

Nykredit
Bank
Group

Annual Report
2017



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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 Forenet Kredit, 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 21 March 2018.

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

See page 112 for directorships and executive positions of the members of the Board of Directors and the Executive Board.

At nykredit.com you may read more about the Nykredit Group and download the following reports:

- Annual Report 2017
- CSR Report 2017
- Risk and Capital Management 2017

Information on corporate governance is available at nykredit.com/corporategovernance.

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
Helge Leiro Baastad
Merete Eldrup
Bent Naur

REMUNERATION BOARD

The Remuneration Board serves the entire Nykredit Group.

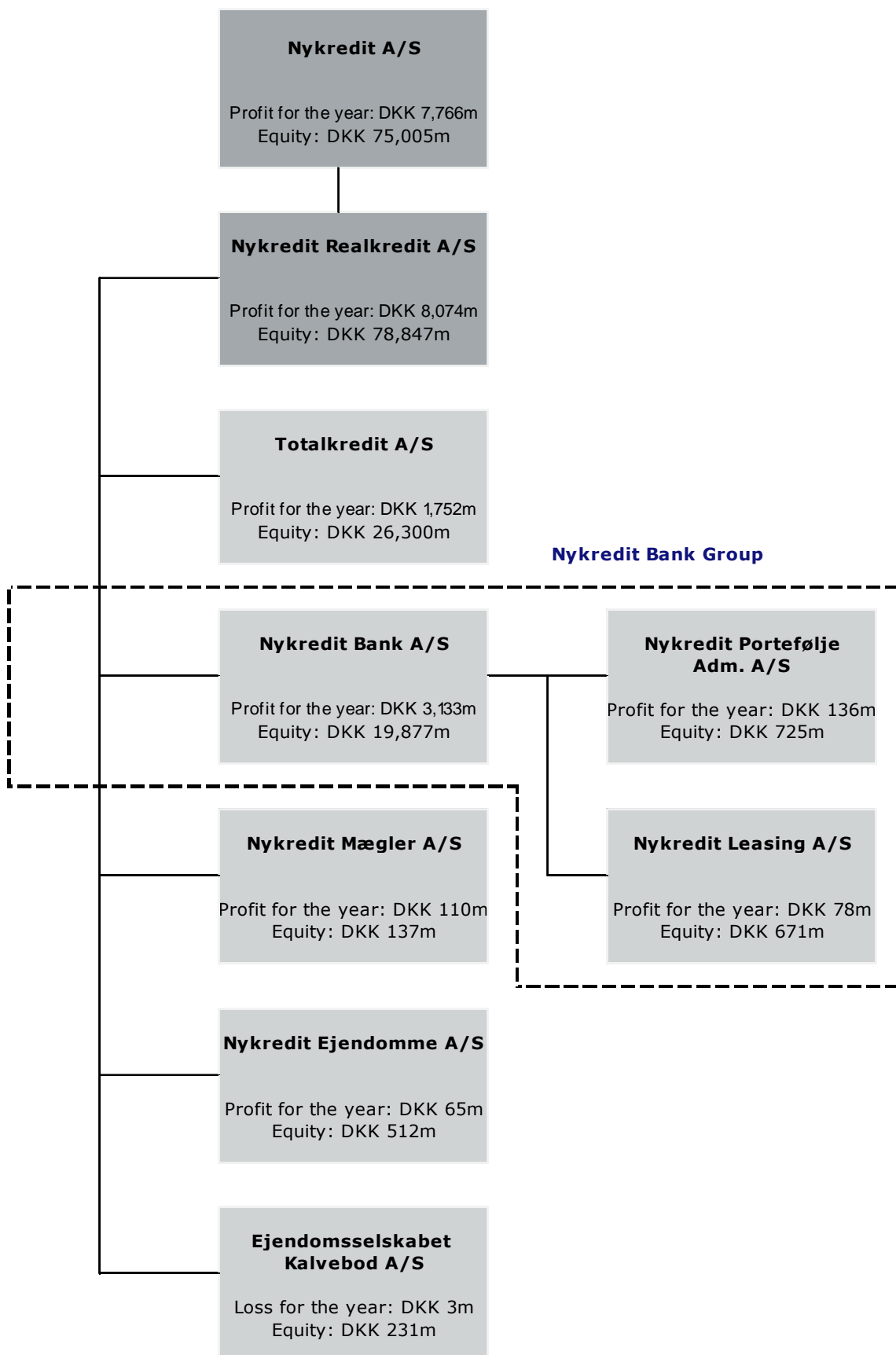
Steffen Kragh, Chairman
Merete Eldrup
Nina Smith
Leif Vinther, Chairman of Staff Association

RISK BOARD

The Risk Board serves the entire Nykredit Group.

