



Annual Report 2016

Nykredit Bank Group

Subsidiary of the Nykredit Realkredit Group

Nykredit

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COMPANY DETAILS

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

Website: nykredit.com
Tel: +45 44 55 18 00

CVR no: 10 51 96 08
Financial year: 1 January – 31 December
Municipality of registered office: Copenhagen

Nykredit Bank is wholly owned by Nykredit Realkredit A/S and has been included in the consolidated financial statements of this company and of Foreningen Nykredit, 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

Michael Rasmussen, Chairman
Søren Holm, Deputy Chairman
Kent Ankersen*
Kim Duus
Flemming Ellegaard*
David Hellemann
Anders Jensen
Allan Kristiansen*

* Elected by the staff of Nykredit Bank

EXECUTIVE BOARD

Henrik Rasmussen
Dan Sørensen

For directorships and executive positions of the members of the Board of Directors and the Executive Board, see pages 110 and 111.

NOMINATION BOARD

The Nomination Board serves the entire Nykredit Group.

Steffen Kragh, Chairman
Merete Eldrup
Nina Smith

AUDIT BOARD

The Audit Board serves the entire Nykredit Group.

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

REMUNERATION BOARD

The Remuneration Board serves the entire Nykredit Group.

Steffen Kragh, Chairman
Merete Eldrup
Nina Smith
Leif Vinther, Chairman of Staff Association

RISK BOARD

The Risk Board serves the entire Nykredit Group.

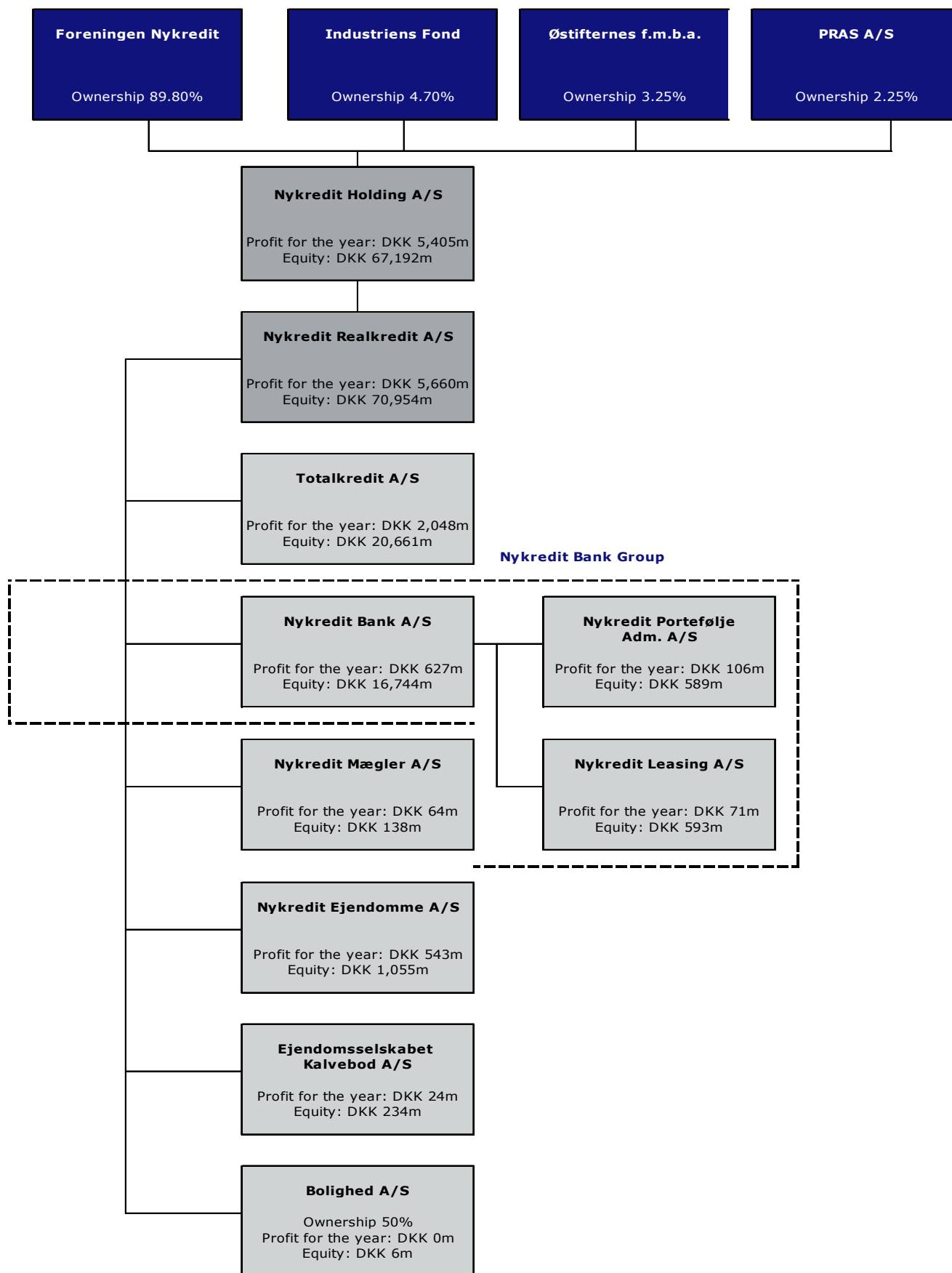
Merete Eldrup, Chairman
Michael Demsitz
Bent Naur
Anders C. Obel

At 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

GROUP CHART



FINANCIAL HIGHLIGHTS

DKK million

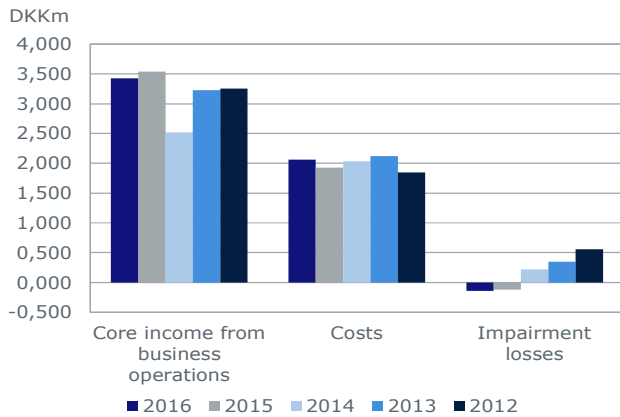
Nykredit Bank Group	2016	2015	2014	2013	2012	Q4/2016	Q4/2015
PROFIT FROM CORE BUSINESS AND PROFIT FOR THE YEAR¹							
Core income from:							
- business operations	3,428	3,541	2,485	3,194	3,196	953	881
- securities	8	8	29	33	61	2	2
Income from core business	3,436	3,549	2,514	3,227	3,257	955	883
Operating costs and depreciation of equipment	2,060	1,915	2,035	2,123	1,847	586	448
Value adjustment of associate	-	-	-	78	-	-	-
Profit from core business before impairment losses	1,376	1,634	479	1,182	1,410	369	435
Impairment losses on loans and advances and provisions for guarantees	(141)	(121)	219	349	557	(82)	(34)
Profit from core business	1,517	1,755	260	833	853	451	469
Legacy derivatives	(763)	229	(2,674)	(708)	(816)	422	129
Goodwill impairment		9				-	9
Investment portfolio income	34	35	43	(40)	30	(1)	11
Profit (loss) before tax	788	2,010	(2,371)	85	67	872	600
Tax	161	468	(599)	8	(1)	194	137
Profit (loss) for the year	627	1,542	(1,772)	77	68	678	463
SUMMARY BALANCE SHEET	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012	31.12.2016	31.12.2015
Assets							
Cash balances and receivables from central banks and credit institutions	35,723	13,425	33,885	23,173	44,812	35,723	13,425
Loans, advances and other receivables at fair value	30,091	39,467	35,228	56,814	35,401	30,091	39,467
Loans, advances and other receivables at amortised cost	55,003	46,747	50,494	47,024	49,807	55,003	46,747
Bonds at fair value and equities	42,576	40,412	65,314	64,219	58,399	42,576	40,412
Remaining assets	31,533	34,288	44,962	32,904	52,099	31,533	34,288
Total assets	194,926	174,339	229,883	224,134	240,518	194,926	174,339
Liabilities and equity							
Payables to credit institutions and central banks	51,606	34,957	63,876	57,732	55,355	51,606	34,957
Deposits and other payables	66,263	62,758	65,350	65,405	54,701	66,263	62,758
Bonds in issue at amortised cost	10,158	20,150	25,881	26,689	28,498	10,158	20,150
Other non-derivative financial liabilities at fair value	21,348	11,776	19,943	29,248	33,741	21,348	11,776
Remaining payables	26,546	28,267	41,913	30,216	53,468	26,546	28,267
Provisions	261	214	245	247	235	261	214
Subordinated debt	2,000	100	100	250	250	2,000	100
Equity	16,744	16,117	12,575	14,347	14,270	16,744	16,117
Total liabilities and equity	194,926	174,339	229,883	224,134	240,518	194,926	174,339
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	17,152	15,180	20,893	11,620	12,169	17,152	15,180
Other commitments	5,375	5,566	4,839	6,906	7,858	5,375	5,566
FINANCIAL RATIOS							
Profit (loss) for the year as % pa of average equity	3.8	10.7	(13.2)	0.5	0.5	16.5	11.7
Profit (loss) before tax for the year as % pa of average equity	4.8	14.0	(17.6)	0.6	0.5	21.3	15.1
Profit from core business before impairment losses as % pa of average equity	8.4	11.4	3.6	8.3	9.9	8.9	11.0
Profit from core business as % pa of average equity	9.2	12.2	1.9	5.8	6.0	11.0	11.8
Operating costs and depreciation of equipment as % of core income from business operations	60.1	54.1	81.9	66.5	57.8	61.7	50.9
Total provisions for loan impairment	2,537	2,852	3,560	3,974	4,057	2,537	2,852
Impairment losses for the year, %	(0.1)	(0.1)	0.2	0.3	0.5	(0.1)	(0.1)
Total capital ratio, %	16.6	21.1	13.1	16.8	21.3	16.6	21.1
Tier 1 capital ratio, %	14.8	20.7	12.8	16.4	21.3	14.8	20.7
CET1 capital ratio, %	14.8	20.6	12.8	16.1	21.0	14.8	20.6
Average number of staff, full-time equivalents	800	761	820	859	850	812	767

¹ 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 has been adjusted, cf the Management Commentary and Accounting policies.

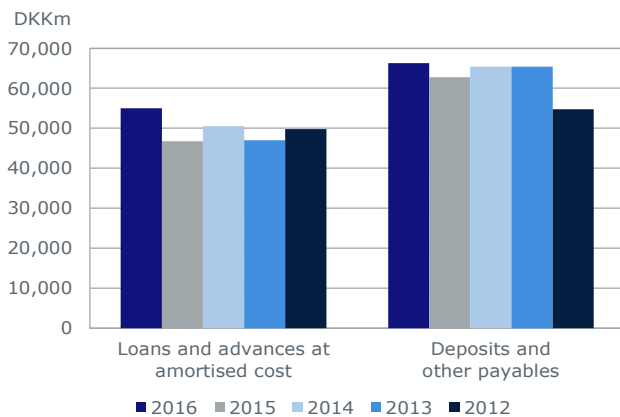
2016 – IN BRIEF

Nykredit Bank Group

Core income from business operations, costs and impairment



Lending and deposits



RESULTS FOR 2016

Nykredit Bank is an important part of the Nykredit Group and reflects the mortgage business in many ways. For example, several of the Group's business customers are offered funding through Nykredit Bank. At the same time, Nykredit Bank offers market making in the Group's covered bonds and thus contributes to ensuring deep liquidity.

As a result of these activities – which support mortgage lending – Nykredit Bank generally has a relatively large risk exposure, including exposures to interest rate swaps as a consequence of mortgage customers wishing to hedge the interest rate risk on their mortgage loans. By far the greater majority of these customers make current payments under their contracts, but a number of housing cooperatives are weighed down by, for instance, step-up interest rate structures as illustrated in the Bank's value adjustments.

2016 was also impacted by negative value adjustment of derivatives.

The Nykredit Bank Group recorded a profit from core business of DKK 1,517m compared with DKK 1,755m in 2015 and a profit before tax of DKK 788m against DKK 2,010m in 2015. The main reason for the decline in profit before tax was that legacy derivatives generated a loss of DKK 763m in 2016 against a gain of DKK 229m in 2015. This resulted in part from declining interest rates in 2016, but also the introduction of FVA (Funding Valuation Adjustment) in the measurement of derivatives.

Results from core business

Nykredit made two accounting restatements in 2016, implying changes in the valuation of Nykredit Bank's derivatives and the presentation of core business. For more information, please refer to "Special accounting circumstances" and "Legacy derivatives" on page 8.

Income from core business

Core income totalled DKK 3,428m. Compared with income in 2015 of DKK 3,541m, this represented a fall of 3.2%, or DKK 113m, and was partly an effect of the FVA implementation, which had an adverse impact of DKK 162m.

Moreover, core income was particularly affected by a decline in Nykredit Markets's activities, which accounted for a reduction of DKK 80m. This should be seen in light of the high earnings level in 2015 and the lowered risk appetite in 2016. In addition, core income from Corporate & Institutional Banking dropped by DKK 139m, while Wealth Management succeeded in growing its core income by DKK 150m (exclusive of distribution costs) as a result of increased activity.

Lending at amortised cost went up by DKK 8.3bn on end-2015 to DKK 55.0bn as at 31 December 2016.

Deposits (incl deposits of DKK 1.7bn acquired from FIH) grew by DKK 3.5bn from DKK 62.8bn at end-2015 to DKK 66.3bn.

Core income from securities

Income was unchanged at around DKK 8.0m in 2016, and the short-term risk-free interest rate dropped from an average of 0.06% in 2015 to 0.05% in 2016. The risk-free interest rate is based on the Danish central bank's lending rate.

Operating costs, depreciation and amortisation

Operating costs and depreciation of equipment rose by DKK 145m to DKK 2,060m, owing in part to a rise in staff expenses as an effect of the Bank's expansion of its Wealth Management area and higher payroll tax.

The average number of full-time equivalent staff totalled 800 compared with 761 in 2015.

Moreover, other administrative expenses increased as a result of growing costs for marketing etc.

Impairment losses on loans and advances and provisions for guarantees

Impairment losses and provisions were a gain of DKK 141m against a gain of DKK 121m in 2015, equivalent to a positive earnings impact of DKK 20m.

Individual impairment provisions dropped by DKK 338m to a gain of DKK 83m, particularly due to a downturn in new impairment provisions combined with an increase in reversals compared with 2015. Collective impairment provisions were a gain of DKK 10m against a gain of DKK 368m in 2015.

Provisions for guarantees came to a gain of DKK 48m against a gain of DKK 7m in 2015.

Impairment losses for the year were unchanged at negative 0.1% of loans and advances as in 2015.

Legacy derivatives

A new presentation of derivatives has been made compared with the Annual Report 2015.

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 3.3bn at end-2015. The total market value change resulted partly from the termination of a few major swap contracts.

Investment portfolio income

Investment portfolio income was DKK 34m against DKK 35m in 2015.

Investment portfolio income equals excess income obtained from portfolios not allocated to the business areas in addition to risk-free interest.

Tax

The tax charge was DKK 161m, corresponding to 20.4% of profit before tax compared with 23.3% in 2015.

Results

Profit after tax for the year came to DKK 627m in 2016.

RESULTS FOR Q4/2016

Results relative to Q3/2016

Q4/2016 saw a profit from core business of DKK 451m and a profit before tax of DKK 872m, corresponding to an upturn in core business of DKK 186m, while profit before tax improved by DKK 531m on Q3/2016.

This upturn in profit before tax primarily reflected that value adjustment of legacy derivatives improved by DKK 356m on the Q3 level, whereas core income from business operations increased by DKK 163m on Q3 to DKK 953m. The increase in income was primarily attributable to Retail.

Total costs were up DKK 86m on the previous quarter, while impairment losses decreased by DKK 109m.

The investment portfolio saw a decline from an income of DKK 10m to a loss of DKK 1m in Q4, partly attributable to the movement in interest rates throughout Q4 compared with the preceding quarter.

Results relative to Q4/2015

Compared with a profit before tax of DKK 600m in Q4/2015, profit grew by DKK 272m in Q4/2016, mainly driven by value adjustment of legacy derivatives, which saw an improvement of DKK 293m. However, core income from business operations grew by DKK 72m from DKK 881m in Q4/2015 to DKK 953m.

Operating costs and depreciation of equipment saw a rise from DKK 448m in Q4/2015 to DKK 586m, equal to a negative earnings impact of DKK 138m.

Impairment losses reduced on the same period last year to a gain of DKK 82m in Q4/2016.

RESULTS RELATIVE TO FORECASTS

In the Q1-Q3 Interim Report 2016, guidance was DKK 1.2bn-1.4bn.

In Q4/2016, Nykredit included FVA in the value adjustment of derivatives and introduced a new presentation of the distribution of earnings from derivatives. This had not formed part of our previous guidance. The changes did not call for a revision of our previous guidance, which is still in the range of DKK 1.2bn-1.4bn.

Actual profit from core business for 2016 amounted to DKK 1.5bn. The favourable development was partly attributable to a rise in business income and 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.

Income from core business is expected to rise, while capacity costs are forecast just below the 2016 level as a result of the restructuring initiated in 2016.

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 tick up.

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.

EVENTS SINCE THE BALANCE SHEET DATE

Other events

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

SPECIAL ACCOUNTING CIRCUMSTANCES

Nykredit made two accounting restatements 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 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.

Business areas

The Nykredit Group's business area structure was changed in H1/2016. The most significant change was the set-up of Wealth Management, a new business area, which comprises the units Nykredit Asset Management, Nykredit Portefølje Administration A/S and Private Banking Elite for the wealthiest clients. At the same time, the intercompany settlements between Retail and Wealth Management were adjusted.

Nykredit Asset Management and Private Banking Elite were previously included in Wholesale Clients, which now comprises Corporate & Institutional Banking and Nykredit Markets.

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.

Deposit customers from FIH

Nykredit Bank and FIH have entered into an agreement regarding the takeover of more than 5,000 personal customers and about 400 business customers, all having deposit accounts with FIH Direct Bank. Thanks to these customers, Nykredit Bank's deposits grew by about DKK 1.7bn.

Reorganisation of the Nykredit Group

Effective from 1 September 2016, Nykredit reorganised its Group Executive Board. In connection with the reorganisation, David Hellemann joined the Group Executive Board as Group Managing Director, responsible for the Nykredit Group's 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's Group Executive Board and the Board of Directors of Nykredit Bank as at 30 June 2016.

Cost reduction

In recent years, the Nykredit Group has made targeted efforts to streamline its business. Against that backdrop, 227 job positions were abolished and the staff was reduced by 156 on 15 November 2016.

Moreover, non-staff cost savings will be implemented in relation to, for example, the marketing budget and the use of external consultants, and some staff benefits, totalling roughly DKK 40m annually. Overall, these cost savings including the staff reductions are expected to reduce costs by over DKK 200m annually.

Capital contribution

To support the capitalisation of Nykredit Bank A/S, the Board of Directors of Nykredit Realkredit A/S decided on 9 November 2016 to contribute DKK 2bn to Nykredit Bank in the form of Tier 2 capital.

The capital contribution should be viewed in the context of a number of model changes that were implemented in 2016, which have prompted a DKK 30bn rise in the Bank's risk exposure amount. At present, the company has sufficient capital to meet Nykredit's target of total capital corresponding to the regulatory requirement with the addition of 1.5% of the risk exposure amount. However, in early 2017 the regulatory requirement will increase by about 1.1% of the risk exposure amount as a result of the phase-in of the regulatory buffers (SIFI and permanent buffers). The capital contribution thus underpins the Bank's capital structure – with respect to both the regulatory requirement and the target of maintaining a capital buffer.

CREDIT RATINGS

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

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

According to S&P, 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 the company's bankruptcy. Nykredit Realkredit A/S was the first financial business to issue so-called senior resolution notes, which count towards ALAC, in June and July 2016. Both issues amounted to EUR 500m.

Fitch Ratings

Nykredit Realkredit A/S and Nykredit Bank A/S each have a long-term unsecured rating of A and a short-term unsecured rating of F1 with Fitch. 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.

Nykredit Bank Group
Summary balance sheet

DKK million	31.12.2016	31.12.2015
Assets		
Receivables from credit institutions	35,723	13,425
Loans and advances at fair value (reverse repurchase lending)	30,091	39,467
Loans and advances at amortised cost	55,003	46,747
Retail	30,079	27,054
- Personal Banking	11,952	12,077
- Business Banking	18,127	14,977
Wholesale Clients	21,554	17,762
Wealth Management	2,603	1,922
Other loans and advances	767	8
Bonds and equities	42,576	40,412
Remaining assets	31,533	34,288
Liabilities and equity		
Payables to credit institutions and central banks	51,606	34,957
Deposits and other payables	66,263	62,758
Retail	43,037	40,799
- Personal Banking	25,760	23,781
- Business Banking	17,277	17,018
Wholesale Clients	12,207	13,700
Wealth Management	9,522	7,827
Other deposits	1,497	432
Bonds in issue	10,158	20,150
Other non-derivative financial liabilities at fair value	21,348	11,776
- of which deposits at fair value (repo deposits)	14,562	7,438
Remaining payables and provisions	26,807	28,481
Hybrid capital	-	100
Subordinated debt	2,000	-
Equity	16,744	16,117
Balance sheet total	194,926	174,339

Nykredit Bank Group
Equity

DKK million	31.12.2016	31.12.2015
Equity, beginning of year	16,117	12,575
Paid-up capital	0	2,000
Profit after tax	627	1,542
Total equity	16,744	16,117

BALANCE SHEET, EQUITY AND CAPITAL ADEQUACY

Balance sheet

The balance sheet stood at DKK 194.9bn compared with DKK 174.3bn at end-2015.

The balance sheet rise should mainly be seen in light of increased balances with credit institutions and growth in bank lending.

Balances with credit institutions and cash balances increased by DKK 22.3bn to DKK 35.7bn, while loans and advances at fair value (reverse repurchase lending) decreased by DKK 9.4bn to DKK 30.1bn.

Bank lending at amortised cost was DKK 55.0bn, up DKK 8.3bn on end-2015, of which Wholesale Clients accounted for DKK 3.8bn, Retail for DKK 3.0bn, Group Items for DKK 0.8bn and Wealth Management for DKK 0.7bn.

The bond portfolio expanded from DKK 40.1bn at end-2015 to DKK 42.3bn. The portfolio may fluctuate significantly from one reporting period to another, which should be seen in the context of the Bank's repo activities, trading positions and general liquidity management. The portfolio mainly consists of high-rated government and covered bonds.

Other assets totalled DKK 31.3bn against DKK 34.2bn at end-2015. As at 31 December 2016, DKK 26.9bn derived from positive market values of derivatives compared with DKK 29.3bn at end-2015. The positive market values related to the Bank's customer activities in derivatives and own positions for hedge accounting purposes. The interest rate risk is widely hedged through offsetting interest rate swaps, and the market value should therefore be viewed in relation to "Other liabilities", which included negative market values of DKK 23.0bn.

Moreover, "Other assets" includes interest and commission receivable.

Payables to credit institutions and central banks were up by DKK 16.6bn to DKK 51.6bn.

Deposits and other payables totalled DKK 66.3bn, which represented an increase on end-2015. Retail deposits (incl deposits of DKK 1.7bn acquired from FIH) grew by DKK 2.2bn, while Wholesale Clients decreased by DKK 1.5bn and Wealth Management increased by DKK 1.7bn. Group Items and other deposits rose by DKK 1.1bn.

As at 31 December 2016, the Bank's deposits exceeded lending at amortised cost by DKK 11.3bn. At end-2015, deposits exceeded lending by DKK 16.0bn.

