiry date may depend on the time of registration etc.			
<b>41 b. Other commitments</b>			
-	-	5,130	5,299
-	-	1,803	1,338
-	-	<b>6,934</b>	<b>6,637</b>
"Other" under "Other commitments" comprises obligations to and charges in favour of securities depositaries, investment commitments to private equity funds and non-callable lease payments.			
<b>The following non-callable lease payments are recognised in "Other" under "Other commitments":</b>			
-	-	155	84
-	-	643	217
-	-	5	10
-	-	<b>803</b>	<b>312</b>

The time-to-expiry is partly based on estimates as not all guarantees have a fixed expiry date and as the expiry date may depend on the time of registration etc.

Non-callable lease payments comprise Nykredit's rental obligations.

## 41. OFF-BALANCE SHEET ITEMS (CONTINUED)

### Additional contingent liabilities

Owing to its size and business scope, the Nykredit Group is continuously involved in legal proceedings and litigation. The cases are subject to ongoing review, and necessary provisions are made based on an assessment of the risk of loss. Pending cases are not expected to have a significant effect on the Nykredit Group's financial position.

Nykredit participates in the mandatory Danish deposit guarantee scheme. A new scheme was introduced in 2015, as the Danish Guarantee Fund took over the activities and assets of the Danish Guarantee Fund for Depositors and Investors on 1 June 2015. The purpose of the Danish Guarantee Fund is to provide cover for depositors and investors of failing institutions included in the Fund's scheme. The scheme includes both natural and legal persons, and deposits are covered by an amount equivalent to EUR 100,000 per depositor and EUR 20,000 per investor.

Nykredit also participates in the Danish Resolution Fund scheme, which is a resolution finance scheme that was also established on 1 June 2015. The Danish Resolution Fund is funded by annual contributions from participating banks, mortgage lenders and investment companies and, as from 31 December 2024, the assets of the scheme must make up 1% of the sector's covered deposits.

Participating institutions make annual contributions to cover any losses incurred by the Danish Resolution Fund in connection with the resolution of failing institutions.

BEC is an IT provider of Nykredit Bank. According to BEC's articles of association, Nykredit Bank may terminate its membership of BEC giving five years' notice to expire at the end of a financial year. Should the membership terminate for other reasons related to Nykredit Bank, compensation will be payable to BEC as defined in BEC's articles of association. If a bank merges and ceases being an independent bank, the BEC membership terminates without notice but a transitional scheme may apply.

Nykredit Holding A/S is jointly taxed in Denmark with Foreningen Nykredit (the Nykredit Association) as the administration company. This company has unlimited liability and is jointly and severally liable for Danish corporation taxes and taxes at source on dividends, interest and royalties within the jointly taxed companies. The total known net liability with respect to corporation tax and tax at source payable by the jointly taxed companies appears from the financial statements of Foreningen Nykredit. As a result of any later corrections of the income subject to joint taxation and taxes at source, the company may be liable for a larger amount.

Nykredit Realkredit A/S is liable for the obligations of the pension fund in run-off Nykredits Afviklingspensionskasse (CVR no 24 25 62 19).

## 42. RELATED PARTY TRANSACTIONS AND BALANCES

Foreningen Nykredit, the Parent Nykredit Holding A/S, Group enterprises and associates of Nykredit Realkredit A/S as stated in the Group structure as well as Nykredit Realkredit A/S's Board of Directors, Executive Board and related parties thereof are regarded as related parties.

No unusual related party transactions occurred in 2016.

The companies have entered into various agreements as a natural part of the Group's day-to-day operations. The agreements typically involve financing, provision of guarantees, sales commission, tasks relating to IT support and IT development projects, payroll and staff administration as well as other administrative tasks.

Intercompany trading in goods and services took place on an arm's length, cost reimbursement or profit split basis.

Significant related party transactions prevailing/entered into in Q1-Q4/2016 include:

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

As a part of the Group's joint funding activities, Nykredit Realkredit A/S has funded mortgage loans granted by its subsidiary Totalkredit A/S on an ongoing basis.

Totalkredit A/S funds its lending by issuing a master bond for each capital centre with Nykredit Realkredit A/S as the only creditor. The master bond constitutes security for Nykredit Realkredit A/S's issuance of covered bonds (ROs and SDOs) and serves to ensure that Totalkredit A/S transfers all payments to bondholders under the loans and advances granted by Totalkredit A/S to Nykredit Realkredit A/S, no later than at the same time as Nykredit Realkredit A/S makes payments to bondholders. The bondholders therefore enjoy the same security as if the Totalkredit loans had been granted directly from Nykredit Realkredit A/S's own balance sheet.

Nykredit Realkredit A/S has granted loans, cf section 15 of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, to Totalkredit A/S serving as supplementary collateral in Totalkredit A/S's capital centres. The loans amounted to DKK 11.0bn at 31 December 2016. The loans constitute secondary preferential claims and rank after the master bond in respect of the assets in Totalkredit A/S's capital centres.

An agreement has been made to hedge market risk relating to collateral, including investments, in Totalkredit's capital centres.

Agreement on the distribution of mortgage loans to personal customers via Totalkredit A/S (this agreement was concluded on the same terms as apply to other partners, including commission payments).

Nykredit Realkredit A/S has granted loans of DKK 6.0bn to Totalkredit A/S in the form of subordinated debt.

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

Framework agreement on the terms for financial transactions relating to loans and deposits in the securities and money market areas. Transactions in financial instruments are covered by master netting agreements involving an ongoing exchange of collateral in the form of cash and bonds.

Nykredit Bank received additional equity of DKK 2bn from Nykredit Realkredit A/S in February 2015.

Nykredit Realkredit A/S contributed DKK 2bn in the form of Tier 2 capital to Nykredit Bank in December 2016

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group		
2015	2016	2016	2015	
<b>42. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)</b>				
<b>42 a. Transactions with subsidiaries</b>				
<b>Asset items</b>				
15	1	Receivables from credit institutions and central banks	-	-
<b>42 b. Transactions with Parents</b>				
<b>Income statement</b>				
-	-	Interest expenses	0	0
<b>Asset items</b>				
-	-	Receivables from credit institutions	2	-
<b>Liability items</b>				
-	-	Bonds in issue at fair value	10	32
<b>42 c. Transactions with joint venture</b>				
<b>Income statement</b>				
-	-	Staff and administrative expenses	212	240
<b>Asset items</b>				
-	-	Other assets	0	0
<b>Liability items</b>				
-	-	Deposits and other payables	-	1
<b>42 d. Transactions with associates</b>				
<b>Income statement</b>				
-	-	Interest income	0	1
<b>Liability items</b>				
-	-	Deposits and other payables	69	11
<b>42 e. Transactions with the Board of Directors and Executive Board</b>				
<b>Interest expenses of the members of:</b>				
-	-	Executive Board	0	0
-	-	Board of Directors	1	1
-	-	Related parties of the Executive Board and Board of Directors	1	2
<b>Loans, charges or guarantees granted to the members of:</b>				
-	-	Executive Board	29	21
-	-	Board of Directors	29	30
-	-	Related parties of the Executive Board and Board of Directors	83	92
<b>Deposits from the members of:</b>				
-	-	Executive Board	10	14
-	-	Board of Directors	6	4
-	-	Related parties of the Executive Board and Board of Directors	1	3

Related party facilities have been granted on standard business terms. Rates applying to ordinary loans range between 1.18% and 12.50% (2015: 2.75% and 10.75%), and the deposit rate ranged between 0.0% and 0.25% (2015: 0.0% and 1.25%).

Facilities granted to the Executive Board, the Board of Directors or related parties thereof have not given rise to impairment provisions or impairment losses.

## 43. FAIR VALUE DISCLOSURES

### Valuation principles

Financial instruments are measured at fair value or amortised cost in the balance sheets. The tables in notes 43 a. and 43 b. show the fair values of all instruments compared with the carrying amounts at which the instruments are recognised in the balance sheet.

### Financial instruments measured at fair value

The Group's fair value assets and liabilities are generally recognised based on publicly listed prices or market terms on active markets on the balance sheet date. If an asset or liability measured at fair value has both a purchase and a sales price, the mean value is used as a basis for measurement. The measurement is the value at which a financial asset may be traded, or the amount at which a financial liability may be settled, between two independent and willing parties.

If the market for a financial asset or liability is illiquid, or if there are no publicly recognised prices, Nykredit determines the fair value using generally accepted valuation techniques. These techniques include corresponding recent transactions between independent parties, reference to other corresponding instruments and an analysis of discounted cash flows as well as option and other models based on observable market data.

Valuation techniques are generally applied to OTC derivatives and unlisted assets and liabilities.

Unlisted equities are measured at fair value using valuation methods according to which the fair value is estimated as the price of an asset traded between independent parties or based on the company's equity value, if the equity value is assumed equal to the fair value of the instrument.

### Financial instruments measured at amortised cost

In connection with the determination of the fair value of the financial instruments measured at amortised cost in the Financial Statements, the following methods and significant assumptions have been applied:

- For loans, advances and receivables as well as other financial liabilities measured at amortised cost, carrying a variable interest rate and entered into on standard credit terms, the carrying amounts are estimated to correspond to the fair values.
- Fair value hedging of certain financial instruments recognised at amortised cost has been hedged using derivatives, cf note 47. The measurement of these financial instruments in the Financial Statements includes value changes deriving from changes in the hedged fair value, cf the provisions on hedge accounting.
- The fair value of fixed-rate assets and financial liabilities measured at amortised cost has been determined using generally accepted valuation methods.
- The credit risk of fixed-rate financial assets (loans and advances) has been assessed in relation to other loans, advances and receivables.
- The fair value of assets and liabilities without a fixed term has been assumed to be the value disburseable at the balance sheet date.
- The fair value of bonds in issue is measured based on valuation techniques, taking into account comparable transactions and observable inputs such as yield curves, at which Nykredit might launch issues.
- 
- 

Note 43 a shows the fair value of the financial instruments recognised at amortised cost and the instances where the fair value does not correspond to the carrying amount.

### Listed prices

The Group's assets and liabilities at fair value are to the widest extent possible recognised at listed prices or prices quoted in an active market or authorised market place.

Bonds at fair value are attributable to listed prices if external prices have been updated within the past three trade days prior to the balance sheet date. If no listed prices are observed during this timespan, the portfolio is attributable to observable input.

### Observable inputs

When an instrument is not traded in an active market, measurement is based on the most recent listed price in an inactive market, the price of comparable transactions or generally accepted valuation techniques and is, to the widest extent possible, based on, for instance, discounted cash flows and option models.

Observable inputs are typically yield curves, volatilities and market prices of similar instruments which are usually obtained through ordinary providers such as Reuters, Bloomberg and market makers. If the fair value is based on transactions in similar instruments, measurement is exclusively based on transactions at arm's length. Reverse repurchase lending and repo transactions as well as unlisted derivatives generally belong in this category.

Bonds not traded in the past three trade days are attributable to this category. The measurement is based on the most recent observed price, and adjustments are made for subsequent changes in market conditions, eg by including transactions in similar instruments (matrix pricing).

Valuation techniques are generally applied to measure derivatives, unlisted assets and liabilities and properties.

Further, the valuation of derivatives implies the use of so-called Credit Valuation Adjustment (CVA), thus including counterparty credit risk in the valuation. The CVA of derivatives with positive market value is primarily based on external credit curves such as Itraxx Main, but also on internal data as regards customers without OEI in the lowest rating categories, as there are no external curves suitable for the calculation of credit risk on these customers.

Finally, calculations are made to simulate future exposures to interest rate swaps. Calculations involving increased CVA are included in the value adjustment.

Practice has changed towards using a so-called FVA adjustment for the valuation of derivatives. FVA allows for Nykredit's future funding costs incurred by derivatives transactions where clients have not provided sufficient collateral. Nykredit has used a funding curve for this calculation, which is assessed on the basis of objective prices of Danish SIFI banks' traded bonds. This calculation is made on the basis of a "discount curve method".

FVA may involve both funding benefit and funding costs, but for Nykredit, the net FVA adjustment will be a funding cost resulting from too low or no customer collateralisation. Debit Valuation Adjustment (DVA) is now a sub-element of the FVA adjustment. Net value adjustment due to CVA, DVA and FVA comprised a negative DKK 568m at 31 December 2016 against a negative DKK 182m at end-2015.

## 43. FAIR VALUE DISCLOSURES (CONTINUED)

Upon entering into derivatives contracts, further provisions are made in the form of a so-called minimum margin for liquidity and credit risk and return on capital. The minimum margin is amortised at the valuation of derivatives over their times-to-maturity. At 31 December 2016, the non-amortised minimum margin amounted to DKK 403m against DKK 430m at end-2015. Finally, in some instances further value adjustment based on management judgement is made if the models are not deemed to take into account all known risks, including eg legal risks.

In some cases, markets, eg the bond market, have become inactive and illiquid. When assessing market transactions, it may therefore be difficult to conclude whether the transactions were executed at arm's length or were forced sales. If measurement is based on recent transactions, the transaction price is compared with a price based on relevant yield curves and discounting techniques.

### Unobservable inputs

When it is not possible to measure financial instruments at fair value based on prices in active markets or observable inputs, measurement is based on own assumptions and extrapolations etc. Where possible and appropriate, measurement is based on actual transactions adjusted for differences in eg the liquidity, credit spreads and maturities of the instruments. The Group's unlisted equities are generally classified under this heading, and valuation takes place pursuant to the IPEV Valuation Guidelines.