Merete Eldrup, Chairman
Michael Demsitz
Per W. Hallgren
Bent Naur

GROUP CHART



FINANCIAL HIGHLIGHTS

DKK million

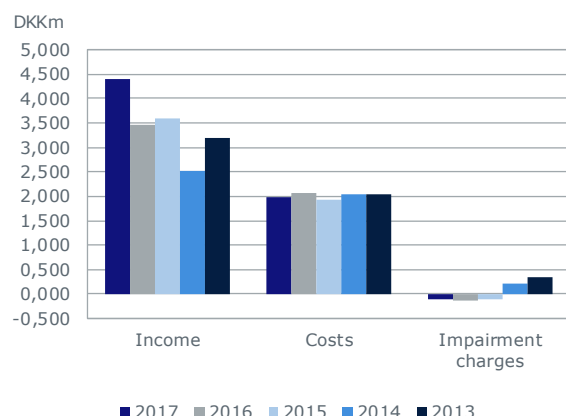
Nykredit Bank Group	FY/ 2017	FY/ 2016	FY/ 2015	FY/ 2014	FY/ 2013	Q4/ 2017	Q3/ 2017
BUSINESS PROFIT AND PROFIT FOR THE YEAR							
Net interest income	1,493	1,467	1,505	1,649	1,799	368	381
Net fee income	540	385	340	369	341	153	145
Wealth management income	1,402	1,184	1,040	993	991	355	356
Net interest from capitalisation	(32)	5	8	29	33	(8)	(8)
Trading, investment portfolio and other income	986	428	688	(483)	22	114	96
Income	4,389	3,470	3,584	2,556	3,187	983	972
Costs	1,974	2,061	1,924	2,035	2,045	536	484
Business profit before impairment charges	2,415	1,410	1,660	521	1,142	447	487
Impairment charges for loans and advances	(102)	(141)	(121)	219	349	166	(60)
Business profit	2,516	1,551	1,781	302	793	281	548
Legacy derivatives	1,517	(763)	229	(2,674)	(708)	29	122
Profit (loss) before tax	4,033	787	2,010	(2,371)	85	310	670
Tax	901	161	468	(599)	8	71	158
Profit (loss) for the year	3,133	626	1,542	(1,772)	77	239	511
SUMMARY BALANCE SHEET							
	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2017	30.09.2017
Assets							
Cash balances and receivables from credit institutions and central banks	19,991	35,723	13,425	33,885	23,173	19,991	23,737
Loans, advances and other receivables at fair value	27,566	30,091	39,467	35,228	56,814	27,566	20,168
Loans, advances and other receivables at amortised cost	55,783	55,003	46,747	50,494	47,024	55,783	57,270
Bonds and equities	47,453	42,576	40,412	65,314	64,219	47,453	42,846
Remaining assets	22,791	31,533	34,288	44,962	32,904	22,791	24,076
Total assets	173,585	194,926	174,339	229,883	224,134	173,584	168,097
Liabilities and equity							
Payables to credit institutions and central banks	40,218	51,606	34,957	63,876	57,732	40,218	43,922
Deposits and other payables	76,501	66,263	62,758	65,350	65,405	76,501	69,298
Bonds in issue at amortised cost	6,473	10,158	20,150	25,881	26,689	6,473	7,218
Other non-derivative financial liabilities at fair value	13,976	21,348	11,776	19,943	29,248	13,976	10,901
Remaining payables	14,298	26,546	28,267	41,913	30,216	14,298	14,899
Provisions	241	261	214	245	247	241	221
Subordinated debt	2,000	2,000	100	100	250	2,000	2,000
Equity	19,877	16,744	16,117	12,575	14,347	19,877	19,638
Total liabilities and equity	173,585	194,926	174,339	229,883	224,134	173,585	168,097
OFF-BALANCE SHEET ITEMS							
Contingent liabilities	25,080	17,152	15,180	20,893	11,620	25,080	20,572
Other commitments	6,835	5,375	5,566	4,839	6,906	6,835	6,922
FINANCIAL RATIOS							
Profit (loss) for the year as % pa of business capital (ROAC) ¹	20.7	4.6	11.4	(11.2)	0.5	6.1	13.0
Profit (loss) for the year as % pa of average equity	16.8	3.9	10.4	(12.8)	0.5	4.8	10.5
Costs as % of income	45.0	59.4	53.7	79.6	64.2	54.5	49.8
Total provisions for loan impairment and guarantees	2,347	2,611	2,974	3,687	4,095	2,347	2,232
Impairment charges for the year, %	(0.1)	(0.1)	(0.1)	0.2	0.3	(0.1)	(0.1)
Total capital ratio, %	22.3	16.6	21.1	13.1	16.8	22.3	21.7
Tier 1 capital ratio, %	20.1	14.8	20.7	12.8	16.4	20.1	19.5
Common Equity Tier 1 capital ratio, %	20.1	14.8	20.6	12.8	16.1	20.1	19.5
Average number of staff, full-time equivalent	822	800	761	820	859	819	819