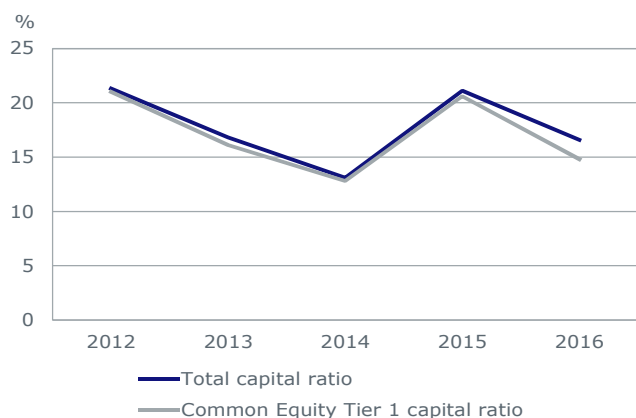
This reflected increasing lending from the business areas.

Nykredit Bank Group		
Capital and capital adequacy		
DKK million	31.12.2016	31.12.2015
Share capital	8,045	8,045
Retained earnings	8,699	8,072
Equity, year-end	16,744	16,117
Prudent valuation adjustment	(46)	(300)
Intangible assets and deferred tax assets	(22)	(34)
Deduction for difference between IRB losses and impairments	(315)	(43)
Other deductions	(63)	(23)
Transitional adjustment of deductions	126	26
Common Equity Tier 1 capital	16,424	15,743
Hybrid capital	0	100
Other deductions	0	(13)
Tier 1 capital	16,424	15,830
Tier 2 capital	2,000	
Tier 2 capital additions/deductions	-	327
Transitional adjustment of Tier 2 capital	(63)	(13)
Own funds	18,361	16,144
Credit risk	95,079	63,004
Market risk	9,369	8,666
Operational risk	5,898	4,641
Total risk exposure amount	110,346	76,311
Total capital ratio, %	16.6	21.1
Tier 1 capital ratio, %	14.8	20.7
CET1 capital ratio, %	14.8	20.6

Capital and capital adequacy are specified further in note 2.

Nykredit Bank Group		
Required own funds and capital adequacy requirement		
DKK million	31.12.2016	31.12.2015
Credit risk	7,606	5,040
Market risk	750	693
Operational risk	472	371
Total Pillar I	8,828	6,105
Slightly weaker economic climate (stress tests, etc)	1,198	820
Other risks	1,192	1,800
Model and calculation uncertainties	561	436
Total Pillar II	2,951	3,056
Total required own funds	11,779	9,161
Internal capital adequacy requirement (Pillar I and Pillar II), %	10.7	12.0

Nykredit Bank Group **Total capital ratio and Common Equity Tier 1 capital ratio**



Bonds in issue totalled DKK 10.2bn against DKK 20.2bn at end-2015. The Bank's issues under the ECP and EMTN programmes are continuously adapted to the Bank's liquidity needs.

Other non-derivative financial liabilities at fair value, which include deposits relating to repo transactions, came to DKK 21.3bn against DKK 11.8bn at end-2015.

Other payables and deferred income totalled DKK 26.5bn against DKK 28.3bn at end-2015. The item mainly consisted of interest and commission payable and negative market values of derivative financial instruments. The decline of DKK 1.8bn on end-2015 mainly reflected a decline in negative market values of derivative financial instruments from DKK 24.7bn at end-2015 to DKK 23.0bn.

The Bank has called in its hybrid capital of DKK 100m. Therefore, it is no longer included in the Bank's own funds.

Capital and capital adequacy

Equity stood at DKK 16.7bn at end-2016. In 2016, equity increased by profit for the year of DKK 627m. Equity is identical in Nykredit Bank A/S and the Nykredit Bank Group, as the same recognition and measurement principles are applied.

At end-2016, Nykredit Bank's own funds totalled DKK 18.4bn. The Common Equity Tier 1 (CET1) capital is the most important capital concept in the determination of capital, as this is the type of capital required to comply with most of the regulatory capital requirements in future. The Bank's CET1 capital was DKK 16.4bn at end-2016 compared with DKK 15.7bn at end-2015.

The risk exposure amount (REA) totalled DKK 110.3bn at end-2016 compared with DKK 76.3bn at end-2015.

In Q3/2016, the Nykredit Group's REA changed in two material respects.

First, the Danish FSA approved the last of the Group's advanced IRB models and new rating models for business customers, agriculture, etc. Viewed separately, the change in Q3 meant an increase in REA of DKK 10bn-15bn in Nykredit Bank.

Second, also in Q3/2016, the notional maturity of business exposures in Nykredit Bank was changed from previously 2.5 years to their actual maturity, subject to a cap of 5 years. The change was made at the instruction of the Danish FSA and has caused a partial rise in REA of DKK 17bn.

At end-2016, the total capital ratio and the CET1 capital ratio stood at 16.6% and 14.8%, respectively, compared with 21.1% and 20.6% at end-2015.

The decline in the capital ratios stemmed from a rise in REA following the changed credit risk models. The Nykredit Group's overall capital management also includes Nykredit

Bank. Every effort is made to ensure that Nykredit Bank is adequately capitalised within the Group.

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

Nykredit Bank's required own funds totalled DKK 11.8bn at end-2016. Nykredit Bank's internal capital adequacy requirement is calculated as the required own funds as a percentage of REA. The internal capital adequacy requirement was 10.7% at end-2016 against 12.0% at end-2015.

As a result of the latest model changes and expected future regulatory requirements, the capital structure and capital level of Nykredit Bank have been adjusted. Nykredit Bank has borrowed DKK 2bn of Tier 2 capital from Nykredit Real-credit A/S in order to ensure an adequate buffer to comply with the regulatory requirements and to meet the capital target of the Board of Directors when the SIFI buffer requirement increases in 2017.

Nykredit Bank's equity will furthermore be affected by the implementation of the international financial reporting standard IFRS 9 as at 1 January 2018. IFRS 9 is expected to increase the Bank's total impairment provisions by about DKK 0.2bn-0.4bn, including the tax effect. This will reduce the Bank'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 some uncertainty.

BUSINESS AREAS

The Nykredit Bank Group's business areas are:

- Retail, which serves personal customers and SMEs (small and medium-sized enterprises) and also comprises the subsidiary Nykredit Leasing A/S.
- Wholesale Clients (previously Wholesale), which comprises the business units Corporate & Institutional Banking and Nykredit Markets.
- Wealth Management, which comprises Private Banking Elite (clients with investable assets in excess of DKK 7m) and Nykredit Asset Management as well as the subsidiary Nykredit Portefølje Administration A/S.
- Group Items, which comprises the Treasury area, other income and costs not allocated to the business areas as well as core income from securities and investment portfolio income.

Adjustment of business areas in 2016

Compared with the presentation in 2015, the business unit Wholesale has been divided into two new business areas: Wholesale Clients and Wealth Management.

In that connection, Nykredit Portefølje Administration A/S's activities, Nykredit Asset Management and the client segment Private Banking Elite have been transferred from the former business area Wholesale to the new business area Wealth Management.

Adjustment of income statement format in 2016

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 legacy derivatives.

In Q4/2016, the presentation of certain non-core business derivatives was altered to legacy derivatives, which changed the recognition in the income statement of these and core income from business operations.

Comparative figures have been restated accordingly.

Earnings

Gross income from customer business is generally allocated to the business areas which have supplied the individual products, which include Corporate & Institutional Banking, Nykredit Leasing A/S, Nykredit Markets, Nykredit Asset Management and Private Banking Elite. With the exception of Private Banking Elite, 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.

NYKREDIT BANK GROUP RESULTS BY BUSINESS AREA										
	Retail		Wholesale Clients		Wealth Management		Group Items		Total	
DKK million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Core income from										
- customer activities, gross	960	1,106	1,366	1,566	1,007	857	97	11	3,428	3,541
- payment for distribution	569	547	(242)	(223)	(327)	(324)	0	0	0	0
Total business operations	1,529	1,653	1,124	1,343	680	533	97	11	3,428	3,541
Core income from securities	0	0	0	0	0	0	8	8	8	8
Income from core business	1,529	1,653	1,124	1,343	680	533	105	19	3,436	3,549
Operating costs and depreciation of equipment	1,055	956	509	526	399	321	74	49	2,037	1,852
Expenses for guarantee and resolution schemes	22	74	1	3	0	1	0	(15)	23	63
Profit (loss) from core business before impairment losses	452	624	614	814	281	211	30	(15)	1,376	1,634
Impairment losses on loans and advances	42	55	(191)	(176)	15	0	(6)	0	(141)	(121)
Profit (loss) from core business	410	569	805	991	266	211	36	(15)	1,517	1,755
Legacy derivatives	(233)	112	(530)	118	0	(1)	0	0	(763)	229
Goodwill impairment	-	9							-	9
Investment portfolio income	0	0	0	0	0	0	34	35	34	35
Profit before tax	177	672	275	1,108	266	210	70	20	788	2,010
Operating costs and depreciation of equipment as % of core income from business operations	69.0	57.8	45.3	39.1	58.6	60.3			59.4	52.3

Results – Retail		
DKK million	2016	2015
Core income from		
- customer activities, gross	960	1,106
- payment for distribution	569	547
Total business operations	1,529	1,653
Operating costs and depreciation of equipment	1,055	956
Expenses for guarantee and resolution schemes	22	74
Profit from core business before impairment losses	452	624
Impairment losses on loans and advances	42	55
Profit from core business	410	569
Legacy derivatives	(233)	112
Goodwill impairment	-	9
Profit before tax	177	672
Principal balance sheet items		
DKK million	2016	2015
Assets		
Loans and advances at amortised cost	30,079	27,054
- of which personal customers	11,952	12,077
- of which SMEs	18,127	14,977
Impairment losses on loans and advances	1,715	1,784
Impairment provisions as % of loans and advances	5.4	6.2
Payables		
Deposits and other payables	43,037	40,799
- of which personal customers	25,760	23,781
- of which SMEs	17,277	17,018
Off-balance sheet items		
Guarantees	15,264	12,997

RETAIL

Retail consists of the business units Retail Personal Banking and Retail Business Banking and provides banking services to personal customers and SMEs, including agricultural customers, residential rental customers and Private Banking Retail's wealth clients. Retail also includes the subsidiary Nykredit Leasing A/S.

Nykredit serves its customers through 43 local customer centres, of which 18 serve business customers, and the sales and advisory call centre Nykredit Direkte®. Nykredit offers insurance in partnership with Gjensidige Forsikring.

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

Strategy

Nykredit has built a regional structure with few, but strong regions and focus on full-service customers. Therefore, we are constantly working to improve and customise our customer propositions, strengthen our advisory services and optimise processes as part of our Winning the Double strategy.

We aim to offer our customers an enduring relationship based on trust. Thus, we want higher satisfaction among full-service homeowner and business customers as well as to grow the number and proportion of full-service customers.

2016 in brief

Retail Personal Banking

In 2016 Retail Personal Banking continued to improve Nykredit's homeowner banking programme, BoligBank, 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.

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.

Retail Business Banking

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.

Results from core business

Retail posted a profit from core business of DKK 410m against DKK 569m in 2015, and a profit before tax of DKK 177m compared with DKK 672m in 2015.

Gross income

The area's gross income totalled DKK 960m against DKK 1,106m in 2015. Moreover, Retail received DKK 569m as total payment for distribution from the other business areas.

Results for the year

Core income from business operations decreased from DKK 1,653m in 2015 to DKK 1,529m in 2016.

Operating costs and depreciation of equipment rose by DKK 99m to DKK 1,055m.

Costs as a percentage of core income from business operations totalled 69.0% against 57.8% in 2015.

Impairment losses were DKK 42m against DKK 55m in 2015. Impairments relating to business customers were a gain of DKK 34m against a gain of DKK 13m in 2015, while impairment losses relating to personal customers rose by DKK 8m to DKK 76m.

Impairment losses equalled 0.1% of loans and advances against 0.2% in 2015.

Legacy derivatives accounted for a loss of DKK 233m against a gain of DKK 112m in 2015, which represented an adverse movement of DKK 345m. In both years, the value adjustment resulted from business customers, including housing cooperatives, and resulted partly from the FVA implementation.

Lending and deposits

Retail lending increased to DKK 30.1bn from DKK 27.1bn at end-2015, whereas deposits rose to DKK 43.0bn from DKK 40.8bn at end-2015.

Subsidiaries

Nykredit Leasing A/S

The company handles the leasing activities of the Nykredit Group.

2016 in brief

In 2016 focus was on Group customers and on growing the number of and building deeper relationships with business customers. Nykredit Leasing launched the Nykredit Flexleasing programme, mainly aimed at Private Banking clients, and VIP car loans for Boligbank 360 and 365 customers. Customers' ability to pay was generally high, and losses/provisions were low. Thanks to close collaboration with other Nykredit units and dealers as well as a strong customer focus, Nykredit Leasing managed to increase lending by 12%, despite increased competition.

Nykredit Leasing recorded a profit before tax of DKK 87m compared with DKK 74m in 2015. Profit after tax was DKK 71m against DKK 66m in 2015.

The higher profit mainly reflected growth in net financial income, up DKK 14m to DKK 118m, driven partly by a higher activity level. Financial assets grew by just over DKK 0.6bn, or 12.8%, to DKK 5.3bn. The loan portfolio comprised finance leases for properties totalling DKK 209m at year-end.

Staff costs were up 11.5% to DKK 37m, while impairment losses rose by DKK 2m to DKK 17m.

Equity stood at DKK 593m at end-2016.

Results – Wholesale Clients		
DKK million	2016	2015
Core income from		
- customer activities, gross	1,366	1,566
- payment for distribution	(242)	(223)
Total business operations	1,124	1,343
Operating costs and depreciation of equipment	509	526
Expenses for guarantee and resolution schemes	1	3
Profit from core business before impairment losses	614	814
Impairment losses on loans and advances	(191)	(176)
Profit from core business	805	991
Legacy derivatives	(530)	118
Profit before tax	275	1,108

Principal balance sheet items		
DKK million	2016	2015
Assets		
Loans and advances at amortised cost	21,554	17,762
Impairment losses on loans and advances	805	1,011
Impairment provisions as % of loans and advances	3.6	5.4
Payables		
Deposits and other payables	12,207	13,700
Off-balance sheet items		
Guarantees	6,048	6,293

WHOLESALE CLIENTS

Wholesale Clients comprises activities with Nykredit's corporate and institutional clients, the public housing segment and large housing cooperatives. Wholesale Clients also handles Nykredit's activities within securities and financial derivatives trading. Wholesale Clients consists of the business units Corporate & Institutional Banking and Nykredit Markets. Corporate & Institutional Banking also comprises a portfolio of large non-continuing exposures.

Strategy

Nykredit's business strategy in this area is to provide clients with added value through broad financial advisory services and deep client insight.

Based on our specialist skills in Corporate & Institutional Banking and Nykredit Markets, which is the Group's trading platform and one of the leading Danish market participants within bond issuance and bond trading, we strive to ensure a better and more unified experience whenever we are in contact with our clients.

2016 in brief

Corporate & Institutional Banking

Corporate & Institutional Banking saw a lower activity level in 2016 than in the same period last year, but also 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.

Nykredit Markets

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.

Results from core business

Profit from core business was DKK 805m compared with DKK 991m in 2015. This decline mainly resulted from a downturn of DKK 220m in core income from business operations, which partly should be seen in the context of the high earnings level of Nykredit Markets in 2015 and the one-off income of DKK 35m in Corporate & Institutional Banking.

Gross income

The area's gross income totalled DKK 1,366m against DKK 1,566m in 2015. Of this amount, gross income from Nykredit Markets was DKK 727m, down DKK 54m on 2015, and gross income from Corporate & Institutional Banking accounted for a decline of DKK 145m from DKK 785m to DKK 640m. Total payment for distribution to Retail came to DKK 242m, equal

to 17.7% of gross income, which will be reallocated to the other business areas.

Results for the year

The business area's core income from business operations totalled DKK 1,124m, equal to a drop of DKK 219m on end-2015. This was mainly a result of an income decline of DKK 80m in Nykredit Markets and DKK 139m in Corporate & Institutional Banking compared with 2015.

Operating costs and depreciation of equipment were down by DKK 17m to DKK 509m compared with 2015.

Operating costs and depreciation of equipment as a percentage of core income from business operations were 45.3% compared with 39.1% in 2015. The rise in the cost:income ratio was prompted by declining income.

Impairment losses on loans and advances equalled a gain of DKK 191m against a gain of DKK 176m in 2015. The gain in 2016 comprised DKK 82m relating to Corporate & Institutional Banking and DKK 109m relating to non-continuing exposures in the business unit Other Activities.

Impairment losses were negative 0.8% of loans and advances against negative 0.3% in 2015.

Legacy derivatives accounted for a loss of DKK 530m in 2016, which represented a decline of DKK 648m compared with 2015, when value adjustment was a gain of DKK 118m.

Lending and deposits

Lending amounted to DKK 21.6bn compared with DKK 17.8bn at end-2015.

Deposits came to DKK 12.2bn against DKK 13.7bn at end-2015.

Results – Wealth Management		
DKK million	2016	2015
Core income from		
- customer activities, gross	1,007	857
- payment for distribution	(327)	(324)
Total business operations	680	533
Operating costs and depreciation of equipment	399	321
Expenses for guarantee and resolution schemes	0	1
Profit from core business before impairment losses	281	211
Impairment losses on loans and advances	14	0
Profit from core business	266	211
Value adjustment of interest rate swaps	0	(1)
Profit before tax	266	210

Principal balance sheet items		
DKK million	2016	2015
Assets		
Loans and advances at amortised cost	2,603	1,922
Impairment losses on loans and advances	17	4
Impairment provisions as % of loans and advances	0.6	0.2
Payables		
Deposits and other payables	9,522	7,827
Off-balance sheet items		
Guarantees	931	650

Assets under management and administration and investment funds		
DKK million	2016	2015
Managed by Nykredit	138,990	125,014
Insourced mandates	18,066	18,798
Total assets under management	157,056	143,812
Assets under administration, Nykredit Portefølje Administration A/S	786,549	700,372
Of which Nykredit Group investment funds	74,648	66,394

WEALTH MANAGEMENT

The business area Wealth Management handles Nykredit's asset and wealth management activities. Wealth Management comprises the business units Nykredit Asset Management, Nykredit Portefølje Administration A/S and Private Banking Elite. Nykredit's asset management and portfolio administration services are undertaken by Nykredit Asset Management and Nykredit Portefølje Administration A/S, 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

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.

Assets under administration grew by DKK 86.2bn to DKK 786.5bn at end-2016. The increase comprised net growth of DKK 29.3bn and price gains of DKK 56.9bn.

Nykredit Asset Management

In 2016, Nykredit Asset Management was affected by 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.

Private Banking Elite

Private Banking Elite achieved satisfactory client growth in 2016, both in terms of new clients and advancement of existing client relationships. Assets under administration also recorded satisfactory net growth in the period.

Generally in 2016, Private Banking Elite focused successfully on advancing existing client relationships with Private Banking Elite potential.

Results from core business

Profit from core business was DKK 266m compared with DKK 211m in 2015, while profit before tax was also DKK 266m against DKK 210m in 2015, corresponding to a DKK 56m increase that was primarily attributable to a rise in core income owing to increasing customer activities.

Gross income

The area's gross income totalled DKK 1,007m against DKK 857m in 2015. Total payment for distribution to Retail was at DKK 327m, equal to 32.5% of gross income, which will be reallocated to the other business areas.

Results for the year

The business area's core income from business operations totalled DKK 680m, up DKK 147m on end-2015, which was mainly a result of an earnings increase in Private Banking Elite and Nykredit Asset Management.

Operating costs amounted to DKK 399m, equal to an increase of DKK 78m on end-2015, partly as a result of the investments made in this business area.

Operating costs and depreciation of equipment as a percentage of core income from business operations were 58.6% compared with 60.3% in 2015. The decline in the cost:income ratio was a result of the Bank's expansion of the Wealth Management area, which prompted a rise in core income.

Impairment losses on loans and advances amounted to DKK 14m and were attributable to Private Banking Elite.

Impairment losses equalled 0.4% of loans and advances against 0.0% in 2015.

Lending and deposits

Lending amounted to DKK 2.6bn compared with DKK 1.9bn at end-2015.

Deposits came to DKK 9.5bn against DKK 7.8bn at end-2015.

Subsidiaries

Nykredit Portefølje Administration A/S

Nykredit Portefølje Administration A/S handles the Nykredit Group's fund administration activities. The company is a licensed investment management company and alternative investment fund manager.

Business areas comprise administration of Danish UCITS funds and management of alternative investment funds.

Moreover, the company may perform discretionary portfolio management or related tasks in Denmark and offer services as a management company in Luxembourg.

High activity in 2016

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

IT investments and continued efforts to improve services to the managed investment funds resulted in a continued high activity level in 2016. These measures are also expected to contribute positively to the company's fee income and results for the coming years.

Income statement

Net interest and fee income for the year was DKK 314m against DKK 290m in 2015.

Total expenses amounted to DKK 178m in 2016 compared with DKK 172m in 2015.

Profit before tax for the year was DKK 136m against DKK 111m in 2015. Net profit after tax in 2016 grew to DKK 106m from DKK 85m in 2015.

In 2016 the company's net interest and fee income was up 8.5% on 2015. Growth in fee income exceeded expectations, delivered by rising assets under administration and new services. Net interest and capital gains were still affected by the low interest rate level in 2016. In 2016 costs were affected by higher licence costs as a result of increased sales.

Profit for the year was in line with expectations at the beginning of 2016.

Balance sheet, capital adequacy and capital base

The company's balance sheet totalled DKK 659m against DKK 518m at end-2015. Equity rose from DKK 482m at the beginning of the year to DKK 589m at 31 December 2016. The rise corresponds to profit for the year less provisions for tax.

In 2016 the majority of the company's assets were placed in short-dated Danish covered bonds and as bank deposits in accordance with the company's policy to limit credit and interest rate exposures. At end-2016, investments in Danish covered bonds and receivables from credit institutions were DKK 578m, equal to 87.6% of the company's assets. At end-2015, the company had no interest-bearing debt.

Required own funds were DKK 299m at end-2016.

Results – Group Items		
DKK million	2016	2015
Core income from		
- customer activities, gross	97	11
- payment for distribution	0	0
Total business operations	97	11
Core income from securities	8	8
Income from core business	105	19
Operating costs and depreciation of equipment	74	49
Expenses for guarantee and resolution schemes	0	(15)
Profit (loss) from core business before impairment losses	30	(15)
Impairment losses on loans and advances	(6)	-
Investment portfolio income	34	35
Profit before tax	70	20

Principal balance sheet items		
DKK million	2016	2015
Assets		
Loans and advances at amortised cost	767	8
Impairment losses on loans and advances (excluding banks)	-	53
Impairment provisions as % of loans and advances	2.9	86.9
Payables		
Deposits and other payables	1,497	432
Off-balance sheet items		
Guarantees	285	805

GROUP ITEMS

Group Items includes the results of the Bank's Treasury, which forms part of Nykredit's Group Treasury, core income from securities and investment portfolio income as well as other income and expenses not allocated to the business units.

The Group recorded a profit from core business of DKK 30m compared with a loss of DKK 15m in 2015 and a profit before tax of DKK 70m against DKK 20m in 2015. Treasury activities contributed a profit of DKK 75m compared with DKK 10m in 2015.

Core income was DKK 97m in 2016, while operating costs and depreciation of equipment amounted to DKK 74m compared with DKK 49m in 2015.

Core income from securities and investment portfolio income totalled a profit of DKK 42m against DKK 43m in 2015.

IMPAIRMENT AND LENDING

Earnings impact

Impairments were a gain of DKK 141m in 2016 compared with a gain of DKK 121m in 2015.

Of the total gain of DKK 141m, the change in individual impairment provisions came to a gain of DKK 76m, while collective impairment provisions were a gain of DKK 10m. Recoveries on loans and advances previously written off totalled DKK 92m, while write-offs of loans, advances and guarantees not previously impaired came to DKK 37m.

Provisions for guarantees were a gain of DKK 48m in 2016 against a gain of DKK 7m in 2015.

Retail impairment losses reduced by DKK 13m to DKK 42m. The improvement was attributable to impairment losses on lending to business customers, which declined by DKK 21m from a gain of DKK 13m in 2015 to a gain of DKK 34m, and impairment losses on lending to personal customers, which rose by DKK 8m to DKK 76m.