The positive market values of a number of interest rate swaps with customers in the lowest rating categories have been adjusted for increased credit risk based on additional CVA. The adjustment uses for instance the statistical data applied by the Bank to calculate collective impairment provisions for loans and advances at amortised cost. Interest rate swaps which have been fair value adjusted to DKK 0 (after deduction for collateral) due to the creditworthiness of the counterparty are also included in the category Unobservable inputs. The fair value came to DKK 587m at 31 December 2016. Credit value adjustments came to DKK 3,926m at 31 December 2016 (2015: DKK 4,845m).

The interest rate risk on these interest rate swaps is hedged in all material respects. However, interest rate fluctuations may impact results to the extent that the market value must be adjusted due to increased counterparty credit risk. A 0.1 percentage point change in interest rate levels will impact the fair value by +/- DKK 142m.

However, financial assets measured on the basis of unobservable inputs account for a very limited part of total financial assets at fair value. At 31 December 2016, the proportion was 0.3% compared with 0.4% at end-2015. The share of financial liabilities was 0.0%, which was unchanged on 31 December 2015.

Valuation, notably of instruments classified as unobservable inputs, is subject to some uncertainty. Of total assets and liabilities, DKK 4.0bn (2015: DKK 4.9bn) and DKK 0.0bn (2015: DKK 0.0bn), respectively, were attributable to this category. Assuming that an actual market price will deviate by +/- 10% from the calculated fair value, the earnings impact will be DKK 399m in 2016 (0.6% of equity at 31 December 2016). The earnings impact for 2015 was estimated at DKK 538m (0.8% of equity at 31 December 2015).

### Transfers between categories

Transfers between the categories Listed prices, Observable inputs and Unobservable inputs are made when an instrument is classified differently on the balance sheet date than at the beginning of the financial year. The value transferred to another category corresponds to the fair value at the beginning of the year. With respect to interest rate swaps that have been fair value adjusted to DKK 0 due to credit risk adjustment, separate calculations are made at the end of each month.

In 2016 and 2015, transfers between the categories Observable inputs and Unobservable inputs mainly resulted from changes to the ratings (credit risk) of counterparties and primarily concerned interest rate swaps, as regards financial instruments with positive market value.

Transfers between the categories Listed prices and Observable inputs resulted in all material respects from bonds that were reclassified either due to traded volume or the number of days between last transaction and the time of determination. In 2016, DKK 34.6bn was transferred from Listed prices to Observable inputs. Furthermore, redeemed bonds are classified differently. Redeemed bonds (usually comprised by Listed prices) are transferred to Observable inputs on the last day before the coupon date, as there is no access to official prices in active markets. At 31 December 2016, the amount was DKK 5.7bn against DKK 4.7bn at end-2015. No transfers were made between the categories Listed prices and Unobservable inputs.

# NOTES

DKK million

Nykredit Holding Group

## 43. FAIR VALUE DISCLOSURES (CONTINUED)

### 43 a. Fair value disclosures of assets and liabilities recognised at amortised cost

2016	Carrying amount	Fair value	Balance	Fair value calculated on the basis of		
				Listed prices	Observable inputs	Unobservable inputs
<b>Assets</b>						
Loans, advances and other receivables at amortised cost	55,361	55,494	133	-	19	55,475
<b>Total</b>	<b>55,361</b>	<b>55,494</b>	<b>133</b>	<b>-</b>	<b>19</b>	<b>55,475</b>
<b>Liabilities</b>						
Bonds in issue at amortised cost	21,292	21,253	38	-	21,246	7
Subordinated debt	11,078	11,612	(534)	-	11,612	-
<b>Total</b>	<b>32,369</b>	<b>32,865</b>	<b>(496)</b>	<b>-</b>	<b>32,858</b>	<b>7</b>
Transfer from assets			133			
<b>Total balance</b>			<b>(363)</b>			
<b>2015</b>						
<b>Assets</b>						
Loans, advances and other receivables at amortised cost	47,036	47,154	117	-	19	47,134
<b>Total</b>	<b>47,036</b>	<b>47,154</b>	<b>117</b>	<b>-</b>	<b>19</b>	<b>47,134</b>
<b>Liabilities</b>						
Bonds in issue at amortised cost	23,945	24,233	(288)	-	24,227	6
Subordinated debt	11,006	10,898	109	-	10,798	100
<b>Total</b>	<b>34,951</b>	<b>35,130</b>	<b>(179)</b>	<b>-</b>	<b>35,025</b>	<b>106</b>
Transfer from assets			117			
<b>Total balance</b>			<b>(62)</b>			

# NOTES

DKK million

Nykredit Holding Group

## 43. FAIR VALUE DISCLOSURES (CONTINUED)

### 43 b. Fair value of assets and liabilities recognised at fair value (IFRS hierarchy)

31 December 2016

<b>Assets:</b>	<b>Listed prices</b>	<b>Observable inputs</b>	<b>Unobservable inputs</b>	<b>Total fair value</b>
<b>Recognised in the trading book:</b>				
- other reverse repurchase lending	-	30,091	-	30,091
- bonds at fair value	40,010	71,729	242	111,981
- equities measured at fair value through profit or loss	580	-	1,549	2,129
- positive fair value of derivative financial instruments	59	28,248	587	28,895
<b>Recognised through the fair value option:</b>				
- mortgage loans, arrears and outlays	-	1,125,064	-	1,125,064
<b>Recognised as available for sale:</b>				
- reverse repurchase lending to credit institutions and central banks	-	1,279	-	1,279
- equities available for sale	1,502	-	943	2,445
<b>Other assets recognised at fair value:</b>				
- owner-occupied properties	-	-	432	432
- investment properties	-	-	232	232
<b>Total</b>	<b>42,151</b>	<b>1,256,411</b>	<b>3,986</b>	<b>1,302,549</b>
<b>Percentage</b>	<b>3.2</b>	<b>96.5</b>	<b>0.3</b>	<b>100</b>

### Liabilities:

#### Recognised in the trading book:

- repo transactions with credit institutions and central banks	-	7,769	-	7,769
- other non-derivative financial liabilities at fair value including negative securities portfolios	554	2,758	-	3,313
- negative fair value of derivative financial instruments	95	25,332	-	25,427

#### Recognised through the fair value option:

- other reverse repo lending	-	14,422	-	14,422
- bonds in issue at fair value	1,139,738	12,645	-	1,152,383

<b>Total</b>	<b>1,140,387</b>	<b>62,926</b>	<b>-</b>	<b>1,203,313</b>
<b>Percentage</b>	<b>94.8</b>	<b>5.2</b>	<b>-</b>	<b>100</b>

### Assets and liabilities measured on the basis of unobservable inputs

	<b>Properties</b>	<b>Bonds</b>	<b>Equities</b>	<b>Derivatives</b>	<b>Total</b>
<b>Fair value, beginning of year, assets</b>	<b>1,704</b>	<b>287</b>	<b>2,315</b>	<b>621</b>	<b>4,927</b>
Value adjustment recognised in the income statement	527	(8)	119	(70)	568
Unrealised capital gains and losses recognised in "Other comprehensive income"	3	-	63	-	66
Purchases for the year	-	6	159	-	165
Sales for the year	(1,570)	(47)	(164)	(33)	(1,814)
Redemptions for the year	-	-	-	-	-
Transferred from Listed prices and Observable inputs <sup>1</sup>	-	4	-	239	243
Transferred to Listed prices and Observable inputs <sup>2</sup>	-	-	-	(170)	(170)
<b>Fair value, year-end, assets</b>	<b>664</b>	<b>242</b>	<b>2,492</b>	<b>587</b>	<b>3,986</b>

### Fair value, beginning of year, liabilities

		31	-	-	31
Transferred to Listed prices and Observable inputs <sup>2</sup>		-	-	-	-
Purchases for the year		(31)	-	-	(31)

### Fair value, year-end, liabilities

		-	-	-	-
--	--	---	---	---	---

<sup>1</sup> Transfers from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.

<sup>2</sup> Transfers to Observable inputs from Unobservable inputs principally consist of interest rate swaps for which individual adjustment for increased credit risk is no longer required.

# NOTES

DKK million

Nykredit Holding Group

## 43. FAIR VALUE DISCLOSURES (CONTINUED)

### 43 b. Fair value of assets and liabilities recognised at fair value (IFRS hierarchy) (continued)

31 December 2015

<b>Assets:</b>	<b>Listed prices</b>	<b>Observable inputs</b>	<b>Unobservable inputs</b>	<b>Total fair value</b>
<b>Recognised in the trading book:</b>				
- other reverse repurchase lending	-	39,467	-	39,467
- bonds at fair value	98,302	7,611	287	106,200
- equities measured at fair value through profit or loss	545	-	1,435	1,979
- positive fair value of derivative financial instruments	64	30,894	621	31,579
<b>Recognised through the fair value option:</b>				
- mortgage loans, arrears and outlays	-	1,119,459	-	1,119,459
<b>Recognised as available for sale:</b>				
- reverse repurchase lending to credit institutions and central banks	-	1,102	-	1,102
- equities available for sale	1,235	-	880	2,115
<b>Other assets recognised at fair value:</b>				
- owner-occupied properties	-	-	1,460	1,460
- investment properties	-	-	244	244
<b>Total</b>	<b>100,146</b>	<b>1,198,533</b>	<b>4,927</b>	<b>1,303,606</b>
<b>Percentage</b>	<b>7.7</b>	<b>91.9</b>	<b>0.4</b>	<b>100</b>

### Liabilities:

#### Recognised in the trading book:

- repo transactions with credit institutions and central banks	-	21,683	-	21,683
- other non-derivative financial liabilities at fair value including negative securities portfolios	2,689	0	-	2,689
- negative fair value of derivative financial instruments	84	27,203	-	27,287

#### Recognised through the fair value option:

- other reverse repo lending	-	7,438	-	7,438
- bonds in issue at fair value	1,134,547	2,736	31	1,137,314

<b>Total</b>	<b>1,137,319</b>	<b>59,060</b>	<b>31</b>	<b>1,196,410</b>
<b>Percentage</b>	<b>95.1</b>	<b>4.9</b>	<b>0.0</b>	<b>100</b>

### Assets and liabilities measured on the basis of unobservable inputs

	<b>Properties</b>	<b>Bonds</b>	<b>Equities</b>	<b>Derivatives</b>	<b>Total</b>
<b>Fair value, beginning of year, assets</b>	<b>1,767</b>	<b>180</b>	<b>2,015</b>	<b>1,312</b>	<b>5,273</b>
Value adjustment recognised in the income statement	12	2	229	(409)	(178)
Unrealised capital gains and losses recognised in "Other comprehensive income"	17	-	(72)	-	(55)
Purchases for the year	3	44	551	-	875
Sales for the year	(94)	(57)	(408)	-	(826)
Redemptions for the year	-	-	-	-	-
Transferred from Listed prices and Observable inputs <sup>1</sup>	-	118	-	183	302
Transferred to Listed prices and Observable inputs <sup>2</sup>	-	-	-	(465)	(465)
<b>Fair value, year-end, assets</b>	<b>1,704</b>	<b>286</b>	<b>2,315</b>	<b>621</b>	<b>4,927</b>

### Fair value, beginning of year, liabilities

		<b>297</b>	-	-	<b>297</b>
Transferred to Listed prices and Observable inputs <sup>2</sup>		(297)	-	-	(297)
Purchase for the year		31	-	-	31
<b>Fair value, year-end, liabilities</b>		<b>31</b>	-	-	<b>31</b>

<sup>1</sup> Transfers from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.

<sup>2</sup> Transfers to Observable inputs from Unobservable inputs principally consist of interest rate swaps for which individual adjustment for increased credit risk is no longer required.



# NOTES

DKK million

Nykredit Holding Group

44. DERIVATIVE FINANCIAL INSTRUMENTS	Net market value				Gross market value			
	Up to 3 months	3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Positive market value	Negative market value	Net market value	Nominal value
<b>2016</b>								
<b>Foreign exchange contracts</b>								
Forward contracts/futures, purchased	227	29	5	-	397	136	261	26,220
Forward contracts/futures, sold	(146)	(80)	(5)	-	74	306	(232)	20,408
Swaps	(2)	82	188	81	627	279	348	9,907
Options, purchased	0	-	0	-	0	-	0	20
Options, written	(0)	-	(0)	-	-	0	(0)	20
<b>Interest rate contracts</b>								
Forward contracts/futures, purchased	55	3	-	-	64	5	59	22,472
Forward contracts/futures, sold	(82)	(0)	-	-	7	89	(82)	62,792
Forward rate agreements, purchased	2	(10)	-	-	5	14	(9)	50,168
Forward rate agreements, sold	(3)	14	-	-	16	5	11	52,537
Swaps	(21)	56	990	2,175	26,346	23,146	3,200	950,803
Options, purchased	412	59	523	130	1,143	18	1,125	35,369
Options, written	(412)	(59)	(641)	(54)	-	1,167	(1,167)	25,054
<b>Equity contracts</b>								
Forward contracts/futures, sold	(0)	-	-	-	0	0	(0)	15
Swaps	-	(5)	(13)	-	146	163	(17)	1,120
Options, purchased	-	-	-	-	21	21	-	-
<b>Credit contracts</b>								
Credit default swaps, purchased	-	-	(0)	-	-	0	(0)	37
Credit default swaps, sold	-	-	0	-	0	-	0	37
Swaps	-	-	4	-	4	-	4	108
<b>Unsettled spot transactions</b>	<b>(31)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44</b>	<b>76</b>	<b>(31)</b>	<b>46,351</b>
<b>Total</b>	<b>(2)</b>	<b>88</b>	<b>1,050</b>	<b>2,333</b>	<b>28,894</b>	<b>25,426</b>	<b>3,469</b>	<b>1,303,438</b>