¹ Reference is made to page 29.

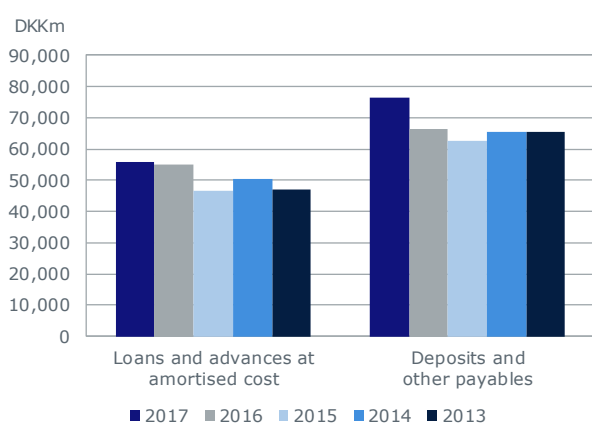
This presentation has changed in some areas. The former income statement item "Income from core business" has been replaced by a new principal item "Income", which will also include the former item "Investment portfolio income" going forward. The income statement item "Profit from core business" has moreover been replaced by a new principal item, "Business profit". "Legacy derivatives" is still presented as a separate item. Reference is made to page 29 and note 1, accounting policies. The changes have not impacted profit, comprehensive income, balance sheet or equity. Comparative figures for previous periods have been restated.

2017 – SUMMARY

Nykredit Bank Group Income, costs and impairment



Lending and deposits



RESULTS FOR 2017

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

Business profit and profit before tax

In 2017 the Nykredit Bank Group recorded growth in many areas and delivered its strongest financial performance ever. Nykredit's customer concepts generated satisfactory growth in the number of full-service BoligBank customers and increasing business volumes within deposits and lending as well as investment and pension products. Private banking, which is one of the Group's focus areas, saw high customer activity, and wealth management activities delivered a strong performance in the year under review.

Activity levels in business banking and Nykredit Markets were high, and growth in the customer base and business volumes was satisfactory.

Private Banking Elite also saw satisfactory growth in the number of clients and assets under management driven by the close collaboration between Private Banking Elite, Nykredit Markets and Nykredit Asset Management. Nykredit's strong value propositions won as many as three international awards this year – recently Nykredit won Euromoney's Best Private Banking survey, and The Banker proclaimed Nykredit winner of the award "Best Private Banking in Denmark 2017".

2017 was significantly affected by positive value adjustment of interest rate swaps of DKK 325m, partly driven by the positive effect of both interest rates and credit spreads.

Costs dropped as a result of the Group's cost discipline. In addition, impairment provisions also generated a gain in 2017, as impairments from previous years partly relating to two large housing cooperative exposures were reversed in Q2, and as impairment levels were generally low in 2017. In the coming year, more normalised and thus higher impairment levels than in 2017 are expected.

Business profit went up by DKK 965m from DKK 1,551m in 2016 to DKK 2,516m in 2017.

Legacy derivatives, which are excluded from business profit, were a gain of DKK 1,517m against a loss of DKK 763m in 2016. This should be seen in the context of the one-off gain from the recovery of losses previously written off on swap transactions with two large housing cooperatives as well as the effect of both interest rates and credit spreads.

The Nykredit Bank Group's profit before tax thus rose from DKK 787m in 2016 to DKK 4,033m in 2017.

Including tax of DKK 901m, profit after tax came to DKK 3,133m against DKK 626m in 2016. This represented a return on equity of 16.8% in 2017 compared with 3.9% last year.