Impairments in Wholesale Clients were a gain of DKK 191m against a gain of DKK 176m in 2015. The impairment charge for Corporate & Institutional Banking reduced by DKK 31m to a gain of DKK 82m.

Impairments in Wealth Management were DKK 14m in 2016.

For further specification of the Bank's impairment losses and credit risks, please refer to notes 13 and 42.

Provisions for loan impairment and guarantees at 31 December 2016

Total provisions decreased by 11% from DKK 2,875m at 31 December 2015 to DKK 2,560m at 31 December 2016. Individual impairment provisions reduced by DKK 305m and collective impairment provisions by DKK 10m. Of the DKK 305m decline in individual impairment provisions, DKK 277m was write-offs.

In addition, value adjustment of interest rate swaps of DKK 5.0bn were made, of which credit value adjustment of interest rate swaps amounted to DKK 4.2bn, of which DKK 3.3bn related to legacy derivatives and DKK 0.9bn related to other. Consequently, provisions totalled DKK 7.6bn at end-2016.

Impairment provisions in Retail fell from DKK 1,784m at end-2015 to DKK 1,715m due to an increase of DKK 77m in impairment provisions for personal customers and a decline of DKK 145m in impairment provisions for SMEs.

Impairment provisions for Wholesale Clients and Wealth Management reduced by DKK 193m from DKK 1,015m at end-2015 to DKK 822m, of which the portfolio of non-continuing exposures accounted for a decline of DKK 121m from DKK 334m to DKK 213m. Other business units remained unchanged compared with end-2015.

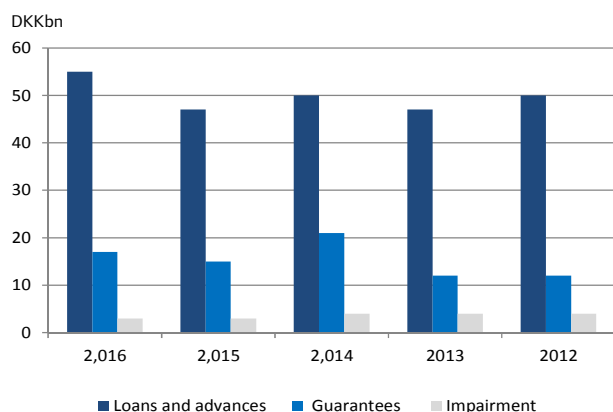
Total non-continuing exposures were fairly unchanged at DKK 0.3bn at 31 December 2016 (carrying amounts after impairments).

Provisions for guarantees amounted to DKK 51m against DKK 99m at end-2015.

PROVISIONS FOR LOAN IMPAIRMENT AND GUARANTEES – NYKREDIT BANK GROUP

DKK million	Retail		Wholesale Clients		Wealth Management		Group Items		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Impairment provisions, beginning of year	1,784	1,978	1,011	1,522	4	4	76	77	2,875	3,581
Impairment provisions and reversals	(69)	(194)	(206)	(511)	13	0	(53)	(1)	(315)	(706)
Impairment provisions, year-end	1,715	1,784	805	1,011	17	4	23	76	2,560	2,875
Of which individual	1,628	1,696	762	959	16	3	0	53	2,406	2,711
Of which individual, banks	0	0	0	0	0	0	23	23	23	23
Of which collective	87	88	43	52	1	1	0	0	131	141
Provisions for guarantees										
Provisions, beginning of year	44	51	55	55	0	0	0	0	99	106
Provisions, year-end	42	44	9	55	0	0	0	0	51	99
Total provisions for loan impairment and guarantees	1,757	1,828	814	1,066	17	4	23	76	2,611	2,974
Earnings impact										
New impairment provisions and losses for the year, net	120	84	(129)	(142)	14	0	(6)	0	(1)	(58)
Recoveries on loans and advances previously written off	72	25	20	31	0	0	0	0	92	56
Total	48	59	(149)	(173)	14	0	(6)	0	(93)	(114)
Provisions for guarantees	(6)	(4)	(42)	(3)	0	0	0	0	(48)	(7)
Total earnings impact	42	55	(191)	(176)	14	0	(6)	0	(141)	(121)

Loans, advances, guarantees and impairment



The accounts overdrawn/in arrears for which no impairment provisions had been made were very limited, equal to 0.5% of total lending at amortised cost against 0.4% at end-2015. These accounts generally concerned a large number of accounts with fairly small overdrafts for which provisioning was not deemed necessary.

Loans, advances and guarantees by sector

The carrying amount of the Group's loans, advances and guarantees totalled DKK 102.2bn against DKK 101.4bn at end-2015, up DKK 0.9bn.

This figure comprised a decline in reverse repurchase lending of DKK 9.4bn, a rise in other loans and advances of DKK 8.3bn and a rise in guarantees of DKK 2.0bn. Reverse repurchase lending totalled DKK 30.1bn at 31 December 2016 compared with DKK 39.5bn at end-2015.

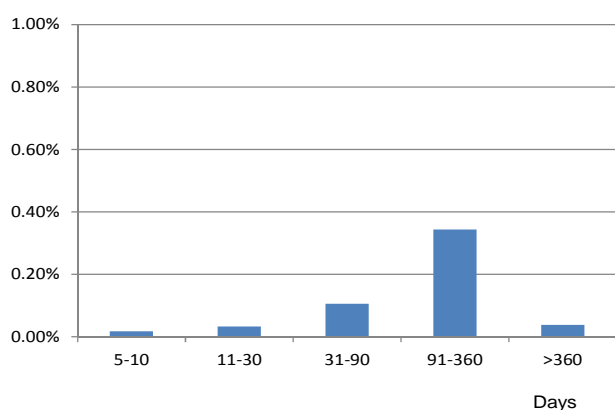
Finance and insurance still accounted for the largest single sector exposure at DKK 34.7bn against DKK 45.4bn at end-2015. The exposure widely comprised reverse repurchase lending with bonds serving as security, and the DKK 10.7bn fall was thus notably an effect of the decrease in reverse repurchase lending of DKK 9.4bn.

Finance and insurance accounted for 34.0% against 44.8% at end-2015, the real estate sector 11.3% against 10.3% at end-2015 and personal customers 21.7% against 19.8% at 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", which was a DKK 0.5bn increase on end-2015.

At 31 December 2016, loan impairment provisions for the real estate sector totalled DKK 1.2bn compared with DKK 1.4bn at end-2015, or 7.3% of total loans and advances to the sector. At end-2015 the percentage was 9.8%.

Accounts overdrawn/in arrears not subject to individual provisioning



Relative to total loans, advances and guarantees, provisions amounted to 2.5% compared with 2.8% at end-2015. Excluding guarantees, the ratio was 2.9% compared with 3.2% at end-2015. The carrying amount of non-accrual loans was DKK 0.2bn against DKK 0.6bn in 2015.

LOANS, ADVANCES AND GUARANTEES BY SECTOR

DKK million	Loans, advances and guarantees		Provisions	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Public sector	597	296	0	0
Agriculture, hunting, forestry and fishing	2,660	2,384	95	102
Manufacturing, mining and quarrying	6,290	4,733	185	225
Energy supply	2,252	936	3	3
Construction	3,177	2,234	206	232
Trade	3,843	2,946	57	88
Transport, accommodation and food service activities	3,101	3,444	113	104
Information and communication	1,551	999	18	17
Finance and insurance	34,749	45,416	119	224
Real estate	11,589	10,431	950	1,140
Other	10,274	7,481	223	231
Total business customers	79,486	81,004	1,969	2,366
Personal customers	22,163	20,094	621	586
Total	102,246	101,394	2,590	2,952
Total, incl impairment provisions for banks	-	-	2,613	2,975

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

FSA Supervisory Diamond		
%	2016	2015
Lending growth (limit value <20%)	17.9	(7.5)
Large exposures (limit value <125%)	0.0	11.1
Property exposure (limit value <25%)	12.6	11.4
Funding ratio (limit value <1.0%)	0.6	0.5
Excess liquidity coverage (limit value 50%)	264.7	346.5

FSA Supervisory Diamond for banks

The Supervisory Diamond sets out benchmarks for five key ratios that indicate when a bank is operating at an elevated risk.

Nykredit Bank's key ratios were below the maximum limit values of the Danish FSA throughout 2016 and at 31 December 2016.

Nykredit Bank recorded lending growth of 17.9%, 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 1.5% on end-2015.

The Bank's property exposure was 12.6% against 11.4% at end-2015.

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.

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 policies

Nomination Board

- Recommends candidates for the Committee of Representatives, Board of Directors and the Executive Board
- Prepares decisions on the skill set of the Board of Directors and Executive Board

Risk Board

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

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

Nykredit Bank Group

Organisation and responsibilities

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

Nykredit Bank follows the corporate social responsibility policy of the Nykredit Group. 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.

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.

ORGANISATION AND RESPONSIBILITIES

The Board of Directors of Nykredit Bank A/S counts eight members, of which five are members of the Executive Board of Nykredit Realkredit A/S and three are elected by the staff.

The Board of Directors of Nykredit Bank A/S is responsible for defining limits to and monitoring the Bank's risks as well as laying down overall instructions. The Board of Directors has assigned the day-to-day responsibility to the Executive Board which is in charge of operationalising overall instruc-

tions. Risk exposures and activities are reported to the Board of Directors on a current basis.

In Nykredit, risk management is coordinated on a Group-wide basis.

Overall risk management has been delegated to a number of committees monitoring and assessing the business development and risks of the Bank and other Group companies.

Board committees

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

The boards serve all the companies of Nykredit that are required to appoint such boards.

Audit Board

Generally, the Nykredit Group Audit Board only reviews audit and accounting matters in Nykredit Realkredit A/S and Nykredit Holding A/S. However, these matters are generally also of importance to the presentation of Nykredit Bank's Financial Statements.

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

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

Per W. Hallgren, Chief Executive Officer, has been appointed Chairman of the Audit Board in respect of the Annual Report 2017.

The Audit Board held four meetings in 2016.

Remuneration Board

The principal tasks of the Remuneration Board are to qualify proposals for remuneration prior to consideration by the Board of Directors and to make recommendations in respect of Nykredit's remuneration policy, including guidelines on incentive pay, for the approval of the Board of Directors. Moreover, the Remuneration Board makes proposals for remuneration of the Board of Directors and the Group Execu-

tive 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 all companies of the Nykredit Group.

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. Per W. Hallgren joins as member of the Risk Board for the financial year 2017.

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 mem-

bers 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, Wholesale Clients and Wealth Management 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

Nykredit Bank complies with the Nykredit Group's gender equality policy and objectives.

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 com

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

panies, 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.

CORPORATE GOVERNANCE

Nykredit Bank complies with the Nykredit Group's gender equality policy and objectives. Information on Nykredit's organisation and corporate governance is available at nykredit.com/corporategovernanceuk.

REMUNERATION

Material risk takers

At end-2016, the Nykredit Bank Group had identified a total of 175 risk takers in addition to the members of the Bank's Executive Board and Board of Directors, who are risk takers exclusively by virtue of their directorships and executive positions, the same level as in 2015. Of the 175 risk takers, 23 are on the payroll of Nykredit Bank, 11 are on the payroll of the Bank's subsidiaries, and 141 are on the payroll of Nykredit Realkredit A/S. The latter staff group performs tasks across the Group companies.

Material risk takers are identified in compliance with EU regulation in this area.

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.

The 2016 bonus provisions in respect of the Bank's Executive Board and other risk takers amounted to DKK 18m compared with bonus provisions of DKK 15m for 2015. The 2016 bonus provisions corresponded to 33% of their fixed salaries.

The total remuneration of risk-takers subject to variable remuneration appears from note 11 of these Financial Statements.

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

Bonus programmes

A general bonus programme applies to Nykredit's top executives who report directly to the Group Executive Board. The Bank's Executive Board participates in this bonus programme. The programme is discretionary, which means that executives are not guaranteed a bonus. The bonus limit applying to a managing director is fixed individually, but is subject to a maximum of six months' salary. Of the bonus amount, the payout of at least 40% is deferred over four years, and a minimum of 50% of the bonus is paid out as remuneration bonds.

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 based on their job performance. The 2016 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 62m compared with bonus provisions of DKK 53m for 2015. The 2016 bonus provisions corresponded to 49% of their fixed salaries.

In addition, a limited number of individual bonus programmes apply to selected staff responsible for corporate and institutional clients. The 2016 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 9m 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 amounted to DKK 2m, the same as in 2015.

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 3m were made for performance awards compared with performance awards of DKK 2m for 2015. The performance award provisions for 2016 corresponded to 0.8% of the total salaries of these staff members.

The allocation for bonuses and performance awards for 2016 amounted to DKK 93m compared with total provisions of DKK 78m for 2015. The total provisions for bonuses and performance awards for 2016 corresponded to 15% of total fixed salaries.

The rise in bonus payments from 2015 to 2016 was mainly prompted by growth during the same period in the business areas to which special bonus programmes apply.

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 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/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 risks are mitigated by observing Executive Board policies and guidelines 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, 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.

The Financial Statements are subject to coherence checks, and measurement and presentation principles etc are assessed against the IAS/IFRS and other 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.

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.

NYKREDIT BANK A/S

Nykredit Bank A/S is wholly owned by Nykredit Realkredit A/S. Nykredit Bank has been included in that company's consolidated financial statements and in the consolidated financial statements of Foreningen Nykredit, Copenhagen, which owns 89.80% of Nykredit Realkredit A/S.

Nykredit Bank A/S applies the same recognition and measurement principles as those applied in the Nykredit Bank Group's Financial Statements, and results for the year and equity are consequently identical in both entities' financial statements.

Since the vast majority of the activities of the Nykredit Bank Group are conducted through the Parent, Nykredit Bank A/S, the financial development has been affected by the same factors as described in the Management Commentary of the Nykredit Bank Group.

Nykredit Bank A/S Summary income statement

DKK million	2016	2015
Net interest and fee income	2,163	2,452
Value adjustments	85	951
Other operating income	1	1
Operating expenses	1,842	1,716
Impairment losses on loans, advances and receivables	(158)	(136)
Profit from investments in associates and Group enterprises	177	151
Profit before tax	742	1,975
Tax	115	433
Profit for the year	627	1,542

Nykredit Bank A/S Principal balance sheet items

DKK million	2016	2015
Receivables from credit institutions	35,723	13,425
Loans, advances and receivables	83,572	84,812
Bonds and equities	42,025	39,984
Remaining assets	32,657	35,311
Total assets	193,977	173,532
Payables to credit institutions	51,066	34,417
Deposits and other payables	66,317	62,834
Bonds in issue at amortised cost	10,158	20,150
Other non-derivative financial instruments at fair value	21,348	11,776
Remaining payables and provisions	26,344	28,138
Tier 2 capital	2,000	-
Subordinated debt	0	100
Equity	16,744	16,117
Total liabilities and equity	193,977	173,532

Nykredit Bank A/S Financial ratios

%	2016	2015
Total capital ratio, %	16.0	20.1
Common Equity Tier 1 capital ratio, %	14.3	19.6
Return on equity before tax	4.5	13.8
Return on equity after tax	3.8	10.7
Number of staff, full-time equivalents (avg)	641	606

Income statement

Nykredit Bank A/S recorded a profit of DKK 627m for 2016, down DKK 915m from a profit of DKK 1,542m in 2015.

Income dropped by DKK 1,155m from DKK 3,404m in 2015 to DKK 2,249m in 2016.

Net interest and fee income saw a downturn of DKK 289m, while total value adjustments and other operating income dropped by DKK 866m.

Costs rose from DKK 1,716m in 2015 to DKK 1,842m in 2016 as a result of higher staff and administrative expenses. Reference is also made to "Operating costs, depreciation and amortisation" of this report.

Impairment losses on loans and advances came to a gain of DKK 158m in 2016 against a gain of DKK 136m in 2015.

Profit from equity investments came to a gain of DKK 177m compared with DKK 151m in 2015. Nykredit Portefølje Administration contributed DKK 106m and Nykredit Leasing DKK 71m.

Principal balance sheet items

The balance sheet total increased from DKK 173.5bn at end-2015 to DKK 194.0bn.

Cash balances and receivables from credit institutions rose from DKK 13.4bn to DKK 35.7bn.

Loans and advances at fair value dropped by DKK 9.4bn, whereas other loans and advances at amortised cost grew by DKK 8.1bn as a result of higher lending in Retail, Wholesale Clients and Wealth Management.

Bonds and equities amounted to DKK 42.0bn against DKK 40.0bn at end-2015. As for the entire Group, the size of the portfolios reflects the Bank's markets and repo activities and surplus liquidity, of which a substantial part is placed in bonds.

Payables to credit institutions and central banks stood at DKK 51.0bn against DKK 34.4bn at end-2015. The development in balances with credit institutions and bonds in issue especially reflected the Bank's ordinary liquidity management. Deposits and other payables went up from DKK 62.8bn to DKK 66.3bn.

Equity

Equity increased by profit for the year of DKK 0.6bn to DKK 16.7bn.

Total capital ratio

The total capital ratio fell from 20.1% in 2015 to 16.0%.

Dividend

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

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 Bank A/S and the Nykredit Bank Group.

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 for Nykredit Bank A/S 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.

Further, 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

Henrik Rasmussen

Dan Sørensen

Board of Directors

Michael Rasmussen, Chairman

Søren Holm, Deputy Chairman

Kent Ankersen*

Kim Duus

Flemming Ellegaard*

David Hellemann

Anders Jensen

Allan Kristiansen*

* Staff-elected member

INTERNAL AUDITORS' REPORT

Opinion

In our opinion, the Consolidated Financial Statements and the Financial Statements of Nykredit Bank 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.

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

Basis for opinion

We have audited the Consolidated Financial Statements and the Financial Statements of Nykredit Bank 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 shareholder of Nykredit Bank A/S

Opinion

We have audited the Consolidated Financial Statements and the Financial Statements of Nykredit Bank 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>Loan impairment losses</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 85,094m at 31 December 2016, and impairment losses thereon represent an income of DKK 141m 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 42.</p> <p>In 2016, loans and advances to cooperative housing associations required special audit attention due to 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"> • Assessment of whether loans and advances are impaired • Valuation of security which forms part of the determination of impairment losses • Management estimates. 	<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"> • Challenging the procedures and methodologies applied for the areas involving the highest level of management judgement by using our industry knowledge and experience • Assessing the changes in the assumptions for the areas requiring the highest level of management judgement against sector trends and historical observations • 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 cooperative housing associations • Challenging management estimates with special focus on management consistency and bias, including documentation of the adequacy of management estimates related to cooperative housing associations.

Key audit matters	How the matters were addressed in our audit
<p>Fair value of swaps</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 25,608m for positive fair values and DKK 21,612m for 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 39 and 42.</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"> • Assessment of customers' ability to pay • Practice for methodologies applied in the valuation of swaps. 	<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"> • Assessing the model applied to calculate the risk of customers' non-payment by using our industry knowledge and experience • Assessing the changes in the assumptions against sector trends and historical observations • Performing a risk-based test of valuation of swaps with customers.

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 Bank A/S				Nykredit Bank Group	
2015	2016		Note	2016	2015
INCOME STATEMENT					
2,259	1,642	Interest income	5	1,778	2,386
(132)	(176)	Negative interest, income	5a	(176)	(132)
(137)	(211)	Negative interest, expenses	5a	(211)	(137)
502	314	Interest expenses	6	315	503
1,762	1,363	Net interest income		1,498	1,888
4	11	Dividend on equities	7	11	4
1,171	1,298	Fee and commission income	8	1,679	1,455
485	509	Fee and commission expenses	9	593	505
2,452	2,163	Net interest and fee income		2,595	2,842
951	85	Value adjustments	10	84	945
1	1	Other operating income		28	25
1,629	1,785	Staff and administrative expenses	11	2,000	1,832
26	16	Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	12	16	26
61	41	Other operating expenses		44	65
(136)	(158)	Impairment losses on loans, advances and receivables	13	(141)	(121)
151	177	Profit from investments in associates and Group enterprises	14	-	-
1,975	742	Profit before tax		788	2,010
433	115	Tax	15	161	468
1,542	627	Profit for the year		627	1,542
Proposal for the distribution of profit					
151	177	Statutory reserves		-	-
1,391	450	Retained earnings		627	1,542
1,542	627	Profit for the year		627	1,542
Comprehensive income					
1,542	627	Profit for the year		627	1,542
-	-	Other additions and disposals		-	-
-	-	Other comprehensive income		-	-
1,542	627	Comprehensive income for the year		627	1,542

BALANCE SHEETS

DKK million

Nykredit Bank A/S				Nykredit Bank Group	
2015	2016		Note	2016	2015
ASSETS					
2,744	1,980	Cash balances and demand deposits with central banks	17	1,980	2,744
10,681	33,743	Receivables from credit institutions and central banks	18	33,743	10,681
39,467	30,091	Loans, advances and other receivables at fair value	19	30,091	39,467
45,345	53,481	Loans, advances and other receivables at amortised cost	20	55,003	46,747
39,624	41,768	Bonds at fair value	21	42,318	40,051
360	257	Equities	22	258	361
1,004	1,181	Investments in Group enterprises	23	-	-
34	22	Intangible assets	24	22	34
7	3	Other property, plant and equipment	25	3	7
-	-	Current tax assets	32	5	-
70	109	Deferred tax assets	32	110	-
31	27	Assets in temporary possession	26	27	31
34,159	31,300	Other assets	27	31,343	34,198
6	15	Prepayments		23	18
173,532	193,977	Total assets		194,926	174,339

BALANCE SHEETS

DKK million

Nykredit Bank A/S					Nykredit Bank Group	
2015	2016		Note	2016	2015	
LIABILITIES AND EQUITY						
34,417	51,066	Payables to credit institutions and central banks	28	51,606	34,957	
62,834	66,317	Deposits and other payables	29	66,263	62,758	
20,150	10,158	Bonds in issue at amortised cost	30	10,158	20,150	
11,776	21,348	Other non-derivative financial liabilities at fair value	31	21,348	11,776	
98	8	Current tax liabilities	32	15	98	
29	29	Liabilities temporarily assumed		29	29	
27,825	26,153	Other liabilities	33	26,493	28,133	
4	5	Deferred income		9	7	
157,133	175,084	Total payables		175,921	157,908	
Provisions						
-	-	Provisions for deferred tax	32	112	32	
100	52	Provisions for losses under guarantees	34	52	100	
82	97	Other provisions	34	97	82	
182	149	Total provisions		261	214	
100	2,000	Subordinated debt	35	2,000	100	
Equity						
8,045	8,045	Share capital		8,045	8,045	
Accumulated value adjustments						
-	-	- revaluation reserves		-	-	
Other reserves						
536	713	Statutory reserves		-	-	
7,536	7,986	Retained earnings		8,699	8,072	
16,117	16,744	Total equity		16,744	16,117	
173,532	193,977	Total liabilities and equity		194,926	174,339	
OFF-BALANCE SHEET ITEMS						
15,279	17,790	Contingent liabilities	36	17,152	15,180	
5,481	5,225	Other commitments	37	5,375	5,566	

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Bank A/S

	Share capital ¹	Statutory reserves	Retained earnings	Total
EQUITY, 31 DECEMBER 2016				
End of previous financial year	8,045	536	7,536	16,117
Equity, 1 January 2016	8,045	536	7,536	16,117
Comprehensive income				
Profit for the year	-	177	450	627
Total comprehensive income	-	177	450	627
Capital increase	-	-	-	-
Total changes in equity	-	177	450	627
Equity, 31 December 2016	8,045	713	7,986	16,744
EQUITY, 31 DECEMBER 2015				
End of previous financial year	6,045	385	6,145	12,575
Equity, 1 January 2015	6,045	385	6,145	12,575
Comprehensive income				
Profit for the year	-	151	1,391	1,542
Total comprehensive income	-	151	1,391	1,542
Capital increase	2,000	-	-	2,000
Total changes in equity	2,000	151	1,391	3,542
Equity, 31 December 2015	8,045	536	7,536	16,117

¹ The share capital breaks down into 19 shares in multiples of DKK 1m. The share capital is wholly owned by Nykredit Realkredit A/S, Copenhagen, Denmark. Nykredit Bank is included in the Consolidated Financial Statements of this company and the consolidated financial statements of Foreningen Nykredit, Kalvebod Brygge 1-3, Copenhagen, Denmark, which owns 89.80% of Nykredit Realkredit A/S. The financial statements [in Danish] of Foreningen Nykredit may be obtained from Foreningen Nykredit.