# NOTES

DKK million

Nykredit Holding Group

## 44. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### By time-to-maturity

	Net market value				Gross market value			
	Up to 3 months	3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Positive market value	Negative market value	Net market value	Nominal value
<b>2015</b>								
<b>Foreign exchange contracts</b>								
Forward contracts/futures, purchased	228	69	(19)	-	425	148	278	34,006
Forward contracts/futures, sold	(31)	(49)	7	-	98	172	(73)	28,802
Swaps	(10)	143	267	222	975	353	622	16,767
Options, purchased	0	-	0	-	0	-	0	47
Options, written	(0)	-	(0)	-	-	0	(0)	47
<b>Interest rate contracts</b>								
Forward contracts/futures, purchased	(4)	1	-	-	43	46	(3)	44,369
Forward contracts/futures, sold	(11)	(3)	(0)	-	43	58	(15)	46,428
Forward rate agreements, purchased	(117)	(134)	(6)	-	6	263	(257)	111,303
Forward rate agreements, sold	140	82	6	-	234	6	227	91,939
Swaps	(3)	(166)	443	3,272	28,387	24,842	3,545	1,208,304
Options, purchased	4	44	810	206	1,081	17	1,064	41,537
Options, written	-	(37)	(799)	(226)	-	1,061	(1,061)	30,268
<b>Equity contracts</b>								
Forward contracts/futures, sold	0	-	-	-	0	0	0	47
Swaps	-	(1)	(23)	-	126	150	(24)	2,321
Options, purchased	-	5	-	-	114	109	5	5
<b>Credit contracts</b>								
Credit default swaps, purchased	-	-	(6)	-	-	6	(6)	1,276
Credit default swaps, sold	-	-	15	-	15	0	15	1,395
Swaps	-	-	(3)	-	-	3	(3)	143
<b>Unsettled spot transactions</b>	<b>(19)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32</b>	<b>52</b>	<b>(19)</b>	<b>38,260</b>
<b>Total</b>	<b>176</b>	<b>(47)</b>	<b>689</b>	<b>3,474</b>	<b>31,579</b>	<b>27,287</b>	<b>4,292</b>	<b>1,697,264</b>

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group	
2015	2016	2016	2015
<b>45. REPO TRANSACTIONS AND REVERSE REPURCHASE LENDING</b>			
The Nykredit Group applies repo transactions and reverse repurchase lending in its day-to-day business operations. All transactions were entered into using bonds as the underlying asset.			
<b>Of the asset items below, reverse repurchase lending represents:</b>			
-	- Receivables from credit institutions and central banks	1,279	1,102
-	- Bonds received as collateral but not offset against the balance	(1,277)	(427)
	<b>- Total less collateral</b>	<b>2</b>	<b>675</b>
-	- Loans, advances and other receivables at fair value, gross	34,152	40,971
-	- Set-off against "Other non-derivative financial liabilities at fair value"	(4,061)	(1,504)
	<b>Loans, advances and other receivables at fair value, net</b>	<b>30,091</b>	<b>39,467</b>
-	- Bonds received as collateral but not offset against the balance <sup>1</sup>	(29,976)	(39,186)
	<b>Total less collateral</b>	<b>115</b>	<b>281</b>
-	- <sup>1</sup> Of which self-issued bonds	11,593	13,695
<b>Of the liability items below, repo transactions represent:</b>			
-	- Payables to credit institutions and central banks	7,769	21,683
	Bonds provided as collateral	(7,770)	(16,333)
-	- Other non-derivative financial liabilities at fair value, gross	18,623	8,942
-	- Set-off against "Loans, advances and other receivables at fair value" <sup>1</sup>	(4,061)	(1,504)
-	<b>- Other non-derivative financial liabilities at fair value, net</b>	<b>14,562</b>	<b>7,438</b>
-	- Bonds provided as collateral <sup>1</sup>	(14,398)	(7,426)
-	<b>- Total less collateral</b>	<b>164</b>	<b>12</b>
-	- <sup>1</sup> Of which self-issued bonds	5,126	177
<b>Assets sold as part of repo transactions:</b>			
-	- Bonds at fair value	29,986	30,188

## 46. RISK MANAGEMENT

### Nykredit's characteristics

The Nykredit Realkredit Group is a financial services group with business activities within banking and mortgage lending. In addition, Nykredit's activities include estate agency services, administration and management of investment funds, leasing and insurance mediation.

Nykredit's main activity is match-funded mortgage lending secured by mortgages on real estate. Mortgage lending is carried on both under the Nykredit brand and through the subsidiary Totalkredit, which is wholly owned by Nykredit Realkredit. Lending to personal customers is provided only through Totalkredit, while lending to business customers is provided through both Totalkredit and Nykredit Realkredit.

Mortgage lending in Totalkredit is based on a strategic alliance with 58 local and regional banks in Denmark. According to this business concept, the partner banks are responsible for serving customers, and Totalkredit undertakes the funding of the mortgage loans. 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 receive fees for customer services and risk hedging. At end-2016 mortgage lending to personal customers in Totalkredit made up around half of Nykredit's total mortgage lending.

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

Mortgage lending and the underlying funding are regulated by the balance principle, which means that Nykredit incurs negligible interest rate risk, foreign exchange risk and liquidity risk on mortgage lending and the underlying funding. Liquidity and market risks are further reduced by the Danish act regulating refinancing risk, which ensures the refinancing of mortgage loans in special situations. Thus, credit risk is Nykredit's main risk.

### Types of risk

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

Credit risk reflects the risk of loss following the non-performance of parties with whom Nykredit has contracted. Counterparty risk, which is the risk of loss that Nykredit may sustain if a counterparty defaults on its obligations under financial instruments, is an element of credit risk.

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

Operational risk reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk also includes IT, legal, compliance and model risks.

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

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

Nykredit publishes a detailed report annually entitled Risk and Capital Management, available at [nykredit.com/reports](http://nykredit.com/reports). It describes Nykredit'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.

Nykredit publishes detailed quarterly reports on the loan portfolio by capital centre. The reports are available under "Cover pool disclosure reports" at [nykredit.com/coverpool](http://nykredit.com/coverpool).

### Credit risk

Nykredit incurs credit risk in connection with its business activities within banking and mortgage lending as lender to personal customers, business customers, agricultural customers and the residential rental segment. Credit risk reflects the risk of loss following the non-performance of parties with whom Nykredit has contracted. The credit policy lays down the risk profile of the individual companies. It is reviewed and adopted by the Board of Directors and is based on Nykredit's strategy and the aim that customers should perceive Nykredit as a reliable and qualified partner.

Assessing a customer's creditworthiness is the core element of credit granting. The security provided may support the assessment of a customer's creditworthiness as a supplement.

The credit policy is supplemented with business procedures setting out the practical implementation of the credit policy and with credit approval instructions determining the credit approval authority delegated in Nykredit.

The Board of Directors of Nykredit Realkredit is presented with Nykredit's largest credit applications for approval/granting or briefing on a current basis. The Board of Directors of Nykredit Realkredit is briefed quarterly about any impairment losses in excess of DKK 30m and annually about any exposures to members of the Board of Directors, the Executive Board, etc.

Nykredit's local customer centres have been authorised to process most credit applications independently. Nykredit aims to process most credit applications locally. To this end, local credit units have been set up which, up to a certain limit, process credit applications that exceed the authority assigned to the customer centres. Credit applications exceeding the authority assigned to the local credit units are processed centrally by Group Credits. The applications received are decided by Group Credits unless they involve exposures of a size requiring the approval of the Credits Committee, the Executive Board or the Board of Directors.

For mortgage loans provided through local and regional banks, the bank performs the initial assessment of the customer and valuation of the property. As a main rule, these loans are covered by a set-off agreement for incurred losses.

Nykredit has the approval of the Danish FSA to apply a statistical model in the valuation of certain owner-occupied dwellings with no physical inspection. The model is also used for the ongoing monitoring of the market values of certain residential properties. The statistical valuations are performed centrally and supplemented with local valuations.

# NOTES

## Credit risk models

Nykredit uses credit models to determine the capital requirement for credit risk. Nykredit uses internal ratings-based (IRB) models in the determination of credit risk for the greater part of the loan portfolio. Credit risk is determined using three key parameters: Probability of Default (PD), expected Loss Given Default (LGD) and expected Exposure at Default (EAD). These three key parameters are usually referred to as risk parameters.

The PD is customer-specific, while the other parameters are product-specific. One PD is therefore assigned to each customer, while each of the customer's products has a separate LGD and EAD.

## Modelling principles

According to the CRR, PDs must be estimated on the basis of historical 1-year PDs and must reflect a suitable weighting between the long-term average and the current level. LGD estimates must always reflect an economic downturn.

The modelling principles are of great importance when comparing PD and LGD estimates in a validation with current, observed values of default and loss rates. During an economic upturn, the PD and LGD estimates applied to calculate REA will on an aggregate basis be higher than the observed values. This is due to the fact that, contrary to the risk parameters, the observed values mirror only the current economic climate.

The above principles applied to estimate the risk parameters ensure that the Group's REA remains more stable throughout an economic cycle than if the estimation were based exclusively on current data.

## Probability of Default (PD)

PD expresses the probability of a customer defaulting on an obligation to the Nykredit Group.

The PDs of personal customers and SMEs are determined using credit scoring models. The credit score denotes the creditworthiness of a customer, and the calculation includes data on the customer's financial position, payment behaviour as well as any loan impairment.

## Elements of credit risk determination

PD	Probability of Default (PD) is the probability of a customer defaulting on an obligation to Nykredit.
LGD	Loss Given Default is the loss rate of an exposure in case of a customer's default.
EAD	Exposure At Default is the total estimated exposure to a customer in DKK at the time of default, including any drawn part of a credit commitment.
REA	Risk Exposure Amount is credit exposures factoring in the risk relating to the individual customer. REA is calculated by risk-weighting credit exposures. The risk weighting is calculated on the basis of PD and LGD levels.

Statistical models have been developed for corporate and institutional clients and production farming businesses estimating PDs on the basis of financial data as well as data on payment behaviour and any loan impairment.

## Credit ratings

The PDs of individual customers are converted into ratings from 0 to 10, 10 being the highest rating. Exposures in default are in a category of their own. The individual rating categories have been defined based on fixed PD ranges. This means that, in periods of high business activity, a high rating will be assigned to relatively more customers, while the opposite will apply during an economic downturn.

## Loss Given Default (LGD)

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

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

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

## Exposure at Default (EAD)

Nykredit calculates EAD for all exposures to a customer. EAD is the total estimated exposure to a customer at the time of default, including any drawn part of a credit commitment. The latter is factored in using conversion factors (CF).

## Expected Loss

The expected loss (EL), also referred to as the IRB loss, is a concept applied for regulatory purposes which is calculated on the basis of loss ratios in a severe recession scenario. IRB losses express the expected losses on all exposures, including exposures in default.

The IRB losses of DKK 8.7bn are currently slightly higher than the Group's total impairment provisions of DKK 8.4bn. The main reason is that the calculations of IRB losses apply mortgage exposure LGDs estimated on the basis of data for an economic downturn.

Incurred losses remained low in 2016. Total incurred losses including losses on properties acquired by foreclosure amounted to DKK 1.2bn in 2016 against DKK 1.9bn in 2015. Losses incurred in 2016 were thus substantially lower than the current total impairment provisions of DKK 8.4bn.

# NOTES

## REA for credit risk

Nykredit's total REA for credit risk has increased from DKK 264bn to DKK 303bn in 2016. The increase is mainly attributable to the business segments and stems from Nykredit's implementation in Q3 of own loss models for business exposures in Nykredit Bank and the changed method for calculating REA for exposures in default in the Group as a whole. New rating models for business customers were also implemented.

REA for credit risk is mainly calculated using the IRB approach. REA calculated using the IRB approach primarily comprises exposures to business and personal customers. REA calculated using the standardised approach primarily comprises credit institution and sovereign exposures.

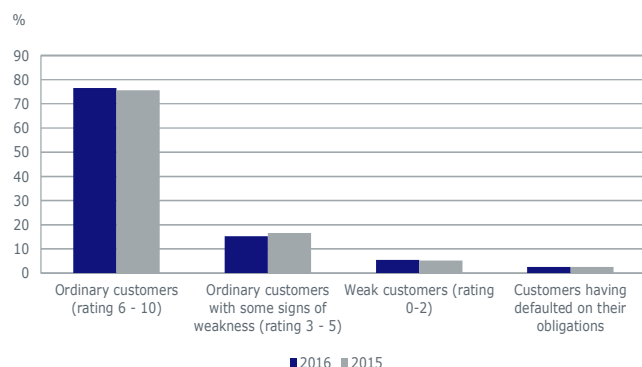
### Nykredit Holding Group

#### Risk exposure amount – credit risk

DKK million	2016	2015
Standardised approach	13,507	13,274
IRB approach	288,539	248,796
Credit Valuation Adjustment (CVA)	1,014	1,383
Default fund contribution	183	394
<b>Total credit risk</b>	<b>303,243</b>	<b>263,847</b>

### Nykredit Holding Group

#### Credit exposure by customer credit quality



Note: Including only exposures calculated using the IRB approach.

77% of Nykredit's customers make timely payments, while possessing solid financial strength. Nykredit denotes these customers as "ordinary customers" (rating categories 6-10).

Overall, 15% of Nykredit's customers are considered "ordinary customers with minor signs of weakness". These customers also make timely payments, but their financial strength is lower than that of "ordinary customers" (rating categories 3-5).

The rest of Nykredit's customers were weak customers (ratings 0-2) and customers with exposures in default, making up 8% of customers.

Weak customers are customers:

- Who have not made timely payments
- With a negative net worth or equity
- With low or negative earnings
- Have objective evidence of impairment (OEI).

#### Concentration risk

Concentration risk is a natural element of Nykredit's risk management. Nykredit aims to have very low concentration risk.