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Bank Group

EQUITY, 31 DECEMBER 2016			
Equity, 1 January 2016	8,045	8,072	16,117
Comprehensive income			
Profit for the year	-	627	627
Total comprehensive income	-	627	627
Capital increase	-	-	-
Total changes in equity	-	627	627
Equity, 31 December 2016	8,045	8,699	16,744
EQUITY, 31 DECEMBER 2015			
Equity, 1 January 2015	6,045	6,530	12,575
Comprehensive income			
Profit for the year	-	1,542	1,542
Total comprehensive income	-	1,542	1,542
Capital increase	2,000	-	2,000
Total changes in equity	2,000	1,542	3,542
Equity, 31 December 2015	8,045	8,072	16,117

CASH FLOW STATEMENT

DKK million

Nykredit Bank Group	2016	2015
Profit for the year	627	1,542
Adjustments		
Net interest income	(1,498)	(1,888)
Depreciation and impairment losses for property, plant and equipment	16	26
Other non-cash changes	31	(5)
Impairment losses on loans, advances and receivables	(78)	(65)
Tax calculated on profit for the year	161	465
Total	(741)	75
Change in working capital		
Loans, advances and other receivables	1,178	(197)
Deposits and other payables	3,569	(3,295)
Payables to credit institutions and central banks	16,864	(28,697)
Bonds at fair value	(2,770)	26,031
Equities	103	(19)
Other working capital	10,863	(11,419)
Total	29,807	(17,596)
Interest income received	2,206	3,561
Interest expenses paid	(786)	(1,683)
Corporation tax paid, net	(279)	(226)
Cash flows from operating activities	30,207	(15,869)
Cash flows from investing activities		
Acquisition of subsidiary	-	-
Property, plant and equipment	-	2
Total	-	2
Cash flows from financing activities		
Capital increase	-	2,000
Subordinated debt	1,900	-
Bonds in issue	(9,817)	(6,709)
Total	(7,917)	(4,709)
Total cash flows for the year	22,290	(20,576)
Cash and cash equivalents, beginning of year	13,425	33,885
Foreign currency translation adjustment of cash	8	116
Cash and cash equivalents, year-end	35,723	13,425
Cash and cash equivalents, year-end		
Specification of cash and cash equivalents, year-end:		
Cash balances and demand deposits with central banks	1,980	2,744
Receivables from credit institutions and central banks	33,743	10,681
Total	35,723	13,425

NOTES

1. Accounting policies	43	27. Other assets	72
2. Capital and capital adequacy	52	28. Payables to credit institutions and central banks	73
3. Reconciliation of internal and regulatory income statement	54	29. Deposits and other payables	73
4. Business areas	55	30. Bonds in issue at amortised cost	73
5. Interest income	57	31. Other non-derivative financial liabilities at fair value	74
5a. Negative interest	57	32. Deferred and current tax	74
6. Interest expenses	57	33. Other liabilities	75
7. Dividend on equities	58	34. Provisions	75
8. Fee and commission income	58	35. Subordinated debt	76
9. Fee and commission expenses	58	36. Contingent liabilities	76
10. Value adjustments	58	37. Other commitments	77
11. Staff and administrative expenses	58	38. Related party transactions and balances	77
12. Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	63	39. Fair value disclosures	79
13. Impairment losses on loans, advances and receivables	63	40. Derivative financial instruments	84
14. Profit from investments in associates and group enterprises	64	41. Unsettled spot transactions	85
15. Tax	65	42. Risk management	86
16. Secondary business area	65	42a. Credit, foreign exchange, equity price and interest rate exposures	92
17. Cash balances and demand deposits with central banks	66	43. Hedge accounting	98
18. Receivables from credit institutions and central banks	66	44. Reverse repurchase lending and repo transactions	99
19. Loans, advances and other receivables at fair value	66	45. Group structure	100
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24. Intangible assets	70		
25. Other property, plant and equipment	71		
26. Assets in temporary possession	71		

NOTES

Nykredit Bank Group

1. ACCOUNTING POLICIES

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 5 and the business areas (note 4) 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 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 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 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 Bank's or the Nykredit Bank Group's results, comprehensive income, balance sheet or equity.

Comparative figures have been restated accordingly. Reference is made to note 4.

Other general comments on accounting policies

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

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

IAS 19 "Employee Benefits" (amendment to standard) (approved for use in the EU, effective from 1 February 2015).

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

IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (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).

Annual improvements to IFRS 2010-2012 (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 February 2015).

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).

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).

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

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

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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 indefinitely).

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) (not approved for use in the EU, expected to be effective for financial years starting on 1 January 2019 or later).

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 Bank'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 Bank'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 Bank's daily risk management. Impairment losses will thus reflect the Probability of Default (PD) and Loss Given Default (LGD).

The IFRS 9 provisions concerning impairment losses on loans and advances at amortised cost. By contrast, impairment losses on loans and advances measured at fair value 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.

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.

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

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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 Bank intends to collect such contractual cash flows on expiry are measured at amortised cost. An initial review shows that Nykredit Bank'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.

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 fair value of certain financial instruments

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 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 39 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 45.8% and 0.4%, respectively, of the balance sheet total and the fair value of financial liabilities was 23.9% 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 13.8% 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 46.2% 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 42 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 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 43.7% of the Group's assets at end-2016.

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Provisions

"Provisions for losses under guarantees" and "Other provisions" are recognised in "Provisions".

Provisions for losses under guarantees are subject to significant estimates where the determination of the extent to which a guarantee will become effective upon the financial collapse of the guarantee applicant is subject to uncertainty. Conversely, other provisions are based on a legal or constructive obligation involving a significant estimate of the determination of amounts considered necessary to honour the obligation. Provisions for losses under guarantees and other provisions totalled DKK 52m 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. Changes in the fair value of instruments purchased or sold in the period between the trade date and the settlement date are recognised as financial assets or liabilities in "Other assets"/"Other liabilities", 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 39.

Financial instruments are classified as follows:

- Loans, advances and receivables as well as other 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

Loans, advances and receivables as well as other 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, subordinated debt as well as deposits and other payables are included in this category.

Loans, advances and receivables as well as liabilities are measured at amortised cost after initial recognition. For loans, advances and receivables, amortised cost equals cost less principal payments, provisions for losses and other accounting adjustments, including any fees and transaction costs that form part of the effective interest of the instruments.

For liabilities, amortised cost equals the capitalised value using the effective interest method. Transaction costs are distributed over the life of the asset or liability.

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 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
- it is a derivative financial instrument that is not a hedge accounting instrument.

The Group's equity and bond portfolios, derivative financial instruments and negative securities portfolios are included in this category.

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

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

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 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 unless they are classified as hedges for hedge accounting purposes. 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.

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.

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

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.

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

Individual reviews and risk assessments of all significant loans, advances and receivables are performed on a continuous basis to determine whether there is any OEI.

There is OEI in respect of a loan if one or more of the following events have occurred:

- The borrower has serious financial difficulties
- The borrower fails to honour its contractual payment obligations
- It is probable that the borrower will go bankrupt or be subject to other financial restructuring
- 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.

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.

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".

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 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.

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

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. All intercompany income and costs, dividends, intercompany shareholdings, intercompany derivatives and balances as well as realised and unrealised intercompany 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 income from business with customers and core income from securities less operating costs, depreciation, amortisation and loan impairment losses.

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. Also goodwill impairment is stated as a separate item in the income statement.

Investment portfolio income is the income exceeding risk-free interest obtained from investing in equities, bonds and derivative financial instruments.

Segment information

Information is provided on business segments and geographical markets. Business areas are defined on the basis of differences in customer segments and services. Items that are not 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 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 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.

Goodwill is recognised in the business area which receives or pays the cash flows relating to the enterprise acquired.

The average allocated 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 (branch in 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.

Reverse repurchase lending and repo transactions

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.

Reverse repurchase lending is recognised in "Receivables from credit institutions and central banks" or "Loans, advances and receivables at fair value", depending on the counterparty. The receivables are fair value adjusted over the life of the agreement through profit or loss.

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Deposits relating to repo transactions are recognised in "Payables to credit institutions and central banks" or "Other non-derivative financial liabilities at fair value", depending on the counterparty. The liability is fair value adjusted over the life of the agreement through profit or loss.

Where the Group resells assets received in connection with repo transactions, 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 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.

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 and expenses are recognised separately in the income statement and 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.

Value adjustments

Value adjustments include foreign currency translation adjustment and value adjustment of assets and liabilities measured at fair value.

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.

Tax

Tax for the year, consisting of current tax for the year and changes to deferred tax, is recognised in the income statement, unless the tax effect concerns items recognised in "Other comprehensive income". Adjustments relating to entries recognised directly in "Other comprehensive income" are 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 except for deferred tax on temporary differences arising on initial recognition of goodwill.

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 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 future positive taxable income. On each balance sheet date, it is assessed whether it is probable that future taxable income will allow for the use of the deferred tax asset.

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Nykredit Bank's and the Nykredit Bank Group's Danish companies are jointly taxed with Foreningen Nykredit (the Nykredit Association). The Parent settles the total tax payable on the Nykredit Group's taxable income assessed for the year.

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

Current tax assets and current tax liabilities are offset when there is a legally enforceable right to do so. Deferred tax assets and deferred 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" for these items.

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.

Impairment losses are recognised in the income statement and are not reversed.

Other intangible assets

Other intangible assets comprise the agreed acquisition price on customer relationships in connection with the acquisition of accounts in 2014. Customer relationships are recognised at cost less accumulated amortisation. The amortisation period is 3 years.

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.

When the asset is ready for entry into service, it is depreciated 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 acquired properties and property companies 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.

Other assets

Other assets include interest receivable and positive fair values of derivative financial instruments.

LIABILITIES AND EQUITY

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.

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.

Bonds in issue at amortised cost

Bonds in issue are initially recognised at fair value equal to consideration received less costs incurred. Bonds in issue are subsequently measured at amortised cost. Where the bonds have embedded derivative financial hedge instruments measured at fair value, the bonds will be value adjusted as regards the part hedged using derivative financial instruments on a current basis to ensure accounting symmetry of the value adjustment of the hedged instrument and the hedging derivative financial instrument.

Other non-derivative financial liabilities at fair value

Other non-derivative financial liabilities at fair value include deposits and negative securities portfolios held for trading, which are measured at fair value after initial recognition.

Negative securities portfolios include securities which the Bank has received in connection with reverse repurchase transactions and subsequently resold, but which the Bank is obliged to return.

Subordinated debt

Subordinated debt consists of financial liabilities which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.

Subordinated debt is initially recognised at fair value less transaction costs incurred. Subordinated debt is subsequently measured at amortised cost, and any differences between the proceeds less transaction costs and the redemption value are recognised in the income statement over the loan term using the effective interest method.

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If the interest-rate risk of fixed-rate subordinated debt is effectively hedged using derivatives, the fair value of the hedged interest rate risk is added to the amortised cost of the asset.

Equity

Share capital

Shares are classified as equity where there is no obligation to transfer cash or other assets.

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 the company'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).

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 consolidated cash flow statement shows the changes in 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".

Special accounting policies for the Parent Nykredit Bank A/S

The Financial Statements of the Parent Nykredit Bank 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 Nykredit Bank Group's accounting policies.

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.

Nykredit'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 (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.

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.

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.

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
2. CAPITAL AND CAPITAL ADEQUACY			
16,117	16,744	Equity	
(300)	(46)	Prudent valuation adjustment	(46)
(34)	(22)	Intangible assets	(22)
(86)	(315)	Deduction for difference between IRB losses and impairments	(315)
-	(63)	Other deductions	(63)
52	126	Transitional adjustment of deductions	126
(368)	(320)	Common Equity Tier 1 capital deductions	(320)
15,749	16,424	Common Equity Tier 1 capital	
100	-	Hybrid capital	-
(26)	-	Transitional hybrid capital adjustment	-
74		Hybrid capital	87
15,823	16,424	Tier 1 capital	
	2,000	Tier 2 capital	2,000
349	-	Tier 2 capital additions/deductions	-
(26)	(63)	Transitional Tier 2 capital adjustment	(63)
16,146	18,361	Own funds	16,144
67,409	99,622	Credit risk	63,004
8,666	9,369	Market risk	8,666
4,046	5,201	Operational risk	4,641
80,121	114,192	Total risk exposure amount	76,311
19.6	14.3	Common Equity Tier 1 capital ratio, %	20.6
19.7	14.3	Tier 1 capital ratio, %	20.7
20.1	16.0	Total capital ratio, %	21.1

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.

Nykredit has been designated as a systemically important financial institution (SIFI) by the Danish authorities. As a result, a special SIFI CET1 capital buffer requirement will apply to the Nykredit Bank Group. The requirement of 2% is being phased in and currently constitutes 0.8%. To this should be added the phase-in of the permanent buffer requirement, currently 0.625%, applicable to all financial institutions.

2A. CAPITAL POLICY AND MANAGEMENT

As a subsidiary of Nykredit Realkredit A/S, Nykredit Bank is subject to the Nykredit Group's capital policy and management. Nykredit's objective is to maintain active lending activities regardless of economic trends, while retaining a competitive credit rating.

To ensure flexibility and leeway, an element of the capital policy is to concentrate capital to the widest extent possible in the Parent, Nykredit Realkredit A/S. Capital is contributed to subsidiaries, including Nykredit Bank, as required.

To support Nykredit Bank's business development and strengthen its capital position, the Bank raised Tier 2 capital in Realkredit A/S of DKK 2bn in 2016. Nykredit Bank aims to have a CET1 capital ratio of at least 11%.

Required own funds

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 sufficient capital and thus to determine 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.

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

Pillar I

Pillar I capital covers credit, market and operational risks. The Pillar I requirement is identical to the statutory capital requirement.

Pillar II

Pillar II capital covers other risks as well as an increased capital requirement during a slight economic downturn.

The capital requirement during a slight economic downturn is determined by means of stress tests, cf "Stress tests and capital projections" below. The determination of other risks includes assessments of reputation risk, control risk, strategic risk, external risk, concentration risk, validation and backtest results, interest rate risk on swaps, CVA etc.

Under Pillar II, a capital charge has been added to reflect the uncertainty of the internal models used by Nykredit Bank to determine the capital requirement. The uncertainty buffer amounts to 5% of all risks.

At end-2016 required own funds stood at DKK 11.8bn, of which Pillar I made up DKK 8.8bn and Pillar II made up DKK 3.0bn.

The report Risk and Capital Management 2016, available at nykredit.com/reports, contains further details of the Nykredit Group's capital and risk policy as well as a detailed description of the determination of required own funds and the internal capital adequacy requirement.

Stress tests and capital projection

Nykredit Bank conducts a large number of stress tests and capital projections. The tests are applied to determine required own funds, and the test results are included in the Board of Directors' annual assessment of the internal capital adequacy requirement.

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 Bank operates with two scenarios of the economic development: A base case and a slightly weaker economic climate.

In a slightly weaker economic climate, 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. Operating losses in a stress scenario increase the capital requirement, while operating profits are not included.

Scenario: Base case

This scenario is a projection of the Danish economy based on Nykredit's assessment of the current economic climate.

Stress scenario: Slightly weaker economic climate in 2017-2019

The stress scenario is designed to illustrate a slightly weaker economic climate relative to the base case scenario. The capital charge reflects how much Nykredit's capital requirement would increase if this scenario should occur. The results are included in the determination of the internal capital adequacy requirement.

The capital charge for a slightly weaker economic climate came to DKK 1.2bn at end-2016.

Nykredit Bank Group

3. RECONCILIATION OF INTERNAL AND REGULATORY INCOME STATEMENT

	2016			2015		
	Core business	Other Activities ¹	Total	Core business	Other Activities ¹	Total
Net interest income	1,467	31	1,498	1,770	118	1,888
Dividend on equities	11	-	11	4	-	4
Fee and commission income, net	1,086	-	1,086	950	-	950
Net interest and fee income	2,564	31	2,595	2,724	118	2,842
Value adjustments	844	(760)	84	799	146	945
Other operating income	28	-	28	25	-	25
Staff and administrative expenses	2,000	-	2,000	1,832	-	1,832
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	16	-	16	26	-	26
Other operating expenses	44	-	44	65	-	65
Impairment losses on loans and advances	(141)	-	(141)	(121)	-	(121)
Profit (loss) before tax	1,517	(729)	788	1,746	264	2,010

¹ Other Activities comprises legacy derivatives of a negative DKK 763m (2015: DKK 229m) and investment portfolio income of DKK 34m (2015: DKK 35m).

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 4.

Profit (loss) before tax equals the corresponding performance target in the official income statement, as identical principles for recognition and measurement are applied. A reconciliation to the official income statement is shown above.

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DKK million

Nykredit Bank Group

4. BUSINESS AREAS

RESULTS 2016	Personal Banking	Business Banking	Total Retail	Corporate & Institutional Banking	Markets	Total Wholesale Clients	Total Wealth Management	Group Items	Total
Core income from									
- customer activities, gross	559	401	960	640	727	1,366	1,007	97	3,428
- payment for distribution	333	236	569	82	(324)	(242)	(327)	-	-
Total business operations	892	637	1,529	722	403	1,124	680	97	3,428
- core income from securities	-	-	-	-	0	-	-	8	8
Income from core business*	892	637	1,529	722	403	1,124	680	105	3,436
Operating costs and depreciation of equipment ¹			1,055	242	267	509	399	74	2,037
Expenses for guarantee and resolution schemes ¹			22	1	0	1	-	-	23
Profit from core business before impairment losses			452	479	135	614	281	30	1,376
Impairment losses on loans and advances	-	-	42	(191)	-	(191)	14	(6)	(141)
Profit from core business			410	670	135	805	266	36	1,517
Legacy derivatives	(21)	(212)	(233)	(440)	(91)	(530)	-	-	(763)
Investment portfolio income ²	-	-	-	-	-	-	-	34	34
Profit before tax			177	230	45	275	266	70	788
* Of which transactions between business areas	314	119	433	(9)	(290)	(299)	(336)	202	-
Operating costs and depreciation of equipment as % of core income from business operations			69.0	33.3	67.1	45.3	58.7	-	59.4
Average allocated business capital	2,520	4,605	7,125	4,575	1,301	5,876	524	1,212	14,737
Profit from core business as % pa of allocated capital			5.8	14.7	10.1	13.7	50.8	2.5	10.3
BALANCE SHEET									
ASSETS									
Loans and advances at fair value	-	-	-	-	-	-	-	30,091	30,091
Loans and advances at amortised cost	11,952	18,127	30,079	21,554	-	21,554	2,603	767	55,003
Assets by business area	11,952	18,127	30,079	21,554	-	21,554	2,603	30,858	85,094
Unallocated assets	-	-	-	-	-	-	-	-	109,832
Total assets	11,952	18,127	30,079	21,554	-	21,554	2,603	30,858	194,926
LIABILITIES AND EQUITY									
Deposits and other payables	25,760	17,277	43,037	12,203	4	12,207	9,522	1,497	66,263
Liabilities by business area	25,760	17,277	43,037	12,203	4	12,207	9,522	1,497	66,263
Unallocated liabilities									109,919
Equity									18,744
Total liabilities and equity			43,037	12,203	4	12,207	9,522	1,497	194,926
Off-balance sheet items (guarantees)	11,491	3,773	15,264	6,048	-	6,048	931	285	22,528

¹ Operating costs and depreciation of equipment for Personal Banking and Business Banking are presented and assessed jointly for internal reporting purposes.

² Investment portfolio income equals the return on the Bank's own portfolio exceeding risk-free interest.

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 Q1-Q4/2016 reduced by DKK 64m in Retail, reduced by DKK 202m in Wholesale Clients, increased by DKK 266m in Wealth Management and remained unchanged in Group Items.

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DKK million

Nykredit Bank Group

4. BUSINESS AREAS (CONTINUED)

	Personal Banking	Business Banking	Total Retail	Corporate & Institutional Banking	Markets	Total Wholesale Clients	Total Wealth Management	Group Items	Total
RESULTS 2015									
Core income from									
- customer activities, gross	541	565	1,106	785	781	1,566	857	11	3,541
- payment for distribution	330	217	547	75	(298)	(223)	(324)	-	-
Total business operations	871	782	1,653	860	483	1,343	533	11	3,541
- core income from securities	-	-	-	-	-	-	-	8	8
Income from core business*	871	782	1,653	860	483	1,343	533	19	3,549
Operating costs and depreciation of equipment ¹			956	218	308	526	321	49	1,852
Expenses for guarantee and resolution schemes ¹			74	2	1	3	1	(15)	63
Profit (loss) from core business before impairment losses			624	640	174	814	211	(15)	1,634
Impairment losses on loans and advances	-	-	55	(176)	-	(176)	-	-	(121)
Profit (loss) from core business			569	816	174	990	211	(15)	1,755
Legacy derivatives	1	111	112	123	(6)	118	(1)	-	229
Goodwill impairment	-	-	9	-	-	-	-	-	9
Investment portfolio income ²	-	-	-	-	-	-	-	35	35
Profit before tax			672	940	169	1,108	210	20	2,010
* Of which transactions between business areas	304	55	359	(51)	(109)	(160)	(324)	125	-
Operating costs and depreciation of equipment as % of core income from business operations			57.8	25.3	63.8	39.1	60.3	-	52.3
Average allocated business capital	2,395	4,474	6,869	4,562	2,018	6,580	390	918	14,757
Profit from core business as % pa of allocated capital			8.3	17.9	8.6	15.0	54.1	1.6	11.9
BALANCE SHEET									
ASSETS									
Loans and advances at fair value	-	-	-	-	-	-	-	39,467	39,467
Loans and advances at amortised cost	12,077	14,977	27,054	17,296	467	17,763	1,922	8	46,747
Assets by business area	12,077	14,977	27,054	17,296	467	17,763	1,922	39,475	86,214
Unallocated assets									88,125
Total assets	12,077	14,977	27,054	17,296	467	17,763	1,922	39,475	174,339
LIABILITIES AND EQUITY									
Deposits and other payables	23,781	17,018	40,799	12,220	1,481	13,700	7,827	432	62,758
Liabilities by business area	23,781	17,018	40,799	12,220	1,481	13,700	7,827	432	62,758
Unallocated liabilities									95,464
Equity									16,117
Total liabilities and equity			40,799	12,220	1,481	13,700	7,827	432	174,339
Off-balance sheet items (guarantees)	9,909	3,088	12,997	6,293	-	6,293	650	805	20,746

¹ Operating costs and depreciation of equipment for Personal Banking and Business Banking are presented and assessed jointly for internal reporting purposes.

² Investment portfolio income equals the return on the Bank's own portfolio exceeding risk-free interest.

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 Q1-Q4/2015 reduced by DKK 29m in Retail, reduced by DKK 181m in Wholesale Clients, increased by DKK 210m in Wealth Management and remained unchanged in Group Items.

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DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
5. INTEREST INCOME			
7	9	9	7
2,006	1,783	1,916	2,126
514	247	248	520
(276)	(400)	(400)	(276)
Of which			
187	167	167	187
(432)	(551)	(551)	(432)
(40)	(22)	(22)	(40)
9	6	6	9
8	3	5	9
2,259	1,642	1,778	2,386
Of which interest income from genuine purchase and resale transactions entered as			
-	-	-	-
9	8	8	9
Of total interest income:			
2,004	1,784	1,917	2,124
71	52	89	106
-	-	135	128
Interest income accrued on individually impaired bank loans totalled DKK 79m (2015: DKK 107m). 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.			
5A. NEGATIVE INTEREST			
Interest income			
(29)	(77)	(77)	(29)
(103)	(99)	(99)	(103)
(132)	(176)	(176)	(132)
Of which interest income from genuine purchase and resale transactions entered as			
(16)	(61)	(61)	(16)
(103)	(98)	(98)	(103)
Interest expenses			
(91)	(99)	(99)	(91)
(46)	(112)	(112)	(46)
(137)	(211)	(211)	(137)
Of which interest expenses for genuine purchase and resale transactions entered as			
(45)	(23)	(23)	(45)
(20)	(67)	(67)	(20)
6. INTEREST EXPENSES			
48	55	55	49
139	64	64	139
298	139	139	298
2	3	3	2
15	53	54	15
502	314	315	503
Of which interest expenses for genuine sale and repurchase transactions entered as			
11	3	3	11
-	-	-	-
Bonds in issue			
53	17	17	53
Of total interest expenses:			
491	311	312	492

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DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
7. DIVIDEND ON EQUITIES			
4	11	11	4
4	11	11	4
8. FEE AND COMMISSION INCOME			
151	142	440	419
108	103	103	108
13	17	17	13
81	73	71	77
818	963	1,048	838
1,171	1,298	1,679	1,455
Of which:			
111	138	190	150
595	684	1,026	861
<p>Certain fees that form an integral part of the effective interest rate of an underlying loan measured at amortised cost have been presented in "Interest income".</p>			
9. FEE AND COMMISSION EXPENSES			
485	509	593	505
Of which:			
192	178	199	212
131	127	199	140
10. VALUE ADJUSTMENTS			
(4)	2	2	(4)
(24)	191	190	(30)
106	20	20	106
77	43	43	77
796	(171)	(171)	796
951	85	84	945
(1,110)	503	503	(1,110)
410	(819)	(819)	410
(5)	19	19	(5)
<p>Value adjustments mainly relate to financial assets, financial liabilities and derivative financial instruments included in the Bank's/Group's trading activities. No value adjustments have been made for own credit risk on bonds in issue or other financial liabilities.</p>			
11. STAFF AND ADMINISTRATIVE EXPENSES			
21	6	6	21
598	693	815	713
1,010	1,086	1,179	1,098
1,629	1,785	2,000	1,832

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11. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

Remuneration of Board of Directors and Executive Board in the Nykredit Bank Group:

Nykredit Bank A/S				DKK '000
2016				
Fees for the Board of Directors	Kent Ankersen	Flemming Ellegaard	Allan Kristiansen ¹	Total
Fees	60	60	60	180
Total	60	60	60	180

¹ In addition, Allan Kristiansen received a fee of DKK 120,000 as staff-elected board member of Nykredit Realkredit A/S as well as a fee of DKK 185,000 as board member of Nykredit Holding A/S.

The Board of Directors comprise eight members of which three members receive fixed fees. No additional fees are paid to the Board of Directors except for the refund of any costs relating to board meetings. As Group Chief Executive and Group Managing Directors, the members of the Board of Directors employed with Nykredit Realkredit A/S receive salaries from Nykredit Realkredit A/S.

As member of the Board of Directors or the Executive Board of other companies of the Nykredit Realkredit Group, the members of Board of Directors received remuneration as follows:

2016							DKK '000
Remuneration of the Executive Board	Michael Rasmussen	Kim Duus	Søren Holm	Anders Jensen	David Hellemann	Bente Overgaard	Total
Contractual salary	9,805	6,070	6,070	6,070	2,024	3,035	33,074
Pension contributions ¹	2,270	-	-	1,396	466	698	4,830
Total	12,075	6,070	6,070	7,466	2,490	3,733	37,904
Defined benefit plans	-	1,717	1,717	-	-	-	3,434
Salary, pension and termination benefits in the notice period	-	-	-	-	-	15,332	15,332
Total expenses for accounting purposes/earned income	12,075	7,787	7,787	7,466	2,490	19,065	56,670
Various benefits ²	27	13	20	23	4	66	153

¹ In addition to their contractual salaries, Michael Rasmussen, Anders Jensen and David Hellemann 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 from the age of 60.

² 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 impact the expenses for accounting purposes at varying degrees. Members of the Executive Board entitled to pension contributions receive 23% of their contractual salary, whereas the carrying amount of expenses for defined pension plans are 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.

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	- ¹	- ¹	12 mths	12 mths
Mutual term of notice	6 mths	6 mths	6 mths	6 mths	6 mths

¹ Group Managing Directors Kim Duus and Søren Holm may retire by giving 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.

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Nykredit Bank Group

2015						DKK '000
Remuneration of the Executive Board	Michael Rasmussen	Kim Duus	Søren Holm	Anders Jensen	Bente Overgaard	Total
Contractual salary	9,805	6,070	6,070	6,070	6,070	34,085
Pension contributions ¹	2,270	-	-	1,396	1,396	5,062
Anniversary bonus	-	-	-	-	150	150
Compensation for waiving defined benefit pension plan	-	-	-	-	4,000	4,000
Total	12,075	6,070	6,070	7,466	11,616	43,297
Defined benefit plans for a maximum of 5 years	-	2,447	2,443	-	(8,705)	(3,815)
Total expenses for accounting purposes/earned income	12,075	8,517	8,513	7,466	2,911	39,482
Various benefits ²	10	10	10	10	10	50

¹ In addition to their contractual salaries, Michael Rasmussen, Anders Jensen and Bente Overgaard received 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.

² 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 Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
11. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)			
Executive Board			
21	6	6	21
21	6	6	21
Of which:			
2	1	1	2
Remuneration of Executive Board			
Fixed and variable remuneration recognised in the income statement for the financial year			
DKK '000	DKK '000	DKK '000	DKK '000
Bjørn Mortensen (resigned from the Executive Board on 16 December 2015):			
3,581	-	-	3,581
6,720	-	-	6,720
1,500	-	-	1,500
11,801	-	-	11,801
Georg Andersen (resigned from the Executive Board on 23 March 2015)			
761	-	-	761
5,866	-	-	5,866
600	-	-	600
7,227	-	-	7,227
Jesper Berg (resigned from the Executive Board on 30 September 2015)			
1,342	-	-	1,342
280	-	-	280
212	-	-	212
1,834	-	-	1,834
Henrik Rasmussen (joined the Executive Board on 1 December 2015):			
220	2,737	2,737	220
-	667	667	-
220	3,404	3,404	220
Dan Sørensen (joined the Executive Board on 1 December 2015)			
151	1,999	1,999	151
-	533	533	-
151	2,532	2,532	151
21,233	5,936	5,936	21,233
Earned in the financial year			
Adjustment of bonus relating to previous financial years			
11	135	135	11
2	10	10	2

¹ In addition to income earned in the financial year, the Executive Board receive the following benefits: Telephone free of charge, critical illness insurance, group life insurance, accident and health insurance, and for Henrik Rasmussen also free car.

Members of the Executive Board receive a fixed salary covering all directorships and executive positions in the Nykredit Bank Group.

Variable remuneration

The Bank's Executive Board participate in Nykredit's general bonus programme for management executives. The programme is discretionary, which means that executives are not guaranteed a bonus. In 2016 the bonus provision amounted to DKK 1,200,000.

The bonus awarded to management executives is based on a bonus potential, currently six months' salary, determined on a year-by-year basis.

Other information

The period of notice is 12 months. If their contracts are terminated by Nykredit Bank A/S, Executive Board members are entitled to termination benefits equal to nine months' gross salary.

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
11. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)			
Loans, charges or guarantees issued or created in respect of the members of			
-	-	-	-
5	3	3	5
-	3	3	-
Deposits from the members of			
2	2	2	2
16	11	11	16
2	2	2	2
Balances with the above members of the Bank's Management and their related parties are subject to standard business terms and market-based interest terms. The lending rate for members of the Bank's Executive Board or Board of Directors and their related parties ranged between 1.18-10.75% (2015: 2.75-10.75%), and the deposit rate ranged between 0.0-0.25% (2015: 0.125-1.0%).			
Staff expenses			
483	560	661	579
48	51	61	58
58	79	89	66
9	3	4	10
598	693	815	713
Payroll tax also includes payroll tax relating to the Executive Board.			
Of which remuneration of staff members whose activities have a significant influence on the Bank's risk profile (material risk takers):			
38	36	51	50
12	16	18	15
(1)	-	-	(1)
49	52	69	64

Staff members whose activities have a significant influence on Nykredit Bank's and the Nykredit Bank Group's risk profile include the Executive Board and 175 other staff members. 23 of these are on the payroll of Nykredit Bank, 11 are on the payroll of the Bank's subsidiaries, and 141 are on the payroll of Nykredit Realkredit. The latter staff group performs Group-wide tasks, settled through intercompany agreements.

These staff members are subject to special salary programmes.

A maximum of 60% of the variable remuneration is paid out when awarded, while the payout of at least 40% is deferred over the following four years.

For details on the remuneration policy, see the Management Commentary and nykredit.com/aboutnykredit.

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
11. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)			
606	641	Average number of staff, full-time equivalents	800 761
Total fees to Deloitte, auditors appointed by the General Meeting, who perform the statutory audit:			
2	2	Statutory audit of the Financial Statements	2 2
-	-	- Other assurance engagements	- -
-	-	- Tax advice	- -
-	1	Other services	1 -
2	3	Total	3 2
12. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES FOR PROPERTY, PLANT AND EQUIPMENT AS WELL AS INTANGIBLE ASSETS			
5	4	Property, plant and equipment	4 5
21	12	Intangible assets	12 21
26	16	Total	16 26
13. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES			
Specification of impairment provisions			
2,660	2,346	Individual impairment provisions for loans, advances and receivables	2,406 2,711
23	23	Individual impairment provisions for receivables from credit institutions	23 23
136	126	Collective impairment provisions	131 141
2,819	2,495	Total	2,560 2,875
Individual impairment provisions for loans, advances and receivables			
3,006	2,660	Impairment provisions, beginning of year	2,711 3,051
701	460	Impairment provisions for the year	493 729
489	497	Impairment provisions reversed	521 510
558	277	Impairment provisions written off	277 559
2,660	2,346	Total	2,406 2,711
Individual impairment provisions for receivables from credit institutions			
23	23	Impairment provisions, beginning of year	23 23
-	-	- Impairment provisions for the year	- -
23	23	Total	23 23
Collective impairment provisions			
507	136	Impairment provisions, beginning of year	141 509
(371)	(10)	Impairment provisions for the year, net	(10) (368)
136	126	Total	131 141

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
13. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES (CONTINUED)			
Earnings impact			
(159)	(47)		
		(38)	(149)
87	29	37	92
56	92	92	56
(1)	-	-	(1)
(129)	(110)	(93)	(114)
(7)	(48)	(48)	(7)
(136)	(158)	(141)	(121)
235	(148)	(131)	247
(371)	(10)	(10)	(368)
-	-	-	-
Receivables from credit institutions with objective evidence of impairment			
25	25	25	25
23	23	23	23
2	2	2	2
Loans and advances with objective evidence of impairment			
3,947	3,339	3,493	4,092
2,081	1,939	1,946	2,086
1,866	1,400	1,547	2,006
2,660	2,346	2,406	2,711
2,081	1,939	1,946	2,086
579	407	460	625
1,287	993	1,087	1,381
44,194	52,614	54,047	45,507
136	126	131	141
44,058	52,488	53,916	45,366
14. PROFIT FROM INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES			
-	-	-	-
151	177	-	-
151	177	-	-

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
15. TAX			
433	115	161	468
433	115	161	468
Tax on profit for the year has been calculated as follows:			
466	169	206	491
(32)	(42)	(33)	(18)
-	-	-	(4)
1	(14)	(14)	1
(2)	2	2	(2)
433	115	161	468
Tax on profit for the year can be specified as follows:			
464	163	173	472
(35)	(39)	-	-
Tax effect of			
(5)	(2)	(4)	(14)
9	5	4	14
	(12)	(12)	(4)
-	-	-	-
433	115	161	468
21.9	15.5	20.4	23.3
16. SECONDARY BUSINESS AREA			
Foreign entities' contributions to profit for the year in the form of interest income, fee income and other operating income			
-	-	-	-
-	-	-	-
(26)	(1)	(1)	(26)
Balance sheet			
6	3	3	6
14	4	4	14

The branch balance sheet essentially consists of balances with Nykredit Markets, costs due for salaries and social security as well as minor balances with suppliers.

The branch ceased its activities at end-January 2015 and is expected to be wound up entirely in 2017.

NOTES

DKK million

Nykredit Bank A/S			Nykredit Bank Group	
2015	2016		2016	2015
17. CASH BALANCES AND DEMAND DEPOSITS WITH CENTRAL BANKS				
2,744	1,980	Cash balances and demand deposits with central banks	1,980	2,744
2,744	1,980	Total	1,980	2,744
18. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS				
-	12,648	Receivables at call from central banks	12,648	-
10,681	21,095	Receivables from credit institutions	21,095	10,681
10,681	33,743	Total	33,743	10,681
By time-to-maturity				
7,912	6,245	On demand	6,245	7,912
2,769	22,413	Up to 3 months	22,413	2,769
-	5,085	Over 3 months and up to 1 year	5,085	-
-	-	Over 1 year and up to 5 years	-	-
-	-	Over 5 years	-	-
10,681	33,743	Total	33,743	10,681
669	14,417	Of which genuine purchase and resale transactions	14,417	669
19. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE				
39,467	30,091	Loans and advances at fair value	30,091	39,467
39,467	30,091	Total	30,091	39,467
39,467	30,091	Of which reverse repurchase lending (purchase and resale transactions)	30,091	39,467
By time-to-maturity				
39,467	30,091	Up to 3 months	30,091	39,467
-	-	Over 3 months and up to 1 year	-	-
39,467	30,091	Total	30,091	39,467

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
20. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST			
45,345	53,481	55,003	46,747
45,345	53,481	55,003	46,747
By time-to-maturity			
13,056	14,992	11,270	9,868
10,262	15,564	15,564	10,510
4,525	4,727	4,727	5,378
7,509	7,499	12,743	10,538
9,993	10,699	10,699	10,453
45,345	53,481	55,003	46,747
Fixed-rate loans			
1,918	912	912	1,918
1,929	928	928	1,929
Finance leases			
-	-	4,525	4,031
-	-	4,031	3,457
-	-	2,144	1,957
-	-	1,650	1,383
-	-	4,525	4,031
By time-to-maturity			
-	-	428	321
-	-	835	709
-	-	3,146	2,589
-	-	116	412
-	-	4,525	4,031
Gross investments in finance leases			
By time-to-maturity			
-	-	1,317	1,150
-	-	3,226	2,862
-	-	423	427
-	-	4,966	4,439
-	-	441	408
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 up to 13 years.			
-	-	47	41
Non-guaranteed residual values upon expiry of the leases amount to DKK 0.			

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
20. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST, (CONTINUED)			
%	%	%	%
Loans, advances and guarantee debtors by sector as %, year-end			
Includes loans, advances and receivables at fair value			
-	1	1	-
Public sector			
Business customers			
2	2	3	2
4	5	6	5
1	2	2	1
2	2	3	2
3	4	4	3
2	2	3	3
1	2	1	1
49	39	34	45
10	11	11	10
6	8	10	8
80	78	78	80
Total business customers			
20	22	22	20
100	100	100	100
Total			
The sector distribution is based on the official Danish activity codes.			
21. BONDS AT FAIR VALUE			
35,571	38,474	39,024	35,998
572	1,198	1,198	572
5,509	3,436	3,436	5,509
41,652	43,108	43,658	42,079
Total			
2,028	1,340	1,340	2,028
39,624	41,768	42,318	40,051
Total			
The effect of fair value adjustment is recognised in the income statement.			
430	1,733	1,733	430
13,855	26,296	26,296	13,855
Of which redeemed bonds			
Assets sold as part of genuine sale and repurchase transactions			
4,871	3,285	3,285	4,871
As collateral for the Danish central bank, Danmarks Nationalbank, and foreign clearing centres, etc, bonds have been deposited of a total market value of			
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.			
Maturities based on the nominal maturities of the securities			
10,578	10,445	10,886	10,965
24,873	25,778	25,887	24,913
4,173	5,545	5,545	4,173
39,624	41,768	42,318	40,051
Total			

The actual holding period may be considerably shorter than the nominal maturity because a significant part of the portfolio is included in the Bank's trading activities.

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
22. EQUITIES			
360	257	258	361
Equities measured at fair value through profit or loss			
360	257	258	361
Specification of equity portfolios			
177	110	111	178
Listed on Nasdaq Copenhagen A/S			
6	3	3	6
Listed on other stock exchanges			
177	144	144	177
Unlisted equities carried at fair value			
360	257	258	361
23. INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES			
Investments in associates			
10	10	10	10
Cost, beginning of year			
	(10)	(10)	
Disposals on discontinuation of operations			
10	-	-	10
Cost, year-end			
(10)	(10)	(10)	(10)
Revaluations and impairment losses, beginning of year			
	10	10	
Disposals on discontinuation of operations			
(10)	-	-	(10)
Total revaluations and impairment losses, year-end			
-	-	-	-
Balance, year-end			
Investments in Group enterprises			
441	425	-	-
Cost, beginning of year			
-	-	-	-
Additions			
16	-	-	-
Disposals			
425	425	-	-
Cost, year-end			
428	579	-	-
Revaluations and impairment losses, beginning of year			
185	223	-	-
Profit before tax			
34	46	-	-
Tax			
579	756	-	-
Total revaluations and impairment losses, year-end			
1,004	1,181	-	-
Balance, year-end			
Subordinated receivables			
-	-	-	-
Group enterprises			
-	-	-	-
Associates			
25	54	54	25
Other enterprises			
25	54	54	25
Total			

NOTES

DKK million

Nykredit Bank A/S				Nykredit Bank Group	
2015	2016			2016	2015
23. INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES (CONTINUED)					
Balances with associates and Group enterprises					
Associates					
Asset items					
12	-	Loans, advances and other receivables at amortised cost	-	-	12
6	-	Other assets	-	-	6
18	-	Total	-	-	18
Liability items					
36	-	Deposits and other payables	-	-	36
36	-	Total	-	-	36
Group enterprises					
Asset items					
3,300	3,721	Loans, advances and other receivables at amortised cost	-	-	-
2	32	Other assets	-	-	-
3,302	3,753	Total	-	-	-
Liability items					
76	54	Deposits and other payables	-	-	-
2	1	Other liabilities	-	-	-
78	55	Total	-	-	-
24. INTANGIBLE ASSETS					
Customer relationships					
35	35	Acquisition cost, beginning of year	35	35	35
-	-	Additions for the year	-	-	-
35	35	Total, year-end	35	35	35
3	15	Amortisation, beginning of year	15	15	3
12	12	Amortisation for the year	12	12	12
15	27	Amortisation, year-end	27	27	15
20	8	Total customer relationships, year-end	8	8	20

NOTES

DKK million

Nykredit Bank A/S			Nykredit Bank Group	
2015	2016		2016	2015
27. OTHER ASSETS				
2,339	1,699	Interest and commission receivable	1,765	2,369
29,250	26,940	Positive market value of derivative financial instruments	26,940	29,250
2,570	2,661	Other	2,638	2,579
34,159	31,300	Total	31,343	34,198
Positive market value of derivative financial instruments				
By time-to-maturity				
1,356	1,405	Up to 1 year	1,405	1,356
6,006	4,012	Over 1 year and up to 5 years	4,012	6,006
21,888	21,523	Over 5 years	21,523	21,888
29,250	26,940	Total	26,940	29,250
Accounting netting				
39,579	38,844	Positive market value of derivative financial instruments, gross	38,844	39,579
12,058	12,008	Other receivables relating to derivative financial instruments included in netting	12,008	12,058
(22,387)	(23,912)	Netting of positive and negative market values, cf note 33	(23,912)	(22,387)
29,250	26,940	Total carrying amount of derivative financial instruments, net	26,940	29,250
	13,810	Further netting, master netting agreements	13,810	
	2,579	In connection with derivatives transactions, the Bank has received security not included in netting of	2,579	
	10,551	Carrying amount less security received	10,551	
<p>The items "Interest and commission receivable" and "Other" fall due within 1 year.</p> <p>Nykredit Bank offsets financial assets and liabilities in connection with derivatives contracts entered into with the same counterparty, where there is a right of set-off and netting of payments has been agreed.</p> <p>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.</p> <p>Offsetting takes place for derivatives that have been cleared through a central clearing house (CCP).</p> <p>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.</p>				
Minimum margin				
Upon entering into and in connection with the following valuation of derivatives contracts, provisions are made in the form of a so-called minimum margin for liquidity risk, credit risk and return on capital. The minimum margin is amortised over the time-to-maturity of the derivatives.				
470	430	The unamortised minimum margin at the beginning of the year amounted to	430	470
(49)	(62)	Amortised through profit or loss over the year	(62)	(49)
19	47	Minimum margin on new contracts	47	19
(10)	(12)	Terminated contracts	(12)	(10)
430	403	Total unamortised minimum margin at year-end	403	430

NOTES

DKK million

Nykredit Bank A/S			Nykredit Bank Group	
2015	2016		2016	2015
28. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS				
1,762	7,087	Payables to central banks	7,087	1,762
32,655	43,979	Payables to credit institutions	44,519	33,195
34,417	51,066	Total	51,606	34,957
5,294	6,555	Of which genuine sale and repurchase transactions	6,555	5,294
By time-to-maturity				
7,451	15,556	On demand	15,556	7,451
21,117	20,150	Up to 3 months	20,150	21,117
5,625	8,112	Over 3 months and up to 1 year	8,112	5,625
224	5,248	Over 1 year and up to 5 years	5,788	764
-	2,000	Over 5 years	2,000	-
34,417	51,066	Total	51,606	34,957
<p>Payables to credit institutions comprise a balance of DKK 5.1bn with the Parent, Nykredit Realkredit A/S. The balance has a maturity of more than 12 months and is aimed at meeting the Bank's future requirement of bail-inable liabilities.</p>				
29. DEPOSITS AND OTHER PAYABLES				
50,197	55,466	On demand	55,412	50,121
2,334	2,096	At notice	2,096	2,334
7,536	5,923	Time deposits	5,923	7,536
2,767	2,832	Special deposits	2,832	2,767
62,834	66,317	Total	66,263	62,758
By time-to-maturity				
50,591	56,074	On demand	56,020	50,515
7,407	5,751	Up to 3 months	5,751	7,407
1,535	838	Over 3 months and up to 1 year	838	1,535
1,547	1,855	Over 1 year and up to 5 years	1,855	1,547
1,754	1,799	Over 5 years	1,799	1,754
62,834	66,317	Total	66,263	62,758
30. BONDS IN ISSUE AT AMORTISED COST				
22,178	11,498	Bonds in issue	11,498	22,178
(2,028)	(1,340)	Own portfolio	(1,340)	(2,028)
20,150	10,158	Total	10,158	20,150
By time-to-maturity				
5,053	1,912	Up to 3 months	1,912	5,053
7,598	5,539	Over 3 months and up to 1 year	5,539	7,598
7,180	2,707	Over 1 year and up to 5 years	2,707	7,180
319	-	Over 5 years	-	319
20,150	10,158	Total	10,158	20,150
Issues				
12,344	6,948	EMTN issues*	6,948	12,344
7,564	3,055	ECP issues*	3,055	7,564
242	155	Other issues	155	242
20,150	10,158	Total	10,158	20,150

* Listed on Nasdaq Copenhagen A/S or the Luxembourg Stock Exchange.