Nykredit had no large exposures to non-financial counterparties that exceeded 10% of eligible capital. Nykredit's largest exposure to non-financial counterparties amounted to DKK 5.8bn at end-2016, equivalent to 9% of eligible capital.

Nykredit's 20 largest exposures to non-financial counterparties amounted to an aggregate DKK 56.7bn before deductions, equivalent to 88% of eligible capital at end-2016. At end-2015, the 20 largest exposures to non-financial counterparties represented 92% of eligible capital. The vast majority of these exposures are mortgage loans with underlying security.

Nykredit had 21 non-financial counterparties to which the exposure represented over 2% of eligible capital (large exposures). The majority of these had good ratings, but one group was assessed as weak (ratings 0-2).

The breakdown of lending totalled 59% in Jutland and Funen, 24% in the Capital Region and 12% in the rest of Sealand. International lending was unchanged at 5% at end-2016.

# NOTES

---

---

## Security

The main type of security provided for loans is mortgages on real estate. The security provided is valued regularly relative to the current market value of a property via the Loan-to-Value (LTV) ratio.

In addition to mortgages on real estate, Nykredit accepts guarantees issued by public authorities or banks. Guarantees issued by public authorities mitigate the credit risk mainly within mortgage lending for public housing. Guarantors assume primary liability in respect of such guarantees. This means that Nykredit may enforce a guarantee as soon as a loan falls into arrears.

Mortgage lending guaranteed by public authorities amounted to DKK 56bn at end-2016.

The bank guarantees comprise guarantees for the registration of mortgages free from any adverse endorsements, guarantees for interim loans in connection with new building and loss guarantees.

Furthermore, mortgage loans granted via Totalkredit are covered by set-off agreements with the partner banks arranging Totalkredit loans. Under these agreements, Totalkredit may set off part of write-offs on mortgage lending against future commission payments to these partner banks.

---

### Statutory LTV limits by property category

Owner-occupied dwellings for all-year habitation	80 <sup>1</sup>
Private cooperative housing	80 <sup>1</sup>
Private residential rental properties	80 <sup>1</sup>
Public housing	80 <sup>1</sup>
Youth housing	80 <sup>1</sup>
Senior housing	80 <sup>1</sup>
Properties used for social, cultural or educational purposes	60 <sup>1</sup>
Holiday homes	60 <sup>1</sup>
Agricultural and forestry properties, market gardens, etc <sup>2</sup>	60 <sup>1</sup>
Office and retail properties	60 <sup>1</sup>
Industry and trades properties	60 <sup>1</sup>
Utilities	60 <sup>1</sup>
Other properties – including undeveloped land	40 <sup>1</sup>

<sup>1</sup> Some loan types offered for residential properties are subject to a lower LTV limit than 80%, but no additional security is required unless the LTV ratio subsequently exceeds 80%.

<sup>2</sup> The LTV limit may be extended up to 70% against additional security for the part in excess of 60%.

## NOTES

### 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. 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.

Nykredit 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.

At end-2016, the LTV level of the Group's total loan portfolio was 64%, down 1 percentage point on end-2015. The table "Debt outstanding relative to estimated property values" shows the LTVs of Nykredit's mortgage lending by property type.

At end-2016, 0.5% of the Group's private residential mortgage lending had LTV levels over 100%. The bulk of the Group's loans with LTV levels over 100% were granted to homeowners in South and West Sealand.

It should be noted that homeowners with negative equity (LTV >100%) do not as such result in losses for Nykredit. The typical loss triggers are socio-economic events such as unemployment, divorce or illness.

### Nykredit Holding Group Debt outstanding relative to estimated property values

Loans and advances at fair value, DKKm	LTV (loan-to-value)						Total	LTV- average % <sup>1</sup>
	0-40	40-60	60-80	80-90	90-100	>100		
Owner-occupied dwellings	419,786	160,466	93,350	10,849	4,471	3,669	692,592	70
Private rental <sup>2</sup>	77,675	26,093	11,319	1,619	909	1,049	118,663	65
Industry and trades	16,934	3,191	468	126	93	245	21,056	50
Office and retail	84,963	20,820	3,173	561	318	528	110,363	53
Agricultural	67,603	18,534	7,034	1,202	547	519	95,439	59
Public housing <sup>2</sup>	-	-	-	-	-	-	70,052	-
Other	13,159	2,496	723	43	26	80	16,527	50
<b>Total 2016<sup>1</sup></b>	<b>680,121</b>	<b>231,599</b>	<b>116,067</b>	<b>14,400</b>	<b>6,364</b>	<b>6,091</b>	<b>1,124,693</b>	<b>64</b>
Total 2015 <sup>2</sup>	672,034	233,789	116,058	15,289	7,031	6,987	1,119,101	65

<sup>1</sup> Determined as the top part of the debt outstanding relative to estimated property values.

<sup>2</sup> Loans and advances for cooperative housing are broken down by "Private rental" and "Public housing" Loans and advances for subsidised cooperative housing are shown under non-profit housing

Note: The figures are actual LTV ratios including any financed costs. Public authority guarantees reduce the credit risk relating to subsidised housing that forms part of lending to the public housing segment. For this reason, LTVs of public housing offer no relevant risk data and have been excluded.

In the table, debt outstanding is distributed continuously by LTV category. Loans with security covering for example between 0% and 60% of the mortgageable value are distributed with two thirds of the debt outstanding in the LTV range 0-40% and one third in the LTV range 40-60%.

### Nykredit Holding Group Debt outstanding relative to estimated property values

As % of loans and advances	LTV (loan-to-value)					
	0-40	40-60	60-80	80-90	90-100	>100
Owner-occupied dwellings	60.6	23.2	13.5	1.6	0.6	0.5
Private rental	65.5	22.0	9.5	1.4	0.8	0.9
Industry and trades	80.4	15.2	2.2	0.6	0.4	1.2
Office and retail	77.0	18.9	2.9	0.5	0.3	0.5
Agricultural	70.8	19.4	7.4	1.3	0.6	0.5
Public housing	-	-	-	-	-	-
Other	79.6	15.1	4.4	0.3	0.2	0.5
<b>Total 2016<sup>1</sup></b>	<b>64.5</b>	<b>22.0</b>	<b>11.0</b>	<b>1.4</b>	<b>0.6</b>	<b>0.6</b>
Total 2015 <sup>2</sup>	63.9	22.2	11.0	1.5	0.7	0.7

<sup>1</sup> Determined as the top part of the debt outstanding relative to estimated property values.

Note: The figures are actual LTV ratios including any financed costs. Public authority guarantees reduce the credit risk relating to subsidised housing that forms part of lending to the public housing segment. For this reason, LTVs of public housing offer no relevant risk data and have been excluded.

In the table, debt outstanding is distributed continuously by LTV category. Loans with security covering for example between 0% and 60% of the mortgageable value are distributed with two thirds of the debt outstanding in the LTV range 0-40% and one third in the LTV range 40-60%.



# NOTES

## Counterparty risk

Nykredit applies financial instruments, such as derivatives and repo transactions, for serving customers and for managing liquidity and market risk. In addition, repo transactions are applied in the day-to-day liquidity management.

Counterparty risk is a measure of the size of the loss which Nykredit may sustain in case of non-payment by a counterparty. For the purpose of calculating the capital requirement, counterparty risk exposures are calculated according to the market value method, ie as any positive market value of the transaction plus the potential future credit exposure.

Nykredit mitigates its counterparty risk through financial netting agreements as well as agreements on financial collateral. The contractual framework is based on market standards such as ISDA or GMRA agreements.

The counterparty risk exposure after netting and collateral was DKK 15.9bn at end-2016. Of this amount, derivatives represented DKK 14.7bn and repo transactions DKK 1.2bn. REA for derivatives and repo transactions recognised according to CRR accounted for DKK 17.2bn in total.

The use of derivative financial instruments is governed by the ordinary credit approval rules and credit policies, supplemented with a number of restrictions and policy rules. In addition to limits to amounts and maturities, examples are requirements related to the type, size and creditworthiness of customers.

Nykredit uses central counterparties for professional derivatives clearing. FRAs, repo transactions and interest rate swaps are cleared through indirect membership of the London Clearing House.

## Value adjustment of derivatives

The market value of derivatives changes according to the underlying market parameters, such as interest rates and exchange rates. This may lead to high market values in favour of both Nykredit and its counterparties.

Nykredit makes fair value adjustment of derivatives in accordance with the International Financial Reporting Standards (IFRS). This includes individual value adjustments of customers showing objective evidence of impairment (OEI), Credit Valuation Adjustments (CVA) based on customers' current credit quality as well as management judgement.

At end-2016, total credit value adjustments (recognised as impairment provisions) came to DKK 4.2bn. Management judgement accounted for DKK 1.4bn of total credit value adjustments.

Nykredit also makes adjustments for other factors. As at end-2016, Nykredit has made Funding Valuation Adjustments (FVA) where customers have not provided security for derivatives.

## Nykredit Holding Group

### Counterparty risk

DKK million	Derivatives	Repos	Total
Exposure before netting	63,884	61,799	125,683
Netting	45,697	-	45,697
Exposure after netting	18,187	61,799	79,986
Collateral received	3,469	60,642	64,112
<b>Total 2016</b>	<b>14,718</b>	<b>1,156</b>	<b>15,874</b>
<b>Total 2015</b>	<b>15,549</b>	<b>2,235</b>	<b>17,784</b>

Note: The figures in the table are not directly comparable with note 27 a, as the capital adequacy rules allow further netting than the accounting rules.

## Market risk

Nykredit 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.

Market risk can be further divided into general risk, which means risk affecting the financial markets in general, and specific risk, which is the risk related to one individual issuer of securities. This distinction is applied in the day-to-day risk management as well as in the determination of risk exposures involving market risk.

Nykredit's market risk relates mainly to the management of equity and liquidity reserves. In addition, Nykredit Bank and Nykredit Realkredit incur market risk in connection with trading in bonds, swaps and other financial products with customers.

Nykredit's market risk is determined for two purposes:

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

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

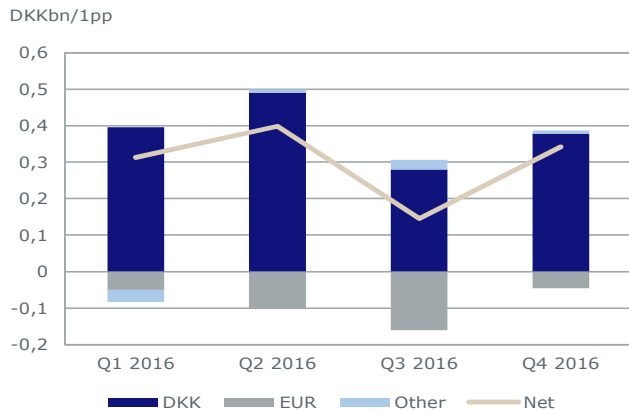
The main principle is that losses on exposures involving market risk must not significantly affect Nykredit's total results. Market risk is managed by means of estimated losses in stress scenarios. Statistical as well as forward-looking stress scenarios are used to calculate the estimated losses.

The guidelines restrict the scope for assuming interest rate, equity price, foreign exchange, volatility and commodity risks. The guidelines permit the use of eg financial instruments if the risk involved can be measured and managed. The risk limit applying to a specific asset includes any use of financial instruments.

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 Nykredit Realkredit or other Boards of Directors depending on the nature of such non-compliance.

# NOTES

## Nykredit Realkredit Group Interest rate risk



## Internal market risk management

Nykredit's internal determination, management and reporting of market risk take place by combining statistical models, stress tests, key figures and various subjective assessments.

The traditional risk measures, such as interest rate, equity price, foreign exchange and volatility risks, constitute 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, equity prices or volatilities. Calculations are only made for one type of risk at a time. The traditional risk measures do not indicate how likely a particular event is to occur, but rather how much it would affect the value of a portfolio.

VaR models are applied to calculate the maximum value decrease of a portfolio over a given period and at a given probability. VaR models measure the effect and probability of several risks occurring at the same time.

## Interest rate risk

Interest rate risk is the risk of loss as a result of interest rate changes. Nykredit'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 other financial instruments.

The Group's interest rate exposure amounted to DKK 342m at end-2016. This means that the Group would lose DKK 342m at a general interest rate rise of 1%. Broken down by currency, the Group's largest interest rate exposure is in DKK.

## Spread risk

Spread risk is the risk of spread widening between covered bond yields and swap rates. The spread risk of the Group's portfolio of covered bonds amounted to DKK 2.9bn at end-2016, for the portfolio of credit bonds to DKK 127m and for senior secured and unsecured debt to around DKK 350m at end-2016.

This means that the Group would lose DKK 2.9bn on its investments in covered bonds if the spread between covered bond yields and swap rates widened by 1 percentage point.

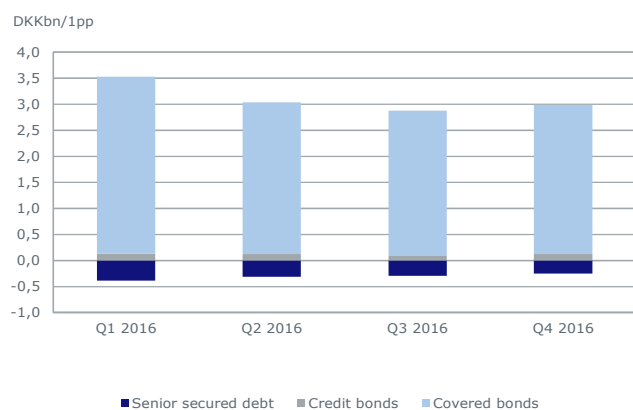
Overall, Nykredit's spread risk is substantial given the large covered bond portfolios. The risk reduced slightly in 2016 due to market uncertainty about Brexit, the US presidential election and other factors.