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
31. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE			
7,438	14,562	Deposits at fair value	14,562 7,438
4,338	6,786	Negative securities portfolios	6,786 4,338
11,776	21,348	Total	21,348 11,776
7,438	14,562	Of "Deposits at fair value", genuine sale and repurchase transactions total	14,562 7,438
11,776	21,348	By time-to-maturity	21,348 11,776
		Up to 3 months	
32. DEFERRED AND CURRENT TAX			
Deferred tax			
(36)	(70)	Deferred tax, beginning of year	32 56
(32)	(41)	Deferred tax for the year recognised in profit (loss) for the year	(32) (18)
(2)	2	Adjustment of deferred tax assessed for previous years	2 (2)
-	-	Adjustment of deferred tax due to changed tax rates	- (4)
(70)	(109)	Deferred tax, year-end	2 32
Deferred tax recognised in the balance sheet			
(70)	(109)	Deferred tax assets	(110) -
-		Provisions for deferred tax (liability)	112 32
(70)	(109)	Deferred tax, year-end	2 32
Deferred tax relates to			
(26)	(42)	Loans and advances	104 108
(1)	(2)	Intangible assets	(2) (1)
(2)	(2)	Property, plant and equipment	(2) (2)
-	-	Other assets and prepayments	(33) (31)
37	20	Bonds in issue	20 37
(78)	(83)	Other liabilities and deferred income	(85) (79)
(70)	(109)	Total	2 32
Current tax assets/liabilities			
(614)	98	Corporation tax due, beginning of year	98 (618)
467	169	Current tax for the year	206 491
246	(245)	Corporation tax paid for the year, net	(279) 226
(1)	(14)	Adjustment relating to previous years	(15) (1)
98	8	Balance, year-end	10 98
Current tax recognised in the balance sheet			
-	-	Current tax assets	(5) -
98	8	Current tax liabilities	15 98
98	8	Net balance, year-end	10 98

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
33. OTHER LIABILITIES			
2,483	1,803	1,801	2,483
24,732	22,963	22,963	24,732
610	1,387	1,729	918
27,825	26,153	26,493	28,133
No adjustment has been made for own credit risk on valuation of derivative financial instruments.			
Negative market value of derivative financial instruments			
By time-to-maturity			
1,146	1,265	1,265	1,146
5,228	3,009	3,009	5,228
18,358	18,689	18,689	18,358
24,732	22,963	22,963	24,732
Netting			
43,722	43,886	43,886	43,722
3,397	2,989	2,989	3,397
(22,387)	(23,912)	(23,912)	(22,387)
24,732	22,963	22,963	24,732
Carrying amount less security			
	13,810	13,810	
	3,360	3,360	
	5,793	5,793	
Netting of market values was attributable to clearing of derivatives through a central clearing house (CCP clearing).			
The items "Interest and commission payable" and "Other payables" fall due within one year.			
34. PROVISIONS			
Provisions for losses under guarantees			
106	100	100	106
17	21	21	17
23	69	69	23
-	-	-	-
100	52	52	100
Other provisions			
83	82	82	83
88	48	48	88
43	-	-	43
46	33	33	46
82	97	97	82
Total provisions for losses under guarantees and other provisions			
189	182	182	189
105	69	69	105
66	69	69	66
46	33	33	46
182	149	149	182

As a result of its operations, the Bank continuously enters into contracts where it is probable that the settlement of the liability will lead to an outflow of the Bank's financial resources, and where a reliable estimate may be made of the size of the liability.

The balance sheet items in the Financial Statements represent the Bank's best estimates of the expected costs relating to provisions.

The provisions concern contractual obligations relating to loans and advances and other banking activities, as well as provisions for restructuring costs.

It is estimated that the majority of provisions will be settled within 1-2 years.

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
35. SUBORDINATED DEBT			
Subordinated debt consists of financial liabilities which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.			
100	-	-	100
Hybrid capital nom DKK 100m. The loan was perpetual and carried a floating interest rate of 1.7% pa above 3M Cibur			
	2,000	2,000	
Subordinate loan capital. The loan is non-callable, and in its entirety falls due on 1 January 2027 and carries an interest rate of 2.25% pa above 3M Cibur			
100	2,000	2,000	100
Total subordinated debt			
Included in the determination of own funds			
-	2,000	2,000	-
Subordinate loan capital			
100	-	-	100
Hybrid capital			
-	-	-	-
Costs related to raising and redeeming subordinated debt			
36. CONTINGENT LIABILITIES			
8,804	11,123	10,585	8,804
Financial guarantees			
1,423	1,366	1,366	1,424
Registration and refinancing guarantees			
5,052	5,301	5,201	4,952
Other contingent liabilities			
15,279	17,790	17,152	15,180
Total			
By time-to-expiry			
10,502	12,088	12,088	10,434
Up to 1 year			
2,977	3,523	3,523	2,957
Over 1 year and up to 5 years			
1,800	2,179	1,541	1,789
Over 5 years			
15,279	17,790	17,152	15,180
Total			

The breakdown of times-to-expiry of guarantees is based on the expiry of the individual agreements. Where a guarantee does not have a fixed expiry date, expiry is based on an estimate.

OTHER CONTINGENT LIABILITIES

Legal proceedings

The Bank's operations involve the Bank in legal proceedings and litigation, including tax disputes. 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 Bank Group's financial position.

Bankernes EDB Central (BEC)

BEC is one of Nykredit Bank's IT providers. 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.

Guarantee and resolution schemes

Nykredit Bank A/S participates in the mandatory Danish depositor 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.

The Resolution Fund, which is a finance scheme, was also established on 1 June 2015. The Resolution Fund is financed 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.

Joint taxation

The Company is jointly taxed in Denmark with Foreningen Nykredit as the administration company. Pursuant to the Danish Corporation Tax Act, the Company is liable for income taxes etc payable by the jointly taxed companies and for any obligations to withhold tax at source on interest, royalties and dividends of these companies.

NOTES

DKK million

Nykredit Bank A/S			Nykredit Bank Group	
2015	2016		2016	2015
37. OTHER COMMITMENTS				
5,298	5,130	Irrevocable credit commitments	5,130	5,298
182	95	Other	245	268
5,480	5,225	Total	5,375	5,566

38. RELATED PARTY TRANSACTIONS AND BALANCES

The Parent Nykredit Realkredit, its parent as well as Group enterprises and associates are regarded as related parties. In addition, Nykredit Bank's Group enterprises and associates as stated in the Group structure are included as well as the Bank's Board of Directors, its Executive Board and related parties thereof. Transactions with the Board of Directors, the Executive Board and related parties thereof appear from note 11.

No unusual related party transactions occurred in 2015 or 2016.

The companies have entered into various intercompany agreements as a natural part of the Group's day-to-day operations. The agreements typically involve financing, provision of guarantees, insurance, 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 2015 or 2016 include:

Nykredit Bank received additional share capital of DKK 2bn from Nykredit Realkredit A/S in February 2015.

Nykredit Bank received Tier 2 capital of DKK 2bn from Nykredit Realkredit A/S in December 2016.

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.

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

Nykredit Bank may transfer secured homeowner loans to Totalkredit A/S. In 2016 Nykredit Bank transferred secured homeowner loans worth DKK 1.2bn.

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
38. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)			
Associates			
Income statement			
-	-	-	-
Interest income			
Asset items			
12	-	-	12
Loans, advances and other receivables at amortised cost			
6	-	-	6
Other assets			
Liability items			
36	-	-	36
Deposits and other payables			
Transactions with the Parent, Nykredit Realkredit A/S, and its Group enterprises and associates			
Income statement			
271	151	151	273
Interest income			
(3)	(36)	(36)	(3)
Negative interest, income			
(42)	(55)	(52)	(42)
Negative interest, expenses			
3	7	4	3
Interest expenses			
105	116	116	105
Fee and commission income			
258	255	255	258
Fee and commission expenses			
37	86	86	36
Value adjustments			
576	670	724	626
Costs			
Asset items			
15	13,397	13,397	15
Receivables from credit institutions and central banks			
-	3	3	-
Loans, advances and other receivables at amortised cost			
7,070	6,994	7,283	7,269
Bonds at fair value			
388	478	478	388
Other assets			
Liability items			
21,747	34,613	34,613	21,747
Payables to credit institutions and central banks			
184	849	849	184
Deposits and other payables			
16	160	160	16
Other liabilities			
-	2,000	2,000	-
Subordinated debt			
Transactions with other Group enterprises			
Income statement			
30	24	-	-
Interest income			
-	-	-	-
Interest expenses			
10	266	-	-
Fee and commission income			
9	8	-	-
Fee and commission expenses			
16	16	-	-
Staff and administrative expenses			
Asset items			
3,300	3,721	-	-
Loans, advances and other receivables at amortised cost			
2	32	-	-
Other assets			
Liability items			
76	54	-	-
Deposits and other payables			
2	1	-	-
Other liabilities			

39. FAIR VALUE DISCLOSURES

Valuation principles

Financial instruments are measured at fair value or amortised cost in the balance sheets. The tables in notes 39 a and 39 b show the values of all instruments compared with the carrying amounts at which the instruments are recognised in the balance sheets.

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 in active markets at 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 Bank 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 recognised 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 deposits and other payables 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.
- The fair value of certain financial instruments recognised at amortised cost has been hedged using derivatives, cf note 43. 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 on 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 39 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 rates have been updated within the past three trade dates prior to the balance sheet date. If no listed prices are observed during this time span, 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 and unlisted assets and liabilities.

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 a positive market value is primarily based on external credit curves such as Itraxx Main, but also on own data as regards customers without OEI in the lowest rating categories, as there are no available external curves suitable for 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.

39. FAIR VALUE DISCLOSURES (CONTINUED)

Observable inputs (continued)

Upon entering into financial derivatives contracts, further provisions are made in the form of a so-called minimum margin for liquidity, credit risk and return on capital. The minimum margin is amortised at valuation of derivatives over their times-to-maturity. At 31 December 2016, the non-amortised minimum margin amounted to DKK 403m compared with 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, 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 although valuation is based on the IPEV Valuation Guidelines.

The positive market values of a number of interest rate swaps with customers in the Bank's 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. Following value adjustment, the fair value came to DKK 587m at 31 December 2016. Credit value adjustments came to DKK 3,926m at 31 December 2016 (end-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 around +/- 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 0.6% against 0.7% at end-2015. The proportion of financial liabilities was 0.0% against 0.0% at end-2015.

Valuation, notably of instruments classified as unobservable inputs, is subject to some uncertainty. Of total assets and liabilities, DKK 0.7bn (2015: DKK 0.8bn) was 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 71m for 2016 (0.4% of equity at 31 December 2016). The earnings impact for 2015 was estimated at DKK 76m (0.5% 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 rating categories (credit risk) of counterparties and in all material respects concerned interest rate swaps, as regards financial instruments with positive market value.

Transfers between the categories Listed prices and Observable inputs in all material respects resulted 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 18.5bn 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 0.0bn against DKK 0.5bn at end-2015.

No transfers were made between the categories Listed prices and Unobservable inputs.

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DKK million

Nykredit Bank Group

39 A. FAIR VALUE DISCLOSURES OF ASSETS AND LIABILITIES RECOGNISED AT AMORTISED COST

	Carrying amount	Fair value	Balance	Fair value calculated on the basis of		
				Listed prices	Observable inputs	Unobservable inputs
31 December 2016						
Assets:						
Loans, advances and other receivables at amortised cost	55,003	55,202	199	-	-	55,202
Total	55,003	55,202	199	-	-	55,202
Liabilities						
Bonds in issue at amortised cost	10,158	10,252	(94)	-	10,252	-
Total	10,158	10,252	(94)	-	10,252	-
Transfer from assets			199			
Total balance			105			
31 December 2015						
Assets:						
Loans, advances and other receivables at amortised cost	46,747	46,870	123	-	-	46,870
Total	46,747	46,870	123	-	-	46,870
Liabilities						
Bonds in issue at amortised cost	20,150	20,317	(167)	-	20,317	-
Total	20,150	20,317	(167)	-	20,317	-
Transfer from assets			123			
Total balance			(44)			

NOTES

DKK million

Nykredit Bank Group

39 B. FAIR VALUE OF ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE

Assets and liabilities recognised at fair value by valuation category (IFRS hierarchy)

31 December 2016	Listed prices	Observable inputs	Unobservable inputs	Total fair value
Financial assets:				
- reverse repurchase lending to credit institutions and central banks		14,417		14,417
- other reverse repurchase lending		30,091		30,091
- bonds at fair value	23,823	18,495		42,318
- equities measured at fair value through profit or loss	135		123	258
- positive fair value of derivative financial instruments	51	26,301	587	26,939
Fair value, 31 December 2016, assets	24,009	89,304	710	114,023
Percentage	21.1	78.3	0.6	100

Financial liabilities:

- repo transactions with credit institutions and central banks		6,555		6,555
- other non-derivative financial liabilities at fair value	4,167	17,181		21,348
- negative fair value of derivative financial instruments	50	22,913		22,963
Fair value, 31 December 2016, liabilities	4,217	46,649	-	50,866
Percentage	8	92	-	100

Assets and liabilities measured on the basis of unobservable inputs

	Bonds	Equities	Derivatives	Total
Fair value, beginning of year, assets		138	621	759
Unrealised capital gains and losses recognised in "Value adjustments" in the income statement		(10)	(69)	(79)
Realised capital gains and losses recognised in "Value adjustments" in the income statement		-	-	-
Purchases for the year		7	-	7
Sales for the year		(12)	(33)	(45)
Redemptions for the year		-	-	-
Transferred from Listed prices and Observable inputs		-	238	238
Transferred to Listed prices and Observable inputs		-	(170)	(170)
Reclassified to "Other assets"				-
Fair value, 31 December 2016, assets	-	123	587	710
Fair value, beginning of year, liabilities				-
Unrealised capital gains and losses recognised in "Value adjustments" in the income statement				-
Realised capital gains and losses recognised in "Value adjustments" in the income statement				-
Purchases for the year				-
Sales for the year				-
Redemptions for the year				-
Transferred from Listed prices and Observable inputs				-
Transferred to Listed prices and Observable inputs				-
Fair value, 31 December 2016, liabilities	-	-	-	-

For 2016 unrealised negative value adjustments of DKK 161m relating to the portfolio of financial instruments measured on the basis of unobservable inputs were recognised in the income statement at 31 December 2016.

NOTES

DKK million

Nykredit Bank Group

39 B. FAIR VALUE OF ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE (CONTINUED)

Assets and liabilities recognised at fair value by valuation category (IFRS hierarchy)

31 December 2015	Listed prices	Observable inputs	Unobservable inputs	Total fair value
Assets:				
Recognised in the trading book:				
- reverse repurchase lending to credit institutions and central banks	-	669	-	669
- other reverse repurchase lending	-	39,467	-	39,467
- bonds at fair value	37,135	2,916	-	40,051
- equities measured at fair value through profit or loss	223	-	138	361
- positive fair value of derivative financial instruments	41	28,588	621	29,250
Fair value, 31 December 2015, assets	37,399	71,640	759	109,798
Percentage	34.1	65.2	0.7	100

Liabilities:

Recognised in the trading book:

- repo transactions with credit institutions and central banks	-	5,294	-	5,294
- other non-derivative financial liabilities at fair value	4,338	7,438	-	11,776
- negative fair value of derivative financial instruments	69	24,663	-	24,732
Fair value, 31 December 2015, liabilities	4,407	37,395	-	41,802
Percentage	11	89	-	100

Assets and liabilities measured on the basis of unobservable inputs

	Bonds	Equities	Derivatives	Total
Fair value, beginning of year, assets	-	169	1,312	1,481
Unrealised capital gains and losses recognised in "Value adjustments" in the income statement	-	7	(409)	(402)
Realised capital gains and losses recognised in "Value adjustments" in the income statement	-	7	-	7
Purchases for the year	-	-	-	-
Sales for the year	-	(45)	-	(45)
Redemptions for the year	-	-	-	-
Transferred from Listed prices and Observable inputs	-	-	(465)	(465)
Transferred to Listed prices and Observable inputs	-	-	183	183
Fair value, 31 December 2015, assets	-	138	621	759
Fair value, beginning of year, liabilities	-	-	-	-
Unrealised capital gains and losses recognised in "Value adjustments" in the income statement	-	-	297	297
Realised capital gains and losses recognised in "Value adjustments" in the income statement	-	-	-	-
Purchases for the year	-	-	-	-
Sales for the year	-	-	-	-
Redemptions for the year	-	-	-	-
Transferred from Listed prices and Observable inputs	-	-	(297)	(297)
Transferred to Listed prices and Observable inputs	-	-	-	-
Fair value, 31 December 2015, liabilities	-	-	-	-

For 2015 unrealised negative value adjustments of DKK 515m relating to the portfolio of financial instruments measured on the basis of unobservable inputs was recognised in the income statement at 31 December 2015.

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DKK million

Nykredit Bank Group

40. DERIVATIVE FINANCIAL INSTRUMENTS

By time-to-maturity

	Net market value				Gross market value			
	Up to 3 months	3 months and up to 1 year	From 1 year and up to 5 years	Over 5 years	Positive market value	Negative market value	Net market value	Nominal value
2016								
Foreign exchange contracts								
Forward contracts/futures, purchased	223	29	5	-	397	140	257	26,706
Forward contracts/futures, sold	(147)	(80)	(5)	-	74	306	(232)	24,879
Swaps	(3)	82	163	81	616	294	322	9,054
Options, purchased	-	-	-	-	-	-	-	20
Options, written	-	-	-	-	-	-	-	20
Interest rate contracts								
Forward contracts/futures, purchased	58	-	-	-	62	4	58	17,793
Forward contracts/futures, sold	(31)	-	-	-	5	36	(31)	26,245
Forward Rate Agreements, purchased	2	(10)	-	-	5	14	(9)	50,168
Forward Rate Agreements, sold	(3)	14	-	-	16	6	10	52,537
Swaps	(21)	64	967	2,677	24,842	21,155	3,687	828,801
Options, purchased	-	59	523	130	731	18	713	33,139
Options, written	-	(59)	(641)	(54)	-	754	(754)	22,824
Equity contracts								
Forward contracts/futures, purchased	-	-	-	-	-	-	-	-
Forward contracts/futures, sold	-	-	-	-	-	-	-	15
Equity swaps	-	(5)	(13)	-	146	163	(17)	1,120
Options, purchased	-	-	-	-	-	-	-	-
Options, written	-	-	-	-	-	-	-	-
Credit contracts								
Credit swaps	-	-	4	-	4	-	4	108
Total							4,008	
2015								
Foreign exchange contracts								
Forward contracts/futures, purchased	235	69	(19)	-	436	150	286	35,143
Forward contracts/futures, sold	(32)	(49)	7	-	100	175	(75)	35,997
Swaps	-	153	211	222	972	385	587	15,866
Options, purchased	-	-	-	-	0	-	-	47
Options, written	-	-	-	-	0	-	-	47
Interest rate contracts								
Forward contracts/futures, purchased	19	-	-	-	48	29	19	25,962
Forward contracts/futures, sold	(23)	(3)	-	-	25	52	(27)	37,112
Forward Rate Agreements, purchased	(117)	(134)	(6)	-	6	263	(257)	111,303
Forward Rate Agreements, sold	140	82	6	-	234	6	228	91,939
Swaps	15	(137)	595	3,328	26,538	22,738	3,800	1,056,624
Options, purchased	4	44	461	206	733	17	716	39,298
Options, written	-	(37)	(450)	(226)	0	713	(713)	28,029
Equity contracts								
Forward contracts/futures, purchased	-	-	-	-	0	-	-	-
Forward contracts/futures, sold	-	-	-	-	0	-	-	47
Equity swaps	-	(1)	(23)	-	126	150	(24)	2,321
Options, purchased	-	-	-	-	0	-	-	-
Options, written	-	-	-	-	0	-	-	-
Credit contracts								
Credit swaps	-	-	(3)	-	0	3	(3)	143
Total							4,537	

NOTES

DKK million

Nykredit Bank Group

41. UNSETTLED SPOT TRANSACTIONS

Nykredit Bank Group	2016			2015	
	Nominal value	Positive	Negative	Net market value	Net market value
Foreign exchange contracts, purchased	10,235	20	29	(9)	1
Foreign exchange contracts, sold	837	2	1	1	(7)
Interest rate contracts, purchased	14,286	14	39	(25)	(1)
Interest rate contracts, sold	14,832	5	4	1	(13)
Equity contracts, purchased	112	1	-	1	1
Equity contracts, sold	121	1	1	-	(1)
Total	40,423	43	74	(31)	(20)
Total, the year before	37,026	31	51	(20)	(24)

Nykredit Bank A/S	2016			2015	
	Nominal value	Positive	Negative	Net market value	Net market value
Foreign exchange contracts, purchased	10,235	20	29	(9)	1
Foreign exchange contracts, sold	837	2	1	1	(7)
Interest rate contracts, purchased	14,286	14	39	(25)	(1)
Interest rate contracts, sold	14,832	5	4	1	(13)
Equity contracts, purchased	112	1	-	1	1
Equity contracts, sold	121	1	1	-	(1)
Total	40,423	43	74	(31)	(20)
Total, the year before	37,026	31	51	(20)	(24)

42. RISK MANAGEMENT

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

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 obligations by counterparties. Counterparty risk, which is the risk of loss if a counterparty defaults on its obligations under financial instruments, is an element of credit risk.

Market risk reflects the risk of loss as a result of movements in financial markets (interest rate, foreign exchange, equity price, volatility risks, etc).

Operational risk reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk also includes IT, compliance, legal and model risks.

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

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

Nykredit publishes a detailed report annually entitled Risk and Capital Management, available at 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.

Credit risk

Nykredit incurs credit risk in connection with its business activities as lender to personal customers and business customers. 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 considered and adopted by the Board of Directors and it 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 Bank is presented with Nykredit's largest credit applications for approval/granting or briefing on a current basis. The Board of Directors of Nykredit Bank is briefed quarterly about any impairment losses 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.

At Nykredit Bank, all exposures in excess of DKK 50m are subject to approval by the Credits Committee. Applications involving larger amounts must be presented to the Executive Board or the Board of Directors. Applications that will bring the Bank's total exposure to any one customer over DKK 100m are subject to approval by the Board of Directors initially as well as subsequently whenever an exposure increases by a multiple of DKK 50m.

When a customer applies for a bank facility, the customer and its financial circumstances are assessed. Overall guidelines on credit assessment have been laid down centrally and depend for example on the customer's relationship with the Bank's business areas. Nykredit's credit models form an important part of the assessment of personal and business customers.

A thorough assessment of customers is a key prerequisite for safeguarding against future losses. The same applies to security provided in the form of a number of tangible assets, primarily real estate, but also securities, moveable property and guarantees. Any security provided is included based on a conservative valuation.

At least once a year, the Bank's exposures exceeding DKK 2m are reviewed. This forms part of the monitoring of credit exposures and is based on updated financial and customer information. In addition, all exposures showing signs of risk are reviewed, including minor exposures, to identify any need for changing a rating or for individual impairment provisions. Exposures not provided for individually are covered by the Bank's collective impairment provisions.

NOTES

When opening credit lines for financial products, the Bank requires that a contractual basis be established providing it with a netting option. The contractual framework is based on standards such as ISDA or GMRA agreements. In addition to a netting agreement, an agreement on financial collateral is typically concluded. Generally, no set-off has been made for collateral security or netting agreements in the financial statements. Set-off has been made, however, for repo transactions/reverse repurchase lending with a few counterparties and for the market value of derivatives cleared through a central clearing house.

Credit 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).

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.

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

External credit ratings are used to a very limited extent for a few types of counterparty. External credit ratings are translated into PDs. PDs are updated as Nykredit receives new information about the customer or the customer's financial circumstances. Updates are made at least once every three months.

Elements of credit risk determination

PD	Probability of Default is the probability of a customer defaulting on an obligation to Nykredit Bank.
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.
Default	An exposure is considered to be in default when a third reminder is sent (typically 25 days past due). Exposures for which individual impairment provisions have been made or a direct loss has been incurred are also considered in default.

LGDs are calculated for each of a customer's exposures and are calibrated so that the parameters reflect an economic downturn period. For personal customers, LGDs are calculated using internal models based on loss and default data. The economic downturn scenario is characterised by a gross unemployment rate of 10%, which is more than twice as high as the current level.

Nykredit Bank 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).

Rating scale and marginal

Probabilities of Default (PD)

Rating category	PD floor	PD ceiling
10	0.00%	0.15%
9	0.15%	0.25%
8	0.25%	0.40%
7	0.40%	0.60%
6	0.60%	0.90%
5	0.90%	1.30%
4	1.30%	2.00%
3	2.00%	3.00%
2	3.00%	7.00%
1	7.00%	25.00%
0	25.00%	<100,00%
Exposures in default	100.00%	100%

NOTES

REA for credit risk

Nykredit Bank's total risk exposure amount (REA) for credit risk was DKK 95.0bn at end-2016 against 63.0bn at end-2015. The approval of Nykredit's new credit models has caused REA to increase by approx DKK 30bn.

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 Bank Group

REA for credit risk

DKK million	2016	2015
Standardised approach	6,366	7,052
IRB approach	87,792	54,516
Default fund contribution	183	394
Credit Valuation Adjustment (CVA)	738	1,043
Total credit risk	95,079	63,004

Concentration risk

Assessing the Bank's concentration risk is a natural element of risk management.

Pursuant to the CRR, individual exposures may not exceed 25% of eligible capital. The Bank had no exposures exceeding this limit in 2016.

The Bank's largest single exposure to a non-financial counterparty was DKK 1.5bn at end-2016, equal to 8% of eligible capital. Thus, Nykredit Bank has no large exposures exceeding 10% of eligible capital.

The Bank's 20 largest exposures to non-financial counterparties amounted to an aggregate DKK 18.1bn, equivalent to 98.7% of eligible capital at end-2016. In 2015 the Bank's 20 largest exposures to non-financial counterparties amounted to DKK 15.3bn, equivalent to 94.5% of eligible capital.

Counterparty risk on derivatives

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 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. Interest rate swaps, FRAs and repo transactions are cleared through indirect membership of the London Clearing House.

Value adjustment of derivatives

The market value of a derivative 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 adjustments of derivatives in accordance with the International Financial Reporting Standards (IFRS). This includes Credit Valuation Adjustments (CVA) based on the customer's current credit quality, individual value adjustments in respect of customers showing objective evidence of impairment (OEI) as well as management judgement.

At end-2016, total value adjustments (recognised as impairment provisions) came to DKK 5.0bn, of which credit value adjustments represented 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.

NOTES

Market risk

Market risk reflects the risk of loss as a result of movements in financial markets and includes interest rate, foreign exchange, equity price, commodity price and volatility risks.

Nykredit Bank incurs market risk in connection with securities trading for customers in Nykredit Markets as well as swap and money market transactions. The Bank also assumes market risk in connection with placement of its own portfolio. This mainly involves interest rate risk and spread risk. Market risks in the Bank's subsidiaries are either negligible or hedged with the Bank as counterparty.

Nykredit Bank'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.

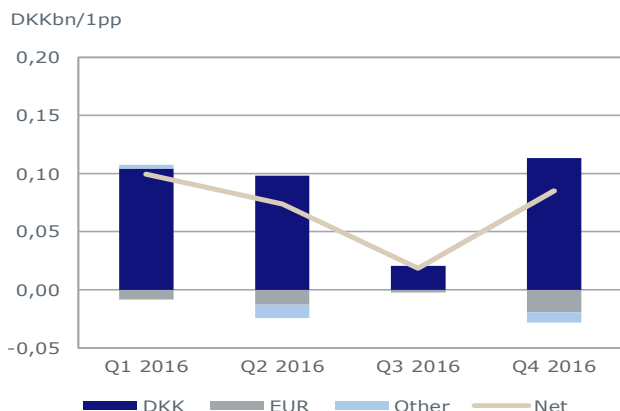
Market risk is generally managed through the Board's market risk policy and the accompanying guidelines, which include specific limits for the different types of risk.

The main principle of this policy 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 Bank or other levels of management depending on the nature of such non-compliance.

Nykredit Bank Interest rate risk



Internal market risk management

The traditional risk measures, such as interest rate, equity price, volatility and foreign exchange risks, are portfolio sensitivity tests. They are used to calculate the effect on the value of a portfolio in case of changing market conditions, for example 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 the probability of a particular event, but rather how much the occurrence of the event would affect the value of a portfolio.

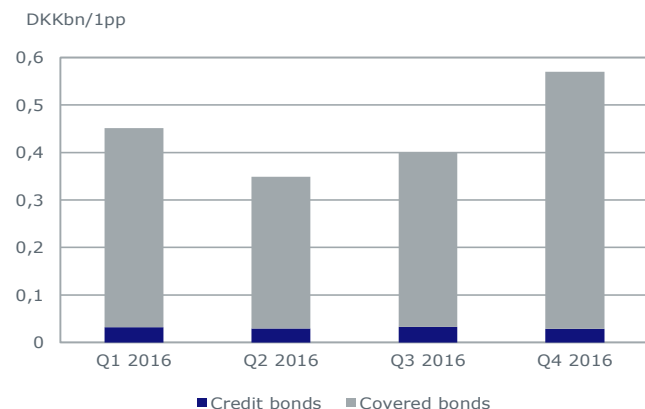
Value-at-Risk (VaR) models are applied to calculate the maximum value decrease of a portfolio over a given period and at a given probability. VaR models measure the effect and probability of several risks occurring at the same time.

Interest rate risk

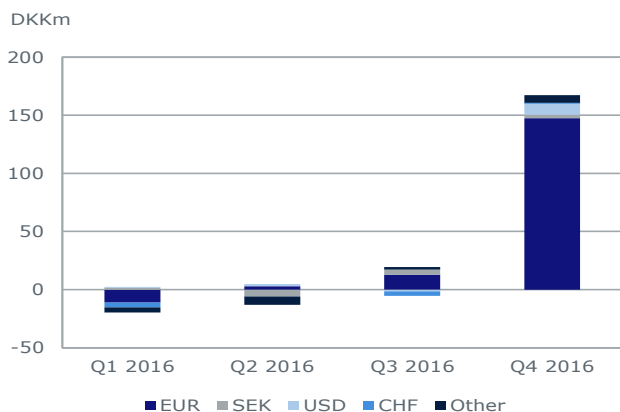
Interest rate risk is the risk of loss as a result of interest rate changes, and Nykredit Bank's interest rate risk is measured as the change in market value caused by a general interest rate rise of 1 percentage point. The development in the Bank's interest rate exposure is shown in the figure on the left. The net interest rate exposure was DKK 85m at end-2016.

The interest rate exposure means that the Bank would lose DKK 85m at a general interest rate rise of 1 percentage point.

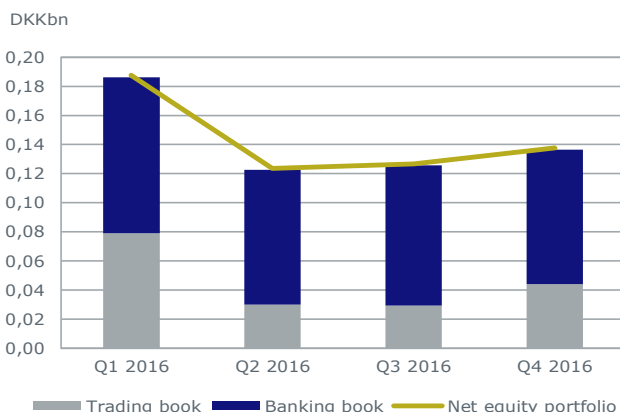
Nykredit Bank Spread risk



Nykredit Bank Foreign exchange risk



Nykredit Bank Market value of equity portfolio



Spread risk

Spread risk is the risk of spread widening between covered bond yields and swap rates. The spread risk of Nykredit Bank's portfolio of covered bonds amounted to DKK 542m, and for the portfolio of credit bonds it was approx DKK 28m at end-2016.

This means that Nykredit Bank would lose DKK 542m on its investments in covered bonds if the spread between covered bond yields and swap rates widened by 1 percentage point.

Overall, this risk applies to a substantial part of the Bank's investments given the large covered bond portfolios. The interest rate spread risk has increased in recent quarters, partly due to the placement of part of the liquidity reserves in short-term covered bond, which causes a higher spread risk, all other things being equal.

Equity price risk

Equity price risk is the risk of loss as a result of changes in equity prices. Nykredit Bank's net equity price risk was DKK 138m at end-2016; this means that a 10% decline in equity prices would reduce the value of the portfolio by DKK 13.8m.

Foreign exchange risk

The Bank is exposed to foreign currencies in connection with customer trading and risk hedging.

In 2016 the Bank's most significant foreign exchange positions were mainly in EUR, and it had only limited foreign exchange positions in other currencies.

At end-2016 the Bank had a total EUR position of DKK 148m and only minor positions in other currencies. This position is high compared with the other quarters of 2016, but still limited in relation to the guidelines on market risk.

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 Bank's part.

This risk is determined for all financial instruments with embedded options and is managed by means of limits.

Models for determination of market risk

Value-at-Risk (VaR) is an internal model applied to calculate the maximum value decrease of a given portfolio over a given period and at a given probability.

The model is applied in the day-to-day internal management and in the determination of the capital requirement for items involving market risk. The model set-up and choice of parameters depend on the purpose, and the amounts calculated for either purpose are not comparable. Nykredit Bank's internal VaR model applied in the day-to-day risk management uses a confidence level of 99% and a time horizon of 1 day.

In general, VaR is calculated for interest rate, foreign exchange, volatility and interest rate spread risks. For the daily internal determination of VaR, an add-on for the Bank's position in equities is also calculated.

The Group's internal VaR totalled DKK 12m at end-2016 against DKK 16m at end-2015. This means that, according to the internal VaR model, Nykredit Bank would, at a 99% probability, lose a maximum of DKK 12m in one day in consequence of market fluctuations.

NOTES

REA for market risk

Total REA for market risk amounted to DKK 9.4bn at end-2016. Nykredit's total REA from VaR amounted to DKK 5.2bn at end-2016 against DKK 4.6bn at end-2015.

The standardised approach for market risk is applied to determine REA for debt instruments, equities and collective investment schemes not covered by the VaR model. REA calculated using the standardised approach was DKK 4.0bn at end-2016.

Nykredit Bank Group

REA – market risk

DKK million	2016	2015
Internal models (Value-at-Risk)	5,240	4,598
Standardised approach	4,044	4,068
Settlement risk	85	0
Total market risk	9,369	8,666

Liquidity Risk

Nykredit Bank monitors its balance sheet and liquidity position on a daily basis as part of its liquidity risk management.

Statutory liquidity rules and rating requirements require the Bank to hold a sufficiently large liquidity buffer of unencumbered securities. The securities portfolio consists mainly of liquid Danish and European government and covered bonds that are transferable or eligible as collateral in the market or with central banks.

Stress testing is performed on a continuous basis using bank-specific, sector-specific and combination scenarios as prescribed by the Danish Executive Order on Management and Control of Banks etc.

According to a stress test of the Bank's liquidity based on scenarios involving no access to funding markets, the Bank will have a positive liquidity position for at least 12 months.

At end-2016, the Liquidity Coverage Ratio (LCR) was 153% compared with a statutory requirement of 100%. This corresponded to an excess liquidity coverage of DKK 18bn. The aggregate amount issued under the ECP (Euro Commercial Paper) and EMTN (Euro Medium-Term Note) programmes was DKK 10.2bn at end-2016.

Total run-off under Nykredit Bank's EMTN programme in 2016 was DKK 4.4bn.

The total EMTN and ECP issuance requirement depends on the development in customer deposit and lending levels as well as the Bank's other business activities.

The Bank's deposits exceeded lending by DKK 11bn at end-2016.

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 legal risk, IT risk, compliance risk and model risk.

Nykredit 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 actual 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.

REA for operational risk

Nykredit Bank determines the capital requirement for operational risk using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings for the past three years. REA for operational risk was DKK 5.9bn throughout 2016.

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
42A. CREDIT, FOREIGN EXCHANGE, EQUITY PRICE AND INTEREST RATE EXPOSURES			
Credit risk			
The Group's maximum credit exposure comprises selected balance sheet and off-balance sheet items.			
Total credit exposure			
Balance sheet items			
2,744	1,980	1,980	2,744
10,681	33,743	33,743	10,681
39,467	30,091	30,091	39,467
45,345	53,481	55,003	46,747
22,353	24,836	30,079	27,054
17,762	21,554	21,554	17,763
1,922	2,603	2,603	1,922
3,308	4,488	767	8
39,624	41,768	42,318	40,051
34,159	31,300	31,343	34,198
Off-balance sheet items			
15,279	17,790	17,152	15,180
5,480	5,225	5,375	5,566
Concentration risk			
Pursuant to the Capital Requirements Regulation, individual exposures may not exceed 25% of eligible capital after credit risk mitigation. The Bank had no exposures exceeding this limit in 2016. The Bank's largest individual exposure to a non-financial counterparty totalled DKK 1.5bn at end-2016, equal to 8.0% of eligible capital. Individual exposures (over 10%) to non-financial counterparties totalled 0.0% of eligible capital at end-2016. The Bank's 20 largest approved exposures to non-financial counterparties amounted to an aggregate DKK 18.1bn, equivalent to 98.7% of eligible capital at end-2016 (2015: 15.3bn/94.5%).			
A considerable part of the Bank's credit exposure relates to business customers. The aggregate exposure to business customers accounted for 78% (2015: 80%) of total loans, advances and guarantees. Nykredit Bank was particularly exposed to the finance and insurance sector, representing a share of 34% (2015: 45%), of which the majority consists of reverse repurchase lending.			
Collateral security received			
Loans, advances and collateral security provided are subject to regular review and, where relevant, Nykredit Bank employs the options available to mitigate the risk relating to its lending activities. Collateral security is mainly obtained in the form of charges over securities and/or tangible assets such as real estate and equipment, but also moveable property and guarantees are included. At end-2016, collateral security excluding guarantees included:			
3,882	4,667	4,667	3,882
1,102	2,009	2,009	1,102
1,118	1,347	1,347	1,118
-	-	-	-
176	284	284	176
2,565	1,203	1,203	2,565
Nykredit Leasing's lending is essentially secured by Nykredit Leasing's ownership of the leased equipment.			
The opening of lines for trading in financial products requires a contractual basis entitling Nykredit Bank to netting. The contractual basis typically reflects current market standards such as ISDA or GRMA agreements. Except for the netting of repo transactions with one single counterparty and netting of the market values of derivatives through a central clearing house, no set-off has been made of collateral security or netting agreements in the accounting figures presented.			
Nykredit Bank only used credit default swap transactions to a negligible extent.			

NOTES

DKK million

Nykredit Bank Group

42A. CREDIT, FOREIGN EXCHANGE, EQUITY PRICE AND INTEREST RATE EXPOSURES (CONTINUED)

Loans, advances, guarantees and provisions by sector

	Carrying amount			Provisions			Total
	Loans and advances	Guarantees	Total	Proportion, %	Individual and other provisions	Collective impairment provisions	
31 December 2016							
Public sector	446	151	597	1	-	-	-
Business customers							
Agriculture, hunting, forestry and fishing	2,091	570	2,661	2.6	85	10	95
Manufacturing, mining and quarrying	6,099	191	6,290	6.2	177	8	185
Energy supply	2,205	47	2,252	2.2	3	-	3
Construction	2,302	875	3,177	3.1	204	2	206
Trade	3,447	396	3,843	3.8	53	4	57
Transport, accommodation and food service activities	2,505	596	3,101	3.0	110	4	114
Information and communication	1,370	181	1,551	1.5	17	1	18
Finance and insurance	33,776	973	34,749	34.0	117	2	119
Real estate	9,510	2,079	11,589	11.3	887	63	950
Other	9,138	1,135	10,273	10.0	218	4	222
Total business customers	72,443	7,043	79,486	77.7	1,871	98	1,969
Personal customers	12,205	9,958	22,163	21.7	588	33	621
Total	85,094	17,152	102,246	100	2,459	131	2,590
Of which reverse repurchase lending (loans and advances at fair value)	30,091	-	30,091	29.4	-	-	-
	Loans and advances	Guarantees	Total	Proportion, %	Individual and other provisions	Collective impairment provisions	Total
31 December 2015							
Public sector	240	56	296	0.3	-	-	-
Business customers							
Agriculture, hunting, forestry and fishing	1,785	599	2,384	2.4	89	13	102
Manufacturing, mining and quarrying	4,459	274	4,733	4.7	222	3	225
Energy supply	919	17	936	0.9	3	-	3
Construction	1,631	603	2,234	2.2	230	2	232
Trade	2,561	385	2,946	2.9	85	3	88
Transport, accommodation and food service activities	2,920	524	3,444	3.4	102	2	104
Information and communication	885	114	999	1.0	16	1	17
Finance and insurance	43,734	1,682	45,416	44.8	223	1	224
Real estate	9,077	1,354	10,431	10.3	1,083	57	1,140
Other	6,379	1,102	7,481	7.4	225	6	231
Total business customers	74,350	6,654	81,004	79.9	2,278	88	2,366
Personal customers	11,624	8,470	20,094	19.8	533	53	586
Total	86,214	15,180	101,394	100	2,811	141	2,952
Of which reverse repurchase lending (loans and advances at fair value)	39,467	-	39,467	38.9	-	-	-

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

Nykredit Bank Group

42A. CREDIT, FOREIGN EXCHANGE, EQUITY PRICE AND INTEREST RATE EXPOSURES (CONTINUED)

Loans and advances at amortised cost by rating category

2016	Manufacturing and construction	Credit and finance	Property management and trade	Transport, trade and accommodation	Other trade and public	Personal customers	Total
Rating category			etc				
10	1,498	552	570	205	1,928	1,428	6,181
9	1,075	944	1,109	168	435	961	4,692
8	561	1,101	1,502	1,552	2,177	1,358	8,251
7	3,148	261	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	3,828
3	2,096	172	582	1,217	2,465	846	7,378
2	349	14	32	27	163	407	992
1	14	10	64	50	76	244	458
0	57	34	34	25	50	62	262
Exposures in default	557	180	1,407	306	434	717	3,601
Total	10,938	4,382	10,306	6,096	13,091	12,727	57,540
Individual and collective impairment provisions							2,537
Carrying amount							55,003
Total exposures in default*							3,601
Individual impairment provisions							2,406
Carrying amount after impairment provisions							1,195
* Of which loans and advances with individual impairment provisioning							3,493
Individual impairment provisions as % of loans and advances with individual impairment provisioning							68.9

Exposures in default: Includes exposures subject to individual impairment provisioning and exposures in arrears for more than 75 days 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 comprise customers without OEI but of a low credit quality resulting from uncertainty about future earnings, poor financial statements and a vulnerable financial situation.

The carrying amount of exposures in default, totalling DKK 1,195m (2015: DKK 1,554m), has been determined on the basis of the Bank's expectations regarding customers' ability to pay and the value of security received.

Rating categories include loans, advances and receivables at amortised cost determined before impairments.

The category "Exposures in default" includes impaired loans with individual provisioning and loans without individual provisioning to weak customers in default.

The rating categories are described in detail in the report Risk and Capital Management 2016, available at nykredit.com/reports.

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DKK million

Nykredit Bank Group

42A. CREDIT, FOREIGN EXCHANGE, EQUITY PRICE AND INTEREST RATE EXPOSURES (CONTINUED)

Loans and advances at amortised cost by rating category

2015	Manufacturing and construction	Credit and finance	Property management and trade etc	Transport, trade and accommodation	Other trade and public	Personal customers	Total
Rating category							
10	1,512	408	222	87	455	1,306	3,990
9	57	1,504	340	129	788	956	3,774
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	5,604
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	679
1	21	49	256	51	94	312	783
0	43	36	119	37	67	84	386
Exposures in default	665	308	1,731	347	524	690	4,265
Total	7,409	4,750	10,017	5,648	9,510	12,265	49,599
Individual and collective impairment provisions							2,852
Carrying amount							46,747
Total exposures in default*							4,265
Individual impairment provisions							2,711
Carrying amount after impairment provisions							1,554
* Of which loans and advances with individual impairment provisioning							4,092
Individual impairment provisions as % of loans and advances with individual impairment provisioning							66.3

NOTES

DKK million

Nykredit Bank Group

42A. CREDIT, FOREIGN EXCHANGE, EQUITY PRICE AND INTEREST RATE EXPOSURES (CONTINUED)

Loans carrying a reduced interest rate

Group	2016	2015
Gross lending	941	1,530
Impairment provisions	736	887
Carrying amount	205	643
of which non-accrual	199	638
of which carrying a reduced interest rate	6	5

Provisioning rate, %	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Group								
Total loans and advances	85,094	77,986	79,904	83,936	86,214	82,040	79,206	78,973
Total guarantees	17,152	15,528	13,688	13,615	15,180	15,182	21,156	20,320
Impairment provisions	2,537	2,611	2,585	2,753	2,852	3,118	3,297	3,482
Provisions for guarantees	51	50	64	97	100	110	106	106
Total loans, advances, guarantees and provisions	104,834	96,175	96,241	100,401	104,346	100,450	103,765	102,881
Provisioning rate, %	2.5	2.8	2.8	2.8	2.8	3.2	3.3	3.5
Provisioning rate excluding guarantees, %	2.9	3.2	3.1	3.2	3.2	3.7	4.0	4.2

Secured lending before impairment provisions

Group	2016			2015		
	Public	Personal	Business	Public	Personal	Business
Unsecured lending	10	6,013	27,325	19	6,016	22,755
Lending secured by way of legal charge or other collateral security:						
Fully secured	411	2,697	35,778	196	2,468	44,604
Partially secured	25	4,108	11,264	25	3,721	9,262
Total lending before impairment	446	12,818	74,367	240	12,205	76,621

Includes the Nykredit Bank Group's loans and advances at amortised cost as well as loans and advances at fair value. The determination is based on official Danish sector codes and is therefore not a reflection of Nykredit Bank's business segments.

Of total individual impairment provisions for business lending of DKK 1.7bn (2015: around DKK 2.0bn), approximately DKK 0.5bn, or 29%, (2015: around 17%) can be attributed to exposures to customers whose severe financial positions have led to bankruptcy, bankruptcy proceedings or compulsory dissolution.

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.

Arrears on non-impaired loans and advances at amortised cost

Nykredit Bank A/S	As % of		As % of	
	2016	loans and advances	2015	loans and advances
5-10 days	10.0	0.0	8.0	0.0
11-30 days	18.0	0.0	52.0	0.1
31-90 days	58.0	0.1	25.0	0.1
91-360 days	189.0	0.3	86.0	0.2
Over 360 days	21.0	0.0	27.0	0.1
Total loans and advances in arrears	296	0.5	198	0.4
Total loans and advances at amortised cost	55,003		45,345	

Arrears of 0-4 days have not been included as they are usually eliminated for accounting purposes in early January and do not represent a specific credit risk. They represented an amount of approximately DKK 4,863m.

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DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2015	2016	2016	2015
42A. CREDIT, FOREIGN EXCHANGE, EQUITY PRICE AND INTEREST RATE EXPOSURES (CONTINUED)			
Foreign exchange risk			
37,148	34,480	34,480	37,148
19,052	18,601	18,601	19,052
18,096	15,879	15,879	18,096
49,606	48,522	48,522	49,606
31,343	32,251	32,251	31,343
18,263	16,271	16,271	18,263
171.1	167.8	167.8	171.1
1.1	1.0	1.0	1.1
0.2	0.4	0.4	0.2
-	-	-	-
Interest rate risk by the currency involving the highest interest rate exposure			
152	106	108	152
(52)	(14)	(14)	(52)
(9)	(4)	(4)	(9)
(1)	(2)	(2)	(1)
5	3	3	5
(4)	(1)	(1)	(4)
(8)	(1)	(1)	(8)
(5)	(1)	(1)	(5)
78	86	88	78
Interest rate exposure measured at a general rise in interest rates of 1 percentage point ranged between a gain of DKK 68m and a loss of DKK 319m in 2016 (2015: between a gain of DKK 85m and a loss of 161m).			
Value-at-Risk			
16	12	12	16
17	11	11	17
Value-at-risk ranged between DKK 8m and DKK 22m in 2016 (2015: DKK 8m and DKK 35m). Value-at-Risk is a statistical measure of the maximum loss the Bank may incur at a given probability and time horizon. The Bank calculates the key figure subject to a one-tailed confidence level of 99% and a time horizon of one day.			
(0.4)	(0.6)	(0.6)	(0.4)
Option risk The interest rate volatility risk is measured as the change in a market value following a change in volatility of 1 percentage point.			
556	570	570	556
The OAS risk, which is included in the Bank's total Value-at-Risk, stood at DKK 570m at end-2016 (2015: DKK 556m). This figure indicates that a spread widening of 100bp at bank level will trigger a loss of DKK 570m.			
216	138	138	216
Equity price risk Equity price risk has been disclosed as the carrying amount of the Bank's investments in equities, etc. After recognition of derivative financial instruments, the effect of a 10% change amounted to DKK 22m (2015: DKK 22m).			
120%	153%	153%	120%
Liquidity risk, Liquidity Coverage Ratio (LCR)			

NOTES

DKK million

Nykredit Bank Group

43. HEDGE ACCOUNTING

The risk of changes in the fair value of assets and liabilities has been hedged on a current basis.