## Equity price risk

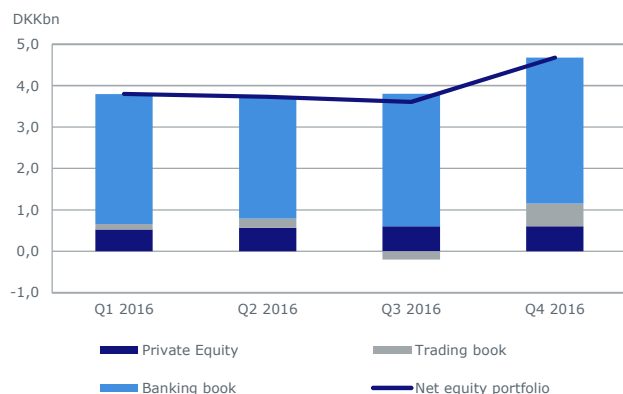
Equity price risk is the risk of loss as a result of changes in market value. The market value of Nykredit's equity portfolio totalled DKK 4.6bn at end-2016. A 10% decline in equity prices would thus result in a DKK 460m loss.

The aggregate equity price risk includes both the trading book and the banking book, the latter containing sizeable strategic equity positions.

## Nykredit Realkredit Group Spread risk



## Nykredit Realkredit Group Market value of equity portfolio



# NOTES

## Foreign exchange risk

Foreign exchange risk is measured as the gain/loss in a given currency resulting from a DKK appreciation of 10%. Foreign exchange risk is thus the risk of loss as a result of changes in exchange rates.

Nykredit hedges its foreign exchange risk except for some minor tactical foreign exchange positions held to achieve a gain. Therefore, the Group had only minor foreign exchange positions in currencies other than EUR in 2016.

Overall, Nykredit's foreign exchange risk is limited.

## Volatility risk

Volatility is a measure of the variation in the price of an asset, such as the movement in the price of a bond. The market value of options and financial instruments with embedded options such as callable covered bonds partly depends on the expected market volatility.

Volatility risk is the risk of loss as a result of changes in market expectations for future volatility.

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

This risk is determined for all financial instruments with embedded options and is managed by means of limits.

The risk is limited and stems mainly from the portfolio of Danish callable covered bonds, but also from other interest rate and equity derivatives.

## VaR for internal management

In the day-to-day internal risk management, the VaR model is incorporated into Nykredit's securities systems, and VaR is calculated and reported on a daily basis according to prescribed limits. VaR limits are laid down at Group, company and organisational entity levels.

The VaR model applies a confidence level of 99% and a time horizon of 1 day. The VaR model comprises for this purpose all Nykredit's significant portfolios involving market risk.

Nykredit's internal VaR totalled DKK 79m at end-2016. This means that, according to VaR for internal management, Nykredit would, at a 99% probability, lose a maximum of DKK 79m in one day in consequence of market fluctuations.

The calculation of VaR for internal management includes positions in the trading book and in the banking book, as opposed to the calculation of VaR for REA.

## Risk exposure amount for market risk

Nykredit Realkredit A/S and Nykredit Bank A/S have the approval of the Danish FSA to apply a VaR model in determining the risk exposure amount (REA) for market risk. The model is only applied to the trading book, thus excluding positions in the banking book such as strategic equities. However, interest rate and foreign exchange risk in the banking book for Nykredit Bank A/S is included in the determination of VaR.

The confidence level of the VaR model is 99%, and the time horizon for calculating statutory REA is 10 days. The model results are back tested on a day-to-day basis against actual realised returns on the investment portfolios to ensure that the model results are reliable and correct at any time.

The VaR model is based on historical financial market data. As the current conditions in financial markets do not always correspond to the historical conditions (for instance during a financial crisis), a stressed VaR is added to REA resulting from the current VaR calculation.

Stressed VaR is calculated for the current portfolio by means of the VaR model, but using volatilities and correlations from a period of significant stress.

Nykredit's total REA from VaR came to DKK 14.6bn at end-2016, of which stressed VaR accounted for DKK 11.9bn. Total REA for market risk came to DKK 25.4bn at end-2016.

## Nykredit Holding Group

### REA for market risk

2016	Specific risk	General risk	Total REA	Total REA
DKK million				
<b>Internal models (VaR):</b>				
Value-at-Risk (99%, 10 days)	-	2,780	2,780	4,562
Stressed Value-at-Risk (99%, 10 days)	-	11,851	11,851	11,802
<b>Standardised approach:</b>				
Debt instruments	7,536	-	7,536	8,687
Equities	2,766	-	2,766	2,206
Collective investment schemes	419	-	419	701
Settlement risk			85	
<b>Total market risk</b>	<b>10,721</b>	<b>14,631</b>	<b>25,437</b>	<b>27,958</b>

## Liquidity risk

The balance sheet structure of the mortgage banks ensures a high level of liquidity as mortgage borrowers make their payments on or before the date on which Nykredit pays bondholders. Overall, this has a positive impact on Nykredit's liquidity.

Further, mortgage loans are funded by bonds which match the loan term or by bonds which are refinanced one or more times during the loan term. For loans subject to refinancing, the structure of the loan agreements eliminates funding-related market risk.

The liquidity position ensures that Nykredit has a sizeable buffer for cash flows driven by customer flows, loan arrears, current costs and maturing capital market funding. In addition, the liquidity position ensures the Group's compliance with statutory liquidity requirements, including the requirement of Danish mortgage legislation for supplementary collateral in case of falling property prices in connection with covered bond issuance (SDOs), the liquidity requirement of the Danish Financial Business Act and credit rating agencies' requirements for maintaining the current high ratings.

The Board of Directors has laid down requirements for Nykredit's liquidity limits in both an expected scenario and stressed scenarios for an appropriate time horizon. The Asset/Liability Committee oversees the liquidity of Group companies. The individual Group companies manage day-to-day liquidity risk.

The Board of Directors has considered and approved the liquidity contingency plan for responding to situations such as a liquidity crisis or situations where Nykredit is unable to comply with the liquidity policy and the guidelines laid down by the Board of Directors. The liquidity contingency plan must be endorsed by the Asset/Liability Committee, which also decides whether to initiate the plan.

The liquidity contingency plan is considered and approved by the Board of Directors at least once a year.

Based on Nykredit's liquidity policy set out by the Board of Directors, the Executive Board has laid down the operational limits for liquidity management.

Liquidity management can be divided as follows:

- intraday liquidity management ensuring that Nykredit fulfils its payment and settlement obligations in a timely manner in both normal and unexpected circumstances
- short- and medium-term liquidity management ensuring that Nykredit has sufficient liquidity to meet financial obligations and regulatory requirements for a minimum period of six months in various stress scenarios
- long-term liquidity management ensuring that Nykredit has sufficient liquidity to meet financial obligations and regulatory requirements for a minimum period of 12 months in an expected scenario.

Furthermore, limits have been laid down for the application and diversification of funding sources and for leverage, ensuring competitive funding and an appropriate leverage level.

The Boards of Directors of Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S annually receive a report on the Internal Liquidity Adequacy Assessment Process (ILAAP), which describes the liquidity positions, liquidity management and funding profiles of the companies.

Nykredit's liquid assets are mainly liquid Danish and other European government and covered bonds. In a liquid repo market, these securities are eligible as collateral with other banks and with the Danish or other

European central banks and are directly exchangeable into liquidity. To this should be added a small portfolio of money market deposits, equities and credit bonds.

The Liquidity Coverage Ratio (LCR) is applied to assess Nykredit's short-term liquidity requirement. The LCR denotes the ratio between liquid assets and net cash outflows over a 30-day period.

At end-2016, the Nykredit Realkredit Group's LCR was 321%. The aggregate LCR for Nykredit's mortgage banks was 1,052%, while Nykredit Bank's LCR was 153%. At end-2016, the Nykredit Realkredit Group's excess liquidity coverage totalled DKK 75bn.

S&P Global Ratings (S&P) applies long-term and short-term liquidity metrics. The long-term metric, the Stable Funding Ratio (SFR), denotes the ratio between lending and stable funding with maturities over 1 year. The short-term metric, BLAST, denotes the ratio between broad liquid assets and short-term wholesale funding with maturities below 1 year.

- The SFR resembles both current and future regulatory requirements:
  - the funding ratio under the present Supervisory Diamond for banks
  - limits to loans with short-term funding under the Supervisory Diamond for mortgage lenders
  - the Net Stable Funding Ratio (NSFR)

At end-2016 Nykredit's SFR was 89%. S&P considers SFR at 100% as a neutral level. The ongoing reduction of loans with short refinancing intervals will improve this ratio.

BLAST may be compared to the LCR and the coming liquidity benchmark under the Supervisory Diamond for banks. At end-2016, Nykredit's BLAST was 0.59.

## 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.

The Nykredit Group 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 operations and the long-term planning. Operational risk must be limited continually taking into consideration the costs involved.

Given its nature and characteristics, operational risk is best mitigated and managed through the day-to-day business conduct. 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, Nykredit is continuously working on identifying significant operational risks. Operational risk mapping provides a valuable overview of particularly risky processes and systems at Nykredit and therefore constitutes a good management tool. The operational risks identified also form the basis of the Nykredit Group's overall operational risk appetite.

## NOTES

---

---

Nykredit 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 Nykredit participates actively in a wide Danish and international network on IT security through the Danish Bankers Association. Emergency response plans and business contingency plans have been prepared.

### **REA for operational risk**

Nykredit 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 of the past three years. REA for operational risk was DKK 19.7bn throughout 2016.

# NOTES

DKK million

Nykredit Holding Group

2016 2015

## 46. RISK MANAGEMENT (CONTINUED)

### Credit risk

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

### Total credit exposure

#### Balance sheet items

Demand deposits with central banks	1,974	2,992
Receivables from credit institutions and central banks	32,742	20,158
Loans, advances and other receivables at fair value	1,155,155	1,158,926
Loans, advances and other receivables at amortised cost	55,361	47,036
Bonds at fair value	111,981	106,200
Other assets	36,665	41,166

#### Off-balance sheet items

Contingent liabilities	6,694	6,942
Irrevocable credit commitments	5,130	5,299

<b>Total</b>	<b>1,405,702</b>	<b>1,388,719</b>
--------------	------------------	------------------

### Collateral security received

The Nykredit Realkredit Group mitigates the risk relating to individual transactions through loss guarantees and legal charges over physical assets. Mortgage debt outstanding relative to estimated property values appears from page 126. In the table below, bank lending is broken down into unsecured lending and lending secured in part or in full by way of legal charge or other collateral security.

	2016				2015			
	Public sector	Personal customers	Business customers	Total	Public sector	Personal customers	Business customers	Total
Bank lending								
Unsecured lending	10	6,013	27,325	33,348	19	6,016	22,755	28,790
Lending secured by way of legal charge or other collateral security:								
Fully secured	411	2,697	35,778	38,886	196	2,468	44,604	47,268
Partially secured	25	4,108	11,264	15,397	25	3,721	9,262	13,008
<b>Total lending before impairment</b>	<b>446</b>	<b>12,818</b>	<b>74,367</b>	<b>87,631</b>	<b>240</b>	<b>12,205</b>	<b>76,621</b>	<b>89,066</b>

When establishing limits for financial products, Nykredit will also often require that a contractual basis be established providing a netting option. The contractual basis will typically be based on market standards such as ISDA or GRMA agreements.

### Supervisory Diamond for banks

The Danish FSA has defined five benchmarks – the so-called Supervisory Diamond – that indicate when a bank is operating at an elevated risk. At 31 December 2016, Nykredit Bank operated below the limit values of the Danish FSA.

Supervisory Diamond limit values	Limit values	Nykredit Bank
Lending growth	<20%	17.9%
Large exposures, %	<125%	0.0%
Property exposure, %	<25%	12.6%
Funding ratio	<1.00	0.6%
Excess liquidity coverage, %	>50%	265%

## 46. RISK MANAGEMENT (CONTINUED)

### Mortgage lending by property and rating category

The rating illustrates the customer's ability to pay, but not the probability of loss. Substantial security is usually provided for mortgage loans, which mitigates or minimises the risk of loss – regardless of customer ratings.

#### 2016

Rating category	Owner-occupied dwellings	Private rental	Industry and trades	Office and retail	Agricultural	Public housing	Other	Total
10	51,959	10,420	1,667	9,512	2,071	3,345	118	79,092
9	83,365	7,971	9,973	13,152	6,211	5,406	3,078	129,155
8	162,561	12,986	2,927	23,078	8,804	29,159	5,820	245,335
7	143,328	24,027	3,284	22,901	11,078	22,898	4,981	232,497
6	95,422	24,283	1,031	18,870	14,602	3,219	1,219	158,645
5	42,746	12,456	475	6,743	11,308	373	475	74,576
4	32,238	9,579	215	3,146	11,765	268	268	57,481
3	18,115	6,079	492	5,140	6,707	251	104	36,888
2	23,020	835	258	755	8,281	27	43	33,220
1	18,661	802	77	602	1,752	26	38	21,959
0	4,055	1,299	152	2,329	5,112	188	78	13,213
Exposures in default	8,288	7,153	531	3,398	5,285	254	164	25,074
<b>Total</b>	<b>683,759</b>	<b>117,892</b>	<b>21,082</b>	<b>109,625</b>	<b>92,976</b>	<b>65,415</b>	<b>16,386</b>	<b>1,107,135</b>

#### 2015

Rating category	Owner-occupied dwellings	Private rental	Industry and trades	Office and retail	Agricultural	Public housing	Other	Total
10	48,302	8,122	2,690	7,065	1,908	2,201	130	70,418
9	78,614	12,032	10,551	17,047	5,067	4,944	2,831	131,086
8	158,742	18,955	3,254	21,422	9,922	30,080	6,379	248,755
7	144,390	24,717	2,832	27,579	12,951	21,518	5,095	239,082
6	101,790	21,579	1,331	15,141	16,139	3,309	1,152	160,441
5	44,532	12,175	570	6,331	16,176	565	750	81,098
4	32,354	6,636	364	4,107	7,310	306	130	51,207
3	18,037	7,891	436	4,773	11,988	297	531	43,952
2	20,979	410	40	331	320	19	24	22,122
1	21,051	1,476	96	960	2,132	170	73	25,959
0	4,653	1,810	159	2,539	5,317	144	110	14,732
Exposures in default	6,957	8,243	677	3,801	5,208	418	170	25,474
<b>Total</b>	<b>680,402</b>	<b>124,046</b>	<b>22,999</b>	<b>111,094</b>	<b>94,438</b>	<b>63,971</b>	<b>17,374</b>	<b>1,114,324</b>

The Group's mortgage lending is determined at nominal value. Mortgage lending is disclosed by rating category that reflects the rating of individual customers defined as the probability of default. The rating categories range from 0 to 10, 10 being the highest rating.