The hedge comprises the following:

	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes
2016			
Assets			
Loans and advances	912	928	16
Liabilities			
Deposits and other payables	2,455	2,646	(191)
Bonds in issue	2,327	2,436	(109)
Derivative financial instruments			
Interest rate swaps, loans and advances as well as deposits and other payables, net	4,110	16	
Interest rate swaps, bonds in issue	2,484	120	
Credit derivatives, deposits and other payables	153	11	
Equity derivatives, deposits and other payables	999	146	
Gain/loss for the year on hedging instruments		107	
Gain/loss for the year on hedged items		(88)	
Net gain/loss		19	
2015			
Assets			
Loans and advances	1,918	1,929	11
Liabilities			
Deposits and other payables	3,301	3,413	(112)
Bonds in issue	3,821	3,916	(95)
Derivative financial instruments			
Interest rate swaps, loans and advances as well as deposits and other payables, net	2,095	(10)	(10)
Interest rate swaps, bonds in issue	3,924	95	95
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		(165)	
Gain/loss for the year on hedged items		160	
Net gain/loss		(5)	

The figures comprise Nykredit Bank A/S and the Nykredit Bank Group as the values are identical.

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 risk of changes in the fair value of 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 made 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.

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DKK million

Nykredit Bank A/S					Nykredit Bank Group	
2015	2016				2016	2015
44. REVERSE REPURCHASE LENDING AND REPO TRANSACTIONS						
Of the asset items below, reverse repurchase lending represents						
669	14,417	Receivables from credit institutions and central banks, carrying amount		14,417		669
666	14,370	Bonds received as collateral but not offset against the balance		14,370		666
3	47	Total less collateral		47		3
40,971	34,152	Loans, advances and other receivables at fair value, gross		34,152		40,971
1,504	4,061	Set-off against "Other non-derivative financial liabilities at fair value"		4,061		1,504
39,467	30,091	Carrying amount after set-off		30,091		39,467
39,186	29,976	Bonds received as collateral but not offset against the balance		29,976		39,186
281	115	Total less collateral		115		281
Of the liability items below, repo transactions represent						
5,294	6,555	Payables to credit institutions and central banks, carrying amount		6,555		5,294
5,220	6,566	Bonds provided as collateral		6,566		5,220
8,942	18,623	Other non-derivative financial liabilities at fair value, gross		18,623		8,942
1,504	4,061	Set-off against "Loans, advances and other receivables at fair value"		4,061		1,504
7,438	14,562	Carrying amount after set-off		14,562		7,438
7,426	14,398	Bonds provided as collateral		14,398		7,426

The Bank's activities take place exclusively through an exchange of listed bonds on an arm's length basis.

Nykredit Bank 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.

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DKK million

Nykredit Bank Group

45. GROUP STRUCTURE

Name and registered office	Ownership interest as %, 31 December 2016	Profit for 2016	Equity, 31 December 2016	Profit for 2015	Equity, 31 December 2015	Number of staff
Nykredit Bank A/S (Parent), Copenhagen, a)		627	16,744	1,542	16,117	641
Consolidated subsidiaries						
Nykredit Portefølje Administration A/S, Copenhagen, b)	100	106	588	85	482	108
Nykredit Leasing A/S, Gladsaxe c)	100	71	593	66	522	51
	Number of staff	Revenue²	Profit before tax	Tax	Government aid received	
Geographical distribution of activities						
Denmark: Companies and activities appear from the Group structure	800	3,309	788	161	-	
Sweden: Nykredit Bank A/S, branch ¹	-	-	-	-	-	

¹ The branch in Sweden ceased its activities in January 2015 and is expected to be wound up entirely by the end of 2017.

² For companies preparing financial statements in accordance with the Danish Financial Business Act, revenue is defined as interest income, fee and commission income and other operating income.

a) Banking

b) Investment management company

c) Leasing

Subsidiaries in temporary possession

The property group Kalvebod III is included in the balance sheet items "Assets in temporary possession" and "Other liabilities".

As at 31 December 2016, the property group comprises a parent and a subsidiary – both of them without activities.

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DKK million

Nykredit Bank Group	2016/EUR	2016	2015	2014	2013	2012
46. FIVE-YEAR FINANCIAL HIGHLIGHTS, GROUP						
SUMMARY INCOME STATEMENT						
Net interest and fee income	349	2,595	2,842	3,373	3,265	2,979
Value adjustments	11	84	945	(3,516)	(815)	(555)
Other operating income	4	28	25	26	29	47
Staff and administrative expenses	269	2,000	1,832	1,928	1,992	1,809
Other operating expenses, depreciation and amortisation	8	60	91	107	131	38
Impairment losses on loans, advances and receivables	(19)	(141)	(121)	219	349	557
Profit from investments in associates and Group enterprises	-	-	-	-	78	-
Profit (loss) before tax	106	788	2,010	(2,371)	85	67
Tax	22	161	468	(599)	8	(1)
Profit (loss) for the year	84	627	1,542	(1,772)	77	68
Comprehensive income	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	84	627	1,542	(1,772)	77	68
BALANCE SHEET, YEAR-END						
Assets						
Cash balances and receivables from central banks and credit institutions	4,805	35,723	13,425	33,885	23,173	44,812
Loans, advances and other receivables at fair value	4,048	30,091	39,467	35,228	56,814	35,401
Loans, advances and other receivables at amortised cost	7,399	55,003	46,747	50,494	47,024	49,807
Bonds at fair value and equities	5,727	42,576	40,412	65,314	64,219	58,399
Remaining assets	4,242	31,533	34,288	44,962	32,904	52,099
Total assets	26,220	194,926	174,339	229,883	224,134	240,518
Liabilities and equity						
Payables to credit institutions and central banks	6,942	51,606	34,957	63,876	57,732	55,355
Deposits and other payables	8,913	66,263	62,758	65,350	65,405	54,701
Bonds in issue at amortised cost	1,366	10,158	20,150	25,881	26,689	28,498
Other non-derivative financial liabilities at fair value	2,872	21,348	11,776	19,943	29,248	33,741
Remaining payables	3,571	26,546	28,267	41,913	30,216	53,468
Total payables	23,663	175,921	157,908	216,963	209,290	225,763
Provisions	35	261	214	245	247	235
Subordinated debt	269	2,000	100	100	250	250
Equity	2,252	16,744	16,117	12,575	14,347	14,270
Total liabilities and equity	26,220	194,926	174,339	229,883	224,134	240,518
OFF-BALANCE SHEET ITEMS						
Contingent liabilities	2,307	17,152	15,180	20,893	11,620	12,169
Other commitments	723	5,375	5,566	4,839	6,906	7,858

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Nykredit Bank Group

	2016	2015	2014	2013	2012
46. FIVE-YEAR FINANCIAL HIGHLIGHTS, GROUP (CONTINUED)					
Financial ratios					
Total capital ratio, %	16.6	21.1	13.1	16.8	21.3
Tier 1 capital ratio, %	14.8	20.7	12.8	16.4	21.3
Return on equity before tax, %	4.8	14.0	(17.6)	0.6	0.5
Return on equity after tax, %	3.8	10.7	(13.2)	0.5	0.5
Income:cost ratio	1.41	2.12	(0.05)	1.03	1.03
Interest rate exposure, %	0.5	0.5	0.6	0.6	0.5
Foreign exchange position, %	1.0	1.1	0.4	2.7	0.0
Foreign exchange exposure, %	0.0	0.0	0.0	0.0	0.0
Loans and advances:deposits	1.3	1.4	1.3	1.6	1.6
Loans and advances:equity	5.1	5.3	6.8	7.2	6.0
Growth in loans and advances excl repo transactions for the year, %	17.7	(7.4)	7.4	(5.6)	(10.9)
Excess coverage:statutory liquidity requirements, %	263.5	347.2	281.7	275.5	183.2
Total large exposures, %	0.0	11.1	34.5	0.0	0.0
Impairment losses for the year, %	(0.1)	(0.1)	0.2	0.3	0.5
Return on capital employed, %	0.3	0.9	(0.8)	0.0	0.0
Average number of staff, full-time equivalents	800	761	820	859	850

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DKK million

Nykredit Bank A/S	2016/EUR	2016	2015	2014	2013	2012
47. FIVE-YEAR FINANCIAL HIGHLIGHTS, BANK						
SUMMARY INCOME STATEMENT AND COMPREHENSIVE INCOME						
Net interest and fee income	291	2,163	2,452	3,026	2,949	2,707
Value adjustments	11	85	951	(3,511)	(812)	(553)
Other operating income	0	1	1	1	-	17
Staff and administrative expenses	240	1,785	1,629	1,733	1,800	1,653
Other operating expenses, depreciation and amortisation	8	57	87	104	126	30
Impairment losses on loans, advances and receivables	(21)	(158)	(136)	201	327	523
Profit from investments in associates and Group enterprises	24	177	151	125	188	81
Profit (loss) before tax	100	742	1,975	(2,397)	72	46
Tax	15	115	433	(625)	(5)	(22)
Profit (loss) for the year	84	627	1,542	(1,772)	77	68
Comprehensive income						
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	84	627	1,542	(1,772)	77	68
BALANCE SHEET, YEAR-END						
Assets						
Cash balances and receivables from central banks and credit institutions	4,805	35,723	13,425	33,884	23,172	44,812
Loans, advances and other receivables at fair value	4,048	30,091	39,467	35,228	56,814	35,401
Loans, advances and other receivables at amortised cost	7,194	53,481	45,345	49,024	45,906	49,659
Bonds at fair value and equities	5,653	42,025	39,984	64,966	64,004	58,202
Investments in associates and Group enterprises	159	1,181	1,004	869	545	435
Remaining assets	4,234	31,476	34,307	44,949	32,693	51,217
Total assets	26,092	193,977	173,532	228,920	223,134	239,726
Liabilities and equity						
Payables to credit institutions and central banks	6,869	51,066	34,417	63,131	56,987	55,355
Deposits and other payables	8,920	66,317	62,834	65,440	65,543	54,756
Bonds in issue at amortised cost	1,366	10,158	20,150	25,881	26,689	28,498
Other non-derivative financial liabilities at fair value	2,872	21,348	11,776	19,943	29,248	33,741
Remaining payables	3,524	26,195	27,956	41,661	29,898	52,650
Total payables	23,551	175,084	157,133	216,056	208,365	225,000
Provisions	20	149	182	189	172	206
Subordinated debt	269	2,000	100	100	250	250
Equity	2,252	16,744	16,117	12,575	14,347	14,270
Total liabilities and equity	26,092	193,977	173,532	228,920	223,134	239,726
OFF-BALANCE SHEET ITEMS						
Contingent liabilities	2,393	17,790	15,279	20,993	11,719	12,171
Other commitments	703	5,225	5,480	4,685	6,707	7,501

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Nykredit Bank A/S

	2016	2015	2014	2013	2012
47. FIVE-YEAR FINANCIAL HIGHLIGHTS, BANK (CONTINUED)					
FINANCIAL RATIOS					
Total capital ratio, %	16.0	20.1	13.0	16.8	21.3
Tier 1 capital ratio, %	14.3	19.7	12.7	16.4	21.3
Return on equity before tax, %	4.5	13.8	(17.8)	0.5	0.3
Return on equity after tax, %	3.8	10.7	(13.2)	0.5	0.5
Income:cost ratio	1.44	2.25	(0.18)	1.03	1.02
Interest rate exposure, %	0.5	0.5	0.6	0.6	0.5
Foreign exchange position, %	1.0	1.1	0.4	2.7	0.0
Foreign exchange exposure, %	0.0	0.0	0.0	0.0	0.0
Loans and advances:deposits	1.3	1.4	1.3	1.6	1.6
Loans and advances:equity	5.0	5.3	6.7	7.2	6.0
Growth in loans and advances excl repo transactions for the year, %	17.9	(7.5)	6.8	(7.6)	(10.7)
Excess coverage:statutory liquidity requirements, %	264.7	346.5	281.6	276.0	183.1
Total large exposures, %	0.0	11.1	34.5	0.0	0.0
Impairment losses for the year, %	(0.2)	(0.1)	0.2	0.3	0.5
Return on capital employed, %	0.3	0.9	(0.8)	0.0	0.0
Average number of staff, full-time equivalents	641	606	672	714	723

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Nykredit Bank Group

48. FINANCIAL RATIOS, DEFINITIONS

Total capital ratio, %	Total own funds divided by risk exposure amount
Tier 1 capital ratio, %	Total Tier 1 capital divided by total REA
Common Equity Tier 1 capital ratio, %	Total Common Equity Tier 1 capital divided by total risk exposure amount
Return on equity before tax, %	Profit (loss) before tax as a percentage of average equity
Return on equity after tax, %	Profit (loss) after tax as a percentage of average equity
Income:cost ratio	Income including profit (loss) from associates and Group enterprises divided by costs excluding tax
Operating costs and depreciation of equipment as % of core income from business operations	Operating costs and depreciation of equipment divided by core income from business operations
Interest rate exposure, %	Interest rate exposure divided by Tier 1 capital
Foreign exchange position, %	Exchange rate indicator 1 divided by Tier 1 capital
Foreign exchange exposure, %	Exchange rate indicator 2 divided by Tier 1 capital
Loans and advances:deposits	Loans and advances plus impairment provisions divided by deposits. Loans and advances include loans and advances at fair value and loans and advances at amortised cost
Loans and advances:equity	Loans and advances divided by equity (year-end). Loans and advances include loans and advances at fair value and loans and advances at amortised cost
Growth in loans and advances excluding repo transactions for the year, %	Growth in loans and advances from the beginning to the end of the year/period (loans and advances at the beginning of the year/period divided by loans and advances at the end of the year/period) Loans and advances include loans and advances at amortised cost
Growth in loans and advances including repo transactions for the year, %	Growth in loans and advances from the beginning to the end of the year/period (loans and advances at the beginning of the year/period divided by loans and advances at the end of the year/period). Loans and advances include loans and advances at fair value and loans and advances at amortised cost
Excess coverage:statutory liquidity requirements, %	Excess coverage relative to the 10% requirement of s 152 of the Danish Financial Business Act (Available excess liquidity relative to 10% of reduced payables) (Reduced payables include balance sheet total plus guarantees less equity less subordinated debt)
Total large exposures, %	Total large exposures divided by eligible capital
Impairment losses for the year, %	Impairment losses for the year divided by loans and advances plus guarantees plus impairment provisions
Return on capital employed, %	Profit (loss) for the year divided by total assets

The financial ratios, exclusive of "Common Equity Tier 1 capital ratio, %" (cf note 2), "Operating costs and depreciation of equipment as % of core income from business operations" and "Growth in loans and advances excluding repo transactions for the year, %", have been calculated in accordance with the Danish FSA's guidelines for reporting purposes. The three financial ratios are thus not included in the reporting.

NOTES

Nykredit Bank Group

49. OTHER INFORMATION

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 Bank Group.

MANAGEMENT COMMENTARY (CONTINUED)

DKK million

Nykredit Bank Group – eight quarters	Q4/ 2016	Q3/ 2016	Q2/ 2016	Q1/ 2016	Q4/ 2015	Q3/ 2015	Q2/ 2015	Q1/ 2015
EIGHT-QUARTER FINANCIAL HIGHLIGHTS								
SUMMARY INCOME STATEMENT								
Net interest income	436	359	275	428	418	605	413	452
Dividend on equities and fee and commission income, net	312	260	301	224	235	209	254	256
Net interest and fee income	748	619	576	652	653	814	667	708
Value adjustments	621	241	(118)	(660)	365	(374)	1,674	(720)
Other operating income	7	8	7	6	4	6	8	7
Staff and administrative expenses	557	490	490	463	426	474	453	479
Other operating expenses, depreciation and amortisation	29	10	11	10	30	20	18	23
Impairment losses on loans, advances and receivables	(83)	28	(70)	(16)	(34)	2	(70)	(19)
Profit from investments in associates and Group enterprises	-	-	-	-	-	-	-	-
Profit (loss) before tax	872	341	34	(459)	600	(50)	1,948	(488)
Tax	194	74	(5)	(102)	137	(11)	455	(113)
Profit (loss) for the period	678	267	39	(357)	463	(39)	1,493	(375)
Comprehensive income	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	678	267	39	(357)	463	(39)	1,493	(375)
SUMMARY BALANCE SHEET								
Assets								
Cash balances and receivables from central banks and credit institutions	35,723	35,409	37,410	20,305	13,425	25,280	31,954	42,699
Loans, advances and other receivables at fair value	30,091	24,871	30,350	34,963	39,467	34,534	29,765	29,569
Loans, advances and other receivables at amortised cost	55,003	53,115	49,554	48,972	46,747	47,506	49,441	49,404
Bonds at fair value	42,318	40,905	37,867	42,353	40,051	42,672	43,721	43,603
Equities	258	263	277	335	361	317	388	411
Remaining assets	31,533	38,893	39,558	37,849	34,288	37,316	37,688	53,365
Total assets	194,926	193,456	195,016	184,777	174,339	187,625	192,957	219,051
Liabilities and equity								
Payables to credit institutions and central banks	51,606	47,668	40,205	41,552	34,957	41,714	45,693	61,649
Deposits and other payables	66,263	65,031	69,643	59,747	62,758	61,725	66,056	67,832
Bonds in issue	10,158	12,071	14,990	18,031	20,150	24,662	25,763	24,427
Other non-derivative financial liabilities at fair value	21,348	19,598	21,075	17,537	11,776	12,205	8,171	4,930
Remaining payables	26,546	32,806	33,081	31,869	28,267	31,368	31,286	45,687
Total payables	175,921	177,174	178,994	168,736	157,908	171,674	176,969	204,525
Provisions	261	217	222	181	214	197	195	226
Subordinated debt	2,000	-	-	100	100	100	100	100
Equity	16,744	16,065	15,800	15,760	16,117	15,654	15,693	14,200
Total liabilities and equity	194,926	193,456	195,016	184,777	174,349	187,625	192,957	219,051
OFF-BALANCE SHEET ITEMS								
Contingent liabilities	17,152	15,528	13,689	13,615	15,180	15,182	21,156	20,320
Other commitments	5,375	5,857	6,022	5,721	5,566	5,016	4,671	4,632
FINANCIAL RATIOS								
Total capital ratio, %	16.0	13.9	20.0	19.6	21.1	21.1	18.9	15.6
Tier 1 capital ratio, %	14.3	13.9	19.6	19.2	20.7	20.7	18.5	15.1
Return on equity before tax pa, %	5.3	8.6	0.9	(11.5)	14.0	(0.4)	52.1	(14.6)
Return on equity after tax pa, %	4.1	6.7	1.0	(9.0)	10.7	(0.3)	40.0	(11.2)

MANAGEMENT COMMENTARY (CONTINUED)

DKK million

Nykredit Bank Group	Q4/ 2016	Q3/ 2016	Q2/ 2016	Q1/ 2016	Q4/ 2015	Q3/ 2015	Q2/ 2015	Q1/ 2015
EIGHT-QUARTER FINANCIAL HIGHLIGHTS (CONTINUED)								
SUMMARY CORE EARNINGS AND INVESTMENT PORTFOLIO INCOME								
Core income from business operations	953	790	944	742	881	678	1,163	819
Core income from securities	2	2	1	3	2	2	1	3
Income from core business	955	792	945	745	883	680	1,164	822
Operating costs and depreciation of equipment	580	493	496	468	442	471	454	485
Expenses for guarantee and resolution schemes	6	7	4	6	6	23	17	17
Profit from core business before impairment losses	369	292	445	271	435	186	693	320
Impairment losses on loans and advances	(82)	27	(70)	(16)	(34)	2	(70)	(19)
Profit from core business	451	265	515	287	469	184	763	339
Legacy derivatives	422	66	(510)	(741)	129	(213)	1,189	(876)
Goodwill impairment					9			
Investment portfolio income	(1)	10	30	(5)	11	(21)	(4)	49
Profit (loss) before tax	872	341	34	(459)	600	(50)	1,948	(488)
Tax	194	74	(5)	(102)	137	(11)	455	(113)
Profit (loss) for the period	678	267	39	(357)	463	(39)	1,493	(375)
Profit (loss) before tax, year-to-date	788	(85)	(425)	(459)	2,010	1,410	1,460	(488)

MANAGEMENT COMMENTARY (CONTINUED)

FINANCIAL CALENDAR FOR 2017

7 February	Annual reports for 2016 and announcements of financial statements of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
16 March	Annual General Meeting of Nykredit Bank A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
16 March	Annual General Meeting of Totalkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
16 March	Annual General Meeting of Nykredit Realkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
11 May	Q1 interim reports of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
17 August	H1 interim reports of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
7 November	Q1-Q3 interim reports of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.

MANAGEMENT COMMENTARY (CONTINUED)

DIRECTORSHIPS AND EXECUTIVE POSITIONS

The Board of Directors and the Executive Board form the Nykredit Bank Group's management.

BOARD OF DIRECTORS

The Board of Directors meets monthly except in July. Weekly board meetings are held when required for approval of exposures.

The members of Nykredit Bank's Board of Directors appointed by the General Meeting are elected for a term of one year. The latest ordinary election took place on 15 March 2016. Re-election is not subject to any restrictions. The next annual general meeting of the Company is scheduled for 15 March 2017.

Staff-elected board members are elected for a term of four years.

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.

Michael Rasmussen, Chairman Group Chief Executive, Nykredit

Date of birth: 13 November 1964
Joined the Board on 1 April 2014

Managing Director of:
Foreningen Nykredit**
Nykredit Holding A/S
Nykredit Realkredit A/S

Chairman of:
Totalkredit A/S
FinansDanmark*
Investeringsfonden for Udviklingslande (IFU)
Realkreditrådet**

Director of:
Nykredits Fond**
Copenhagen Business School*

Creditkassens Jubilæumsfond af 1941 og 1966**

Søren Holm, Deputy Chairman Group Managing Director, Nykredit

Date of birth: 15 November 1956
Joined the Board on 26 September 2002

Managing Director of:
Nykredit Holding A/S
Nykredit Realkredit A/S

Chairman of:
Ejendomsselskabet Kalvebod A/S

Director of:
Totalkredit A/S
Realkreditrådet
VP Securities A/S

Kent Ankersen*** Chief Dealer

Date of birth: 17 February 1957
Joined the Board on 13 March 2015

Kim Duus Group Managing Director, Nykredit

Date of birth: 8 December 1956
Joined the Board on 20 August 2009

Managing Director of:
Nykredit Holding A/S
Nykredit Realkredit A/S

Chairman of:
Nykredit Portefølje Administration A/S

Director of:
Totalkredit A/S

Flemming Ellegaard*, *** Chief Dealer

Date of birth: 1 January 1960
Joined the Board on 1 January 2016

David Hellemann Group Managing Director, Nykredit

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

Managing Director of:
Nykredit Holding A/S
Nykredit Realkredit A/S

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

Deputy Chairman of:
JN Data A/S*

Director of:
Totalkredit A/S*
Bankernes EDB Central a.m.b.a.*
E-nettet A/S**
Finanssektorens Uddannelsescenter*

Anders Jensen Group Managing Director, Nykredit

Date of birth: 20 January 1965
Joined the Board on 1 October 2014

Managing Director of:
Nykredit Holding A/S
Nykredit Realkredit A/S

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

Director of:
Totalkredit A/S
Finansrådet**
Grænsesfonden
Niels Brock (Copenhagen Business College)

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

Allan Kristiansen*** Chief Relationship Manager

Date of birth: 6 March 1958
Joined the Board on 13 March 2003

Director of:
Nykredit Holding A/S
Nykredit Realkredit A/S

Bente Overgaard** Group Managing Director

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.

Henrik Rasmussen

Managing Director

Date of birth: 26 December 1961
Joined the Executive Board on 1 December 2015

Director of:
Nykredit Mægler A/S
Nykredit Leasing A/S
Horsens & Friends A/S
Landsdækkende Banker *

Dan Sørensen

Managing Director

Date of birth: 15 December 1967
Joined the Executive Board on 1 December 2015

Director of:
Nykredit Portefølje Administration A/S

*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.