Exposures in default: Comprises exposures subject to individual impairment provisioning and exposures in arrears 75 days past due for which individual impairment provisioning has not been deemed necessary.

Rating categories 0-2: Rating category 0 comprises customers with objective evidence of impairment (OEI) but without a need for individual impairment provisioning. Rating categories 1-2 comprises customers without OEI but of a low credit quality resulting from uncertainty about future earnings, poor financial statements and a vulnerable financial situation.

**46. RISK MANAGEMENT (CONTINUED)****Bank lending by sector and rating category**

The rating illustrates the customer's ability to pay, but not the probability of loss.

<b>2016</b>							
<b>Rating category</b>	<b>Manufacturing and construction</b>	<b>Credit and finance</b>	<b>Property management and trade</b>	<b>Transport, trade and accommodation</b>	<b>Other trade and public</b>	<b>Personal customers</b>	<b>Total</b>
10	1,498	552	570	205	1,928	1,428	6,181
9	1,075	944	1,109	168	435	961	4,691
8	561	1,101	1,502	1,552	2,177	1,358	8,251
7	3,149	260	1,921	1,478	2,645	1,489	10,942
6	1,043	814	1,889	491	1,429	1,440	7,106
5	247	173	545	438	621	1,825	3,849
4	293	127	651	139	668	1,950	3,829
3	2,097	172	582	1,217	2,465	846	7,378
2	349	14	32	28	163	407	992
1	14	10	64	50	75	244	457
0	57	34	34	25	50	62	262
Exposures in default	557	180	1,407	306	434	717	3,601
<b>Total</b>	<b>10,938</b>	<b>4,382</b>	<b>10,306</b>	<b>6,096</b>	<b>13,092</b>	<b>12,727</b>	<b>57,541</b>

**Bank lending by sector and rating category**

<b>2015</b>							
<b>Rating category</b>	<b>Manufacturing and construction</b>	<b>Credit and finance</b>	<b>Property management and trade</b>	<b>Transport, trade and accommodation</b>	<b>Other trade and public</b>	<b>Personal customers</b>	<b>Total</b>
10	1,512	408	222	87	455	1,306	3,990
9	57	1,504	340	129	788	956	3,775
8	487	478	2,229	839	1,283	1,127	6,443
7	1,132	415	1,771	1,877	998	1,075	7,268
6	952	531	1,564	568	813	1,176	5,603
5	173	112	632	228	700	1,921	3,766
4	576	145	569	237	1,054	2,167	4,748
3	1,760	755	557	1,216	2,638	967	7,893
2	31	9	27	32	96	484	678
1	21	49	256	51	94	312	784
0	43	36	118	37	67	84	386
Exposures in default	665	308	1,731	347	524	690	4,265
<b>Total</b>	<b>7,409</b>	<b>4,750</b>	<b>10,017</b>	<b>5,648</b>	<b>9,509</b>	<b>12,265</b>	<b>49,599</b>

Rating categories comprise Nykredit Bank A/S's loans, advances and receivables at amortised cost determined before impairments.

Bank loans and advances is disclosed by rating category that reflects the rating of individual customers defined as the probability of default. The rating categories range from 0 to 10, 10 being the highest rating.

Exposures in default: Comprises exposures subject to individual impairment provisioning and exposures with third reminders for which individual impairment provisioning has not been deemed necessary.

Rating categories 0-2: Rating category 0 comprises customers with objective evidence of impairment (OEI) but without a need for individual impairment provisioning. Rating categories 1-2 comprises customers without OEI but of a low credit quality resulting from uncertainty about future earnings, poor financial statements and a vulnerable financial situation.



# NOTES

DKK million

Nykredit Holding Group

## 47. HEDGE ACCOUNTING

The interest rate risk relating to fixed-rate assets and liabilities has been hedged on a current basis. The hedge comprises the following:

	Nykredit Holding A/S			Nykredit Holding Group		
	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes
<b>2016</b>						
<b>Assets</b>						
Loans and advances	-	-	-	912	928	(16)
<b>Liabilities</b>						
Deposits and other payables	-	-	-	2,455	2,646	(191)
Bonds in issue	-	-	-	13,478	13,562	(84)
Subordinated debt	-	-	-	10,737	11,078	(341)
<b>Derivative financial instruments</b>						
Interest rate swaps, loans and advances as well as deposits and other payables (net)	-	-	-	4,110	16	16
Interest rate swaps, bonds in issue	-	-	-	13,635	12	12
Interest rate swaps, subordinated debt	-	-	-	10,780	341	341
Credit derivatives, deposits and other payables	-	-	-	153	11	11
Equity derivatives, deposits and other payables	-	-	-	999	146	146
Gain/loss for the year on hedging instruments		-			106	
Gain/loss for the year on hedged items		-			(87)	
<b>Net gain/loss</b>		<b>-</b>			<b>19</b>	
<b>2015</b>						
<b>Assets</b>						
Loans and advances	-	-	-	1,918	1,929	11
<b>Liabilities</b>						
Deposits and other payables	-	-	-	3,301	3,413	(112)
Bonds in issue	-	-	-	7,548	7,705	(157)
Subordinated debt	-	-	-	10,762	10,907	(145)
<b>Derivative financial instruments</b>						
Interest rate swaps, loans and advances as well as deposits and other payables (net)	-	-	-	2,095	(10)	(10)
Interest rate swaps, bonds in issue	-	-	-	7,655	157	157
Interest rate swaps, subordinated debt	-	-	-	10,821	140	140
Credit derivatives, deposits and other payables	-	-	-	143	(3)	(3)
Equity derivatives, deposits and other payables	-	-	-	1,647	104	104
Gain/loss for the year on hedging instruments		-			(164)	
Gain/loss for the year on hedged items		-			159	
<b>Net gain/loss</b>		<b>-</b>			<b>(5)</b>	

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

The Nykredit Group continuously hedges the interest rate risk of fixed-rate assets and liabilities using derivative financial instruments etc. This enables the Group to manage the level of its aggregate interest rate sensitivity taking into consideration expected interest rate developments.

Hedging is performed by defining a portfolio of loans, advances, deposits and other payables with a uniform risk level (in certain instances as net portfolios), which is subsequently hedged using derivative financial instruments.

According to reporting provisions, loans, advances and deposits must generally be measured at amortised cost, while derivative financial instruments are measured at fair value. To obtain accounting symmetry between hedging and hedged transactions, adjustment of the carrying amounts of the financial assets and liabilities that form part of the effective accounting hedge has been allowed. The fair value adjustment exclusively concerns the hedged part (the interest rate exposure)

# NOTES

DKK million

Nykredit Holding A/S		Nykredit Holding Group		
2015	2016	2016	2015	
<b>48. CURRENCY EXPOSURE</b>				
<b>By main currency, net</b>				
-	-	USD	12	10
-	-	GBP	1	(1)
-	-	SEK	4	45
-	-	NOK	3	(4)
-	-	CHF	3	(1)
-	-	CAD	(0)	(0)
-	-	JPY	(0)	(7)
-	-	EUR	207	164
-	-	Other	13	6
-	-	<b>Total</b>	<b>242</b>	<b>211</b>
-	-	Exchange Rate Indicator 1	243	226

Exchange Rate Indicator 1 is determined as the sum of the highest numerical value of assets (long position) or net payables. Indicator 1 shows the overall foreign exchange risk.

# NOTES

DKK  
million

Nykredit Holding Group

## 49. OTHER INFORMATION

### Events since the balance sheet date

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

### Profit and equity restated to FSA requirements

The Nykredit Group's financial statements are prepared pursuant to the International Financial Reporting Standards (IFRS) as adopted by the EU. The Group's accounting policies comply with the provisions of the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. However, the Executive Order does not include the option to classify financial assets as "available for sale" with fair value adjustment against "Other comprehensive income". In the Nykredit Group's FSA reporting, "Equities available for sale" have been classified as equities measured at fair value through profit or loss.

The difference has no impact on "Equity", only on "Profit" and "Other comprehensive income", cf below:

	Profit		Other comprehensive income		Equity	
	2016	2015	2016	2015	2016	2015
Group reporting pursuant to the IFRS	5,306	3,187	343	32	70,955	65,482
Value adjustment of equities available for sale	331	109	(331)	(109)	-	-
<b>Group reporting subject to FSA requirements</b>	<b>5,637</b>	<b>3,296</b>	<b>12</b>	<b>(77)</b>	<b>70,955</b>	<b>65,482</b>

# NOTES

---

## 50. FINANCIAL RATIOS, DEFINITIONS

### Financial ratios

Return on equity before tax, %

### Definition

The sum of profit (loss) before tax and value adjustment of strategic equities before tax divided by average equity.

Return on equity after tax, %

The sum of profit (loss) after tax and value adjustment of strategic equities after tax divided by average equity.

Income:cost ratio

Total income plus value adjustment of strategic equities before tax divided by total costs less tax.

Foreign exchange position, %

Exchange Rate Indicator 1 at year-end divided by Tier 1 capital including Additional Tier 1 capital less deductions at year-end.

Loans and advances:equity (loan gearing)

The sum of loans and advances at fair value and loans and advances at amortised cost divided by equity at year-end.

Growth in loans and advances for the year, %

Loans and advances at nominal value at year-end divided by loans and advances at nominal value at the beginning of the year.

Total impairment provisions, %

Total provisions for loan impairment and guarantees at year-end divided by the sum of loans and advances at fair value, arrears and outlays, loans and advances at amortised cost, guarantees and total provisions for loan impairment and guarantees at year-end.

Impairment losses for the year, %

Provisions for loan impairment and guarantees for the year divided by the sum of loans and advances at fair value, arrears and outlays, loans and advances at amortised cost, guarantees and total provisions for loan impairment and guarantees at year-end.

Return on capital employed, %

Profit (loss) after tax for the year divided by total assets.

### Financial ratios concerning capital and capital adequacy

### Definition

Total capital ratio, %

Own funds divided by the risk exposure amount.

Tier 1 capital ratio, %

Tier 1 capital (including Additional Tier 1 capital/hybrid capital) divided by the risk exposure amount.

Common Equity Tier 1 capital ratio, %

Common Equity Tier 1 capital (less Additional Tier 1 capital/hybrid capital) divided by the risk exposure amount.

Financial ratios are based on the Danish FSA's definitions and guidelines.

# NOTES

DKK million

Nykredit Holding A/S

	2016	2015	2014	2013	2012
<b>51. FIVE-YEAR FINANCIAL HIGHLIGHTS</b>					
<b>SUMMARY INCOME STATEMENT</b>					
Net interest income	0	0	0	(0)	0
Net fee income	-	-	-	68	80
<b>Net interest and fee income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>68</b>	<b>80</b>
Staff and administrative expenses	25	5	4	4	4
Profit (loss) from investments in associates	5,428	3,000	(38)	1,331	2,332
<b>Profit (loss) before tax</b>	<b>5,403</b>	<b>2,996</b>	<b>(42)</b>	<b>1,395</b>	<b>2,408</b>
Tax	(1)	(1)	(1)	16	19
<b>Profit (loss) for the year</b>	<b>5,405</b>	<b>2,997</b>	<b>(41)</b>	<b>1,379</b>	<b>2,389</b>
<b>SUMMARY BALANCE SHEET, YEAR-END</b>					
	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
<b>Assets</b>					
Cash balances and receivables from credit institutions and central banks	1	15	21	26	174
Remaining assets	5	7	5	3	1
Investments in Group enterprises	67,194	61,686	58,650	58,716	57,556
<b>Total assets</b>	<b>67,199</b>	<b>61,708</b>	<b>58,675</b>	<b>58,745</b>	<b>57,731</b>
<b>Liabilities and equity</b>					
Remaining liabilities	7	1	1	1	20
Equity	67,192	61,708	58,675	58,744	57,712
<b>Total liabilities and equity</b>	<b>67,199</b>	<b>61,708</b>	<b>58,675</b>	<b>58,745</b>	<b>57,731</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
Contingent liabilities	-	-	-	300	2,300
<b>FINANCIAL RATIOS<sup>1</sup></b>					
Total capital ratio, %	27.0	27.0	26.6	26.3	23.5
Tier 1 capital ratio, %	27.0	27.0	26.6	26.3	23.5
Return on equity before tax, %	8.4	5.0	(0.1)	2.4	4.3
Return on equity after tax, %	8.4	5.0	(0.1)	2.4	4.2
Income:cost ratio	220	666	(9)	333	595
Return on capital employed, %	8.04	4.86	(0.07)	2.35	4.14

<sup>1</sup> Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 50 in the Annual Report 2016.

# NOTES

DKK million

Nykredit Holding Group

	2016	2015	2014	2013	2012
<b>51. FIVE-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)</b>					
<b>SUMMARY INCOME STATEMENT</b>					
Net interest income	11,470	11,877	11,353	10,325	10,838
Net fee income	(188)	(94)	133	82	401
<b>Net interest and fee income</b>	<b>11,282</b>	<b>11,783</b>	<b>11,486</b>	<b>10,408</b>	<b>11,239</b>
Value adjustments	775	652	(3,557)	150	(547)
Other operating income	589	194	185	210	230
Staff and administrative expenses	4,820	4,663	4,719	5,008	4,803
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	185	2,185	1,087	896	766
Other operating expenses	285	188	154	225	30
Impairment losses on loans, advances and receivables	680	920	2,351	2,764	2,149
Profit from investments in associates and Group enterprises	8	8	6	103	47
<b>Profit (loss) before tax</b>	<b>6,683</b>	<b>4,680</b>	<b>(191)</b>	<b>1,977</b>	<b>3,220</b>
Tax	1,377	1,493	89	256	594
<b>Profit (loss) for the year</b>	<b>5,306</b>	<b>3,187</b>	<b>(279)</b>	<b>1,722</b>	<b>2,626</b>
Value adjustment and reclassification of strategic equities against equity	331	7	238	(343)	(237)
<b>SUMMARY BALANCE SHEET, YEAR-END</b>					
	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
<b>Assets</b>					
Cash balances and receivables from credit institutions and central banks	34,829	23,253	42,288	35,758	60,174
Mortgage loans at fair value	1,124,693	1,119,101	1,137,099	1,136,644	1,136,445
Bank loans, excluding reverse repurchase lending	55,003	46,747	50,494	46,963	49,728
Bonds and equities	116,555	110,294	131,383	92,961	82,413
Remaining assets	69,530	84,402	96,042	105,090	104,646
<b>Total assets</b>	<b>1,400,611</b>	<b>1,383,796</b>	<b>1,457,306</b>	<b>1,417,417</b>	<b>1,433,406</b>
<b>Liabilities and equity</b>					
Payables to credit institutions and central banks	21,681	30,226	44,863	44,393	67,539
Deposits and other payables	65,414	62,584	65,211	65,147	54,335
Bonds in issue at fair value	1,152,383	1,137,314	1,167,163	1,130,020	1,103,818
Subordinated debt	11,078	11,006	11,394	10,964	11,281
Remaining liabilities	79,099	77,185	109,999	108,149	138,721
Equity	70,955	65,482	58,675	58,744	57,712
<b>Total liabilities and equity</b>	<b>1,400,611</b>	<b>1,383,796</b>	<b>1,457,306</b>	<b>1,417,417</b>	<b>1,433,406</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
Contingent liabilities	6,694	6,942	7,546	6,611	5,106
Other commitments	6,934	6,637	5,843	7,925	9,213
<b>FINANCIAL RATIOS<sup>1</sup></b>					
Total capital ratio, %	23.0	23.9	18.2	18.9	19.1
Tier 1 capital ratio, %	19.9	20.5	17.2	18.9	19.1
Return on equity before tax, %	10.3	7.6	0.1	2.9	5.4
Return on equity after tax, %	8.3	5.1	(0.1)	2.4	4.2
Income:cost ratio	2.12	1.59	1.01	1.19	1.39
Foreign exchange position, %	0.3	0.4	0.4	1.6	0.6
Loans and advances:equity (loan gearing)	17.1	18.4	20.9	21.1	21.2
Growth in loans and advances for the year, %	(0.7)	0.2	(2.1)	2.5	4.2
Total impairment provisions, %	0.68	0.71	0.74	0.67	0.57
Impairment losses for the year, %	0.06	0.08	0.19	0.22	0.17
Return on capital employed, %	0.38	0.23	(0.02)	0.12	0.18

<sup>1</sup> Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 50 in the Annual Report 2016.

**52. GROUP STRUCTURE**

Name and registered office	Ownership interest as %, 31 December 2016	Profit for 2016	Equity, 31 December 2016	Number of staff 2016	Profit for 2015	Equity, 31 December 2015	Number of staff 2015
Nykredit Holding A/S (Parent), Copenhagen, a)	-	5,405	67,192	-	2,997	61,708	-
Nykredit Realkredit A/S, Copenhagen, a)	100	5,660	70,954	2,674	3,198	65,460	2,826
Totalkredit A/S, Copenhagen, a)	100	2,048	20,661	132	1,500	18,613	120
Nykredit Bank A/S, Copenhagen, b)	100	626	16,744	641	1,542	16,118	606
Nykredit Portefølje Administration A/S, Copenhagen, g)	100	106	588	108	85	482	107
Nykredit Leasing A/S, Gladsaxe, e)	100	71	593	51	66	522	48
Nykredit Mægler A/S, Copenhagen, c)	100	64	138	40	45	144	48
Nykredit Ejendomme A/S, Copenhagen, d)	100	543	1,055	2	47	510	2
Ejendomsselskabet Kalvebod A/S, Copenhagen, h)	100	24	234	-	24	209	-
Kalvebod Ejendomme I A/S, Copenhagen, d)	100	(0)	118	-	12	118	-
Kalvebod Ejendomme II A/S, Copenhagen, d)	100	24	112	-	12	87	-
Nykredit Adm. V A/S, Copenhagen, f)	100	-	1	-	0	1	-
Bolighed A/S, c)	50	(0)	6	5	1	7	-

The Group structure only includes significant subsidiaries. Financial information is provided in such order as the subsidiaries are recognised in the Consolidated Financial Statements.

	Number of staff	Revenue <sup>2</sup>	Profit before tax	Tax	Government aid received
<b>Geographical distribution of activities</b>					
Denmark: Names and activities appear from the Group structure above	3,641	31,775	6,682	1,377	-
Poland: Nykredit Realkredit A/S S.A. Oddzial w Polsce, branch, a)	12	10	1	-	-
Sweden: Nykredit Bank A/S, branch, b) <sup>1</sup>	-	-	-	-	-

<sup>1</sup> The branch in Sweden ceased its activities in January 2015 and is expected to be wound up entirely by the end of 2017.

<sup>2</sup> For companies preparing financial statements in accordance with the Danish Financial Business Act, revenue is defined as interest, fee and commission income and other operating income.

- a) Mortgage bank
- b) Bank
- c) Estate agency business
- d) Property company
- e) Leasing business
- f) No activity
- g) Investment management company
- h) Holding company, no independent activities

Nykredit Realkredit A/S is 100% owned by and consolidated with Nykredit Holding A/S, which is consolidated with Foreningen Nykredit. The financial statements of Foreningen Nykredit (in Danish) and Nykredit Holding A/S are available from:

Nykredit Realkredit A/S  
Kalvebod Brygge 1-3  
DK-1780 Copenhagen V

# NOTES

DKK  
million

Nykredit Holding Group

## 52. GROUP STRUCTURE (CONTINUED)

Name and registered office	Ownership interest as %, 31 December 2015	Revenue 2015	Profit for 2015	Assets, 31 December 2015	Liabilities, 31 December 2015	Equity, 31 December 2015	Nykredit's share of profit for 2015	Nykredit's share of equity value, 31 December 2015	Profit for 2014	Equity, 31 December 2014
<b>Associates<sup>1</sup></b>										
Boligsiden A/S, Copenhagen, a)	23	-	2	13	1	10	-	2	2	15
Core Property Management A/S, Copenhagen, c)	20	43	12	30	1	27	2	5	9	23
E-nettet A/S, Copenhagen, b)	17	151	7	148	2	78	1	13	15	86
JN Data A/S, Silkeborg, b)	50	1,944	6	767	1,126	207	3	104	4	206
JSNA Holding A/S under frivillig likvidation, Aalborg, c)	33	-	3	6	-	6	1	2	0	3

<sup>1</sup> Recognised on the basis of the latest annual reports or interim reports as at 30 September if annual reports are not available.

<sup>2</sup> Erhvervsinvest K/S was subject to voluntary liquidation in 2015.

Nykredit holds less than 20% of the shares in E-nettet A/S, but still exercises significant influence over the financial and operational conditions of the company as it has a representative on the board of directors. Consequently, for accounting purposes the shareholding is treated as an associate.

- a) Property company
- b) IT business
- c) Investment company



## MANAGEMENT COMMENTARY (CONTINUED)

DKK million

Nykredit Holding Group	FY 2016	FY 2015	Q4/ 2016	Q3/ 2016	Q2/ 2016	Q1/ 2016	Q4/ 2015
<b>FIVE-QUARTER FINANCIAL HIGHLIGHTS</b>							
<b>Core income from</b>							
Business operations <sup>2</sup>	12,159	12,126	3,285	3,110	2,933	2,831	2,892
Senior and subordinated debt	(494)	(610)	(98)	(164)	(114)	(118)	(127)
Securities	46	38	13	13	10	11	9
<b>Income from core business</b>	<b>11,711</b>	<b>11,554</b>	<b>3,200</b>	<b>2,958</b>	<b>2,829</b>	<b>2,724</b>	<b>2,774</b>
Operating costs, depreciation and amortisation	5,147	5,010	1,544	1,223	1,213	1,167	1,401
Mortgage bank contribution to the Danish Resolution Fund <sup>1</sup>	138	61	34	35	35	34	15
<b>Profit from core business before impairment losses</b>	<b>6,426</b>	<b>6,483</b>	<b>1,622</b>	<b>1,700</b>	<b>1,581</b>	<b>1,523</b>	<b>1,358</b>
Impairment losses on loans and advances	680	920	295	260	176	(51)	227
<b>Profit from core business</b>	<b>5,746</b>	<b>5,563</b>	<b>1,327</b>	<b>1,440</b>	<b>1,405</b>	<b>1,574</b>	<b>1,131</b>
Legacy derivatives	(763)	229	422	66	(510)	(741)	129
Gain on owner-occupied dwellings	369	-	369	-	-	-	-
Amortisation of goodwill and customer relationships	-	1,965	-	-	-	-	58
Investment portfolio income	1,331	853	218	580	473	60	372
<b>Profit before tax</b>	<b>6,683</b>	<b>4,680</b>	<b>2,332</b>	<b>2,085</b>	<b>1,367</b>	<b>894</b>	<b>1,574</b>
Tax	1,377	1,493	470	438	278	191	374
<b>Profit for the year</b>	<b>5,306</b>	<b>3,187</b>	<b>1,862</b>	<b>1,647</b>	<b>1,089</b>	<b>703</b>	<b>1,200</b>

<b>SUMMARY BALANCE SHEET</b>	31.12.2016	31.12.2015	31.12.2016	30.09.2016	30.06.2016	31.03.2016	31.12.2015
<b>Assets</b>							
Cash balances and receivables from credit institutions and central banks	34,829	23,253	34,829	41,685	43,707	28,798	23,253
Mortgage loans at fair value	1,124,693	1,119,101	1,124,693	1,127,516	1,127,725	1,122,218	1,119,101
Bank loans, excluding reverse repurchase lending	55,003	46,747	55,003	53,115	49,554	48,972	46,747
Bonds at fair value	111,981	106,200	111,981	104,454	102,605	112,876	106,200
Equities	4,574	4,094	4,574	4,121	3,782	4,017	4,094
Bonds and equities	116,555	110,294	116,555	108,574	106,387	116,892	110,294
Remaining assets	69,530	84,402	69,530	74,919	79,934	83,286	84,402
<b>Total assets</b>	<b>1,400,611</b>	<b>1,383,796</b>	<b>1,400,611</b>	<b>1,405,810</b>	<b>1,407,306</b>	<b>1,400,166</b>	<b>1,383,796</b>
<b>Liabilities and equity</b>							
Payables to credit institutions and central banks	21,681	30,226	21,681	19,362	28,131	44,015	30,226
Deposits and other payables	65,414	62,584	65,414	64,895	69,537	59,571	62,584
Bonds in issue at fair value	1,152,383	1,137,314	1,152,383	1,151,669	1,142,561	1,135,251	1,137,314
Subordinated debt	11,078	11,006	11,078	11,276	11,260	11,240	11,006
Remaining liabilities	79,099	77,185	79,099	89,732	88,790	83,931	77,185
Equity	70,955	65,482	70,955	68,876	67,027	66,157	65,482
<b>Total liabilities and equity</b>	<b>1,400,611</b>	<b>1,383,796</b>	<b>1,400,611</b>	<b>1,405,810</b>	<b>1,407,306</b>	<b>1,400,166</b>	<b>1,383,796</b>

<sup>1</sup> The quarterly financial highlights have not been audited.

<sup>2</sup> Business operations include value adjustment of interest rate swaps as well as interest on senior and subordinated debt.

# MANAGEMENT COMMENTARY (CONTINUED)

## DIRECTORSHIPS AND EXECUTIVE POSITIONS

The Board of Directors and the Executive Board form the Nykredit Holding Group's management.

### BOARD OF DIRECTORS

The Board of Directors meets monthly, except in July, and holds a strategy seminar once a year.

The Board members are elected for a term of one year. The latest election took place on 16 March 2016. Re-election is not subject to any restrictions.

Below, an account is given of the individual director's position, age and years of service on the Board as well as directorships and executive positions in other Danish and foreign companies as well as major organisational responsibilities.

#### Steffen Kragh

Chief Executive Officer

Date of birth: 6 April 1964  
Joined the Board on 28 March 2006  
Independent director

Chief Executive Officer of:  
Egmont Fonden  
Egmont International Holding A/S  
Ejendomsselskabet Gothersgade 55 ApS\*\*  
Ejendomsselskabet Vognmagergade 11 ApS\*\*

Chairman of:  
Nykredit Realkredit A/S\*  
Cappelen Damm Holding AS\*  
Egmont Administration A/S  
Egmont Finansiering A/S  
Egmont Holding A/S\*\*  
Lindhardt og Ringhof Forlag A/S  
Nordisk Film A/S  
Egmont Holding Limited

Deputy Chairman of:  
Nykredit Realkredit A/S\*\*  
Cappelen Damm Holding AS\*\*  
Lundbeckfonden  
Lundbeckfond Invest A/S

Director of:  
Foreningen Nykredit\*\*  
Egmont Book Publishing Ltd.  
Egmont UK Ltd.  
Ejendomsselskabet Gothersgade 55 ApS\*  
Ejendomsselskabet Vognmagergade 11 ApS\*  
MBG Sleeping Egmont A/S  
N2L Sleeping Egmont A/S\*\*

Chief Executive Officer of:  
NKB Invest 103 ApS

#### Merete Eldrup

Chief Executive Officer

Date of birth: 4 August 1963  
Joined the Board on 24 March 2010  
Independent director

Chief Executive Officer of: TV2/DANMARK A/S

Chairman of:  
TV 2 BIB A/S  
TV 2 DTT A/S  
TV 2 Networks A/S

Deputy Chairman of:  
Nykredit Realkredit A/S\*  
Gyldendal A/S

Director of:  
Foreningen Nykredit\*\*  
Nykredit Realkredit A/S\*\*  
Rambøll Gruppen A/S

Member of the committee of representatives of:  
Foreningen Realdania\*

#### Nina Smith

Professor

Date of birth: 17 October 1955  
Joined the Board on 22 September 2004  
Non-independent director in view of directorship in Foreningen Nykredit

Professor at Institut for Økonomi, Aarhus Universitet

Chairman of:  
Foreningen Nykredit\*  
Nykredits Fond\*  
Creditkassens Jubilæumsfond af 1941 og 1966\*  
Aarhus Symposium\*\*  
Favrskov Gymnasium  
KORA (Det Nationale Institut for Kommuners og Regioners Analyse og Forskning)

Deputy Chairman of:  
Foreningen Nykredit\*\*  
Nykredits Fond\*\*  
Creditkassens Jubilæumsfond af 1941 og 1966\*\*  
Nykredit Realkredit A/S\*

Director of:  
Nykredit Realkredit A/S\*\*  
Carlsberg A/S  
Carlsbergfondet  
Carlsbergfondets Forskerboliger A/S  
Ejendomspartnerselskabet C.F. Richsvej 99-101\*\*  
Ejendomspartnerselskabet "Haraldsborg"\*\*\*  
Ejendomspartnerselskabet "Munken"\*\*\*  
Ejendomspartnerselskabet "Ved Boldparken"\*\*\*  
Ejendomspartnerselskabet Søborg Huse\*\*

P/S Høeghsmindes Parkbebyggelse\*\*  
Member of Det Økonomiske Råd\*\*

#### Helge Leiro Baastad\*

Chief Executive Officer  
Independent director

Date of birth: 14 September 1960  
Joined the Board on 16 March 2016

Chief Executive of Gjensidige Forsikring ASA

Chairman of:  
Gjensidige Pensjon og Sparing Holding AS

Director of:  
Nykredit Realkredit A/S\*  
Finans Norge (previously Finansnæringens Fellesorganisasjon)  
Ungt Entreprenørskap

Election committee member of SpareBank 1 SR-Bank  
(previously Sparebanken Rogaland)

#### Hans Bang-Hansen

Farmer

Date of birth: 15 August 1955  
Joined the Board on 18 April 2001  
Non-independent director in view of directorship in Foreningen Nykredit

Chairman of:  
Horsens Vand A/S  
Horsens Vand Holding A/S  
Håstrupgård ApS

Deputy Chairman of:  
Foreningen Nykredit\*  
Nykredits Fond\*  
Creditkassens Jubilæumsfond af 1941 og 1966\*  
Nykredit Realkredit A/S\*\*

Director of:  
Foreningen Nykredit\*\*  
Nykredits Fond\*\*  
Nykredit Realkredit A/S\*  
Horsens Folkeblads Fond  
Jyske Medier A/S\*

Municipal posts:  
Chairman of Midttrafik  
Member of the municipal council of Horsens

Managing Director of:  
Arnen Holding ApS  
HB-H Holding ApS\*  
HGE Holding ApS  
Håstrupgård Ejendomme ApS  
LNT Invest ApS  
Provstlund ApS

## MANAGEMENT COMMENTARY (CONTINUED)

### **Olav Bredgaard Bruzen\* \*\*\***

Deputy Chairman of NYKREDS

Date of birth: 8 May 1968  
Joined the Board on 16 March 2016

Director of:  
Foreningen Nykredit\*  
Nykredit Realkredit A/S\*

### **Michael Demsitz**

Managing Director

Date of birth: 1 February 1955  
Joined the Board on 31 March 2004  
Non-independent director in view of directorship in Foreningen Nykredit

Managing Director of: Boligkontoret Danmark

Chairman of:  
Alment Bestyrelsesakademi  
Byggeskadefonden

Director of:  
Foreningen Nykredit  
Nykredit Realkredit A/S  
Nykredits Fond  
AlmenNet  
Boligselskabernes Landsforening

### **Per W. Hallgren\***

Adm. direktør  
Chief Executive Officer

Date of birth: 8 July 1962  
Joined the Board on 16 March 2016  
Non-independent director in view of directorship in Foreningen Nykredit

Chief Executive Officer of Jeudan A/S

Chairman of:  
CEJ Ejendomsadministration A/S\*  
CEJ Aarhus A/S\*  
Jeudan I A/S  
Jeudan II A/S  
Jeudan III A/S  
Jeudan IV A/S  
Jeudan V A/S  
Jeudan VI A/S  
Jeudan VII A/S  
Jeudan VIII A/S  
Jeudan IX ApS  
Jeudan X ApS  
Jeudan XI ApS

Director of:  
Foreningen Nykredit  
Nykredit Realkredit A/S\*  
Daniamant ApS\*\*  
Daniamant Electronics A/S\*\*  
Daniamant Holding A/S\*\*  
Daniamant Ltd\*\*  
NTR Invest A/S\*\*

NTR Holding A/S\*\*

### **Marlene Holm\*\*\***

Personal Adviser

Date of birth: 2 December 1964  
Joined the Board on 21 March 2012

Director of:  
Foreningen Nykredit\*\*  
Nykredit Realkredit A/S

### **Allan Kristiansen\*\*\***

Chief Relationship Manager

Date of birth: 6 March 1958  
Joined the Board on 12 April 2000

Director of:  
Nykredit Bank A/S  
Nykredit Realkredit A/S

### **Bent Naur**

Former Chief Executive Officer

Date of birth: 24 April 1947  
Joined the Board on 20 March 2013  
Independent director

Deputy Chairman of:  
Finansiell Stabilitet

Director of:  
Nykredit Realkredit A/S

### **Lasse Nyby**

Chief Executive Officer

Date of birth: 25 November 1960  
Joined the Board on 28 March 2007  
Independent

Managing Director of Spar Nord Bank A/S

Chairman of:  
Aktieselskabet Skelagervej 15  
JSNA Holding A/S\*\*  
Landsdækkende Banker\*

Deputy Chairman of:  
PRAS A/S\*

Director of:  
AP Pension Livsforsikringsaktieselskab  
AP Pensionsservice A/S  
FinansDanmark  
Foreningen AP Pension f.m.b.a  
FR I af 16. September 2015 A/S  
PRAS A/S\*\*  
Regionale Bankers Forening\*\*  
Vækst-Invest Nordjylland A/S

### **Anders C. Obel**

Chief Executive Officer

Date of birth: 19 October 1960  
Joined the Board on 25 March 2009

Non-independent director in view of directorship in Foreningen Nykredit

Chief Executive Officer of: C.W. Obel A/S

Chairman of:  
C. W. Obel Bolig A/S  
C. W. Obel Ejendomme A/S  
C. W. Obel Projekt A/S  
Obel-LFI Ejendomme A/S  
Semco Maritime A/S  
Semco Maritime Holding A/S\*

Director of:  
Foreningen Nykredit  
Nykredit Realkredit A/S  
Axzon A/S  
Erhvervsinvest Management A/S  
Fonden Det Obelske Jubilæumskollegium  
Fritz Hansen A/S  
Høvdingsgaard Fonden  
Mullerupgaard og Gl. Estrup Fonden  
Scandinavian Tobacco Group A/S\*\*  
Skandinavisk Holding A/S  
Skandinavisk Holding II A/S  
Skjærringefonden  
Woodmancott Fonden

Member of the committee of representatives of:  
Foreningen Realdania

Member of the investment committee of Danish Agribusiness Fund\*

### **Claus E. Petersen**

Chief Executive Officer

Date of birth: 3 July 1961  
Joined the Board on 21 March 2012  
Independent

Managing Director of Den Jyske Sparekasse

Chairman of:  
DJS Leasing A/S  
Finanshuset Farsø Pantebrevsselskab A/S  
Foreningen Lokale Pengeinstitutter  
PRAS A/S

Deputy Chairman of:  
Totalkredit A/S

Director of:  
Den Jyske Sparekasses Støttefond  
Det Private Beredskab\*\*  
FinansDanmark  
FR I af 16. september 2015 A/S  
HN Invest Tyskland 1 A/S  
Spar Pantebrevsinvest A/S  
Værdiansættelsesrådet

## MANAGEMENT COMMENTARY (CONTINUED)

---

### **Erling Bech Poulsen**

Farmer

Resigned on 16 March 2016:

Date of birth: 14 June 1955  
Joined the Board on 25 March 2009  
Independent

Chairman of:  
Østifterne Administration f.m.b.a.  
Østifterne f.m.b.a.\*

Director of:  
Nykredit Realkredit A/S  
Agrovakia A/S  
Axzon A/S  
Kølhede Invest A/S  
Lidenlund Invest III 2008 A/S\*  
Polen Invest A/S  
Vandborg Karosserifabrik A/S

Managing Director of:  
Kølhede Holding ApS  
Kølhede Invest A/S  
Majbrit Poulsen Holding ApS  
Malene Poulsen Holding ApS  
Morten Poulsen Holding ApS

### **Inge Sand\* \*\*\***

Senior Agricultural Adviser

Date of birth: 13 March 1965  
Joined the Board on 16 March 2016

Director of:  
Foreningen Nykredit\*  
Nykredit Realkredit A/S\*

### **Lars Peter Skaarup\*\*\***

Personal Adviser

Date of birth: 16 March 1959  
Joined the Board on 21 March 2012

Director of:  
Foreningen Nykredit\*\*  
Nykredit Realkredit A/S\*\*  
Oliefyrsmanden A/S

### **Leif Vinther\*\*\***

Chairman of Staff Association

Date of birth: 18 April 1959  
Joined the Board on 12 April 2000

Director of:  
Foreningen Nykredit  
Nykredit Realkredit A/S  
Nykredits Fond  
Finansforbundets hovedbestyrelse

**Steen E. Christensen\*\***  
Attorney

**Gert Kryger\*\***  
Senior Account Manager

**Ina Nielsen\*\* \*\*\***  
Developer

**Jens Erik Udsen \*\***  
Managing Director

# MANAGEMENT COMMENTARY (CONTINUED)

## EXECUTIVE BOARD

Below, an account is given of the individual Executive Board member's position, age, years of service on the Board and other executive positions, including in other companies as permitted by the Board of Directors pursuant to section 80 of the Danish Financial Business Act.

### Michael Rasmussen

Group Chief Executive

Date of birth: 13 November 1964  
Joined the Executive Board on 1 September 2013

Managing Director of:  
Foreningen Nykredit\*\*  
Nykredit Realkredit A/S

Bestyrelsesformand i:  
Nykredit Bank A/S  
Totalkredit A/S  
FinansDanmark\*  
Investeringsfonden for Udviklingslande (IFU)

Chairman of:  
Nykredits Fond\*\*  
Copenhagen Business School\*  
Credittkassens Jubilæumsfond af 1941 og 1966\*\*

### Kim Duus

Group Managing Director

Date of birth: 8 December 1956  
Joined the Executive Board on 15 May 2009

Managing Director of:  
Nykredit Realkredit A/S

Bestyrelsesformand i:  
Nykredit Portefølje Administration A/S

Director of:  
Nykredit Bank A/S  
Totalkredit A/S

### David Hellemann\*

Group Managing Director

Date of birth: 5 December 1970  
Joined the Executive Board on 1 September 2013

Managing Director of:  
Nykredit Realkredit A/S\*

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

Deputy Chairman of:  
JN Data A/S\*

Director of:  
Nykredit Bank A/S\*  
Totalkredit A/S\*  
Bankernes EDB Central a.m.b.a.\*  
E-Nettet A/S\*\*  
Finanssektorens Uddannelsescenter\*

### Søren Holm

Group Managing Director

Date of birth: 15 November 1956  
Joined the Executive Board on 1 March 2006

Managing Director of:  
Nykredit Realkredit A/S

Chairman of:  
Ejendomsselskabet Kalvebod A/S

Deputy Chairman of:  
Nykredit Bank A/S

Director of:  
Totalkredit A/S  
FinansDanmark  
VP Securities A/S

### Anders Jensen

Group Managing Director

Date of birth: 20 January 1965  
Joined the Executive Board on 1 October 2014

Managing Director of:  
Nykredit Realkredit A/S

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

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

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

### Bente Overgaard\*\*

Group Managing Director

\* Joined in 2016  
\*\* Resigned in 2016  
\*\*\* Staff-elected member

*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.*