ROAC for the year was 20.7% compared with 4.6% in 2016.

Income

Income went up by DKK 919m, or 26%, on 2016 to DKK 4,389m.

Net interest income, which relates to deposits and lending activities in the Management Commentary presentation, as well as fees, rose by DKK 25m and DKK 155m, respectively, to a total of DKK 2,033m compared with 2016. The upturn was especially driven by Retail and Corporate & Institutional Banking.

Wealth management income went up by DKK 218m to DKK 1,402m compared with 2016. The income stems from activities carried out by the Group entities Nykredit Markets, Nykredit Asset Management and Nykredit Portefølje Administration A/S. Income is subsequently allocated to the business divisions serving the customers.

Net interest expenses from capitalisation, which includes interest on subordinated debt, totalled DKK 32m, equal to a rise of DKK 37m on 2016.

Trading, investment portfolio and other income, including value adjustments of swaps currently offered, rose by DKK 558m to DKK 986m.

Lending at amortised cost went up by DKK 0.8bn on end-2016 to DKK 55.8bn at end-2017. In 2017 Nykredit Bank transferred secured homeowner loans to Totalkredit totalling DKK 3.4bn. Determined including this intercompany transaction, lending increased by DKK 4.2bn for the year.

Deposits rose by DKK 10.2bn from DKK 66.3bn at end-2016 to DKK 76.5bn.

Costs

Costs went down by DKK 87m from DKK 2,061m to DKK 1,974m. Payroll costs rose by DKK 18m to DKK 833m, or 2%, whereas other capacity costs declined by DKK 84m. The rise in payroll costs was primarily driven by investment in Private Banking Elite, which expanded their staff.

The average number of full-time equivalent staff totalled 822 compared with 800 in 2016, equal to a rise of 2.8%.

Impairment charges for loans and advances and provisions for guarantees

Impairment charges were a gain of DKK 102m, including a one-off gain of DKK 183m relating to two large housing cooperatives, against a gain of DKK 141m in 2016, equivalent to an adverse change of DKK 39m.

Of this income, Retail accounted for a charge of DKK 72m, while Wealth Management contributed a gain of DKK 159m. Wealth Management and Group Items contributed a gain of DKK 14m in total.

Individual impairment provisions saw a positive change from a gain of DKK 83m in 2016 to a gain of DKK 337m, particularly driven by a reversal of impairment provisions. Collective impairment provisions were a charge of DKK 228m against a gain of DKK 10m in 2016.

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

Impairment charges for the year equalled negative 0.1% of loans and advances against negative 0.1% in 2016.

Legacy derivatives

This item includes credit value adjustment of swaps involving an increased risk of loss. These value adjustments are not included in the business profit and comprise all net income from a number of derivatives which we no longer offer to our customers.

Value adjustment was a gain of DKK 1,517m against a loss of DKK 763m in 2016. This was driven by several factors in 2017, such as changes in interest rates and credit spreads as well as a positive effect from maturity reduction. To this should be added a one-off gain of DKK 739m resulting from the winding up of two large housing cooperatives in bankruptcy.

The portfolio of legacy derivatives had a total market value of DKK 5.9bn against DKK 6.7bn at end-2016. The portfolio was written down to DKK 3.4bn at end-2017, which is unchanged on end-2016.

Tax

The tax charge was DKK 901m, corresponding to 22.3% of profit before tax compared with 20.4% in 2016.

Results

Profit after tax came to DKK 3,133m in 2017 against DKK 626m in 2016.

RESULTS FOR Q4/2017

Results relative to Q3/2017

Profit before tax declined by DKK 360m from DKK 670m in Q3/2017 to DKK 310m in Q4/2017. Profit after tax corresponded to a ROAC of 6.1% compared with 13.0% in Q3/2017.

Business profit was DKK 281m in Q4/2017 against DKK 548m in Q3/2017. The decline comprised an increase in costs of DKK 52m and a rise in impairment charges for loans and advances to DKK 166m from a gain of DKK 60m in Q3/2017. Value adjustment of legacy derivatives fell by DKK 93m to DKK 29m in Q4/2017.

RESULTS RELATIVE TO OUTLOOK

In connection with the publication of Q1-Q3 Financial Statements 2017, we raised our outlook for business profit significantly compared with 2016 when profit was DKK 1.6bn.

Business profit for the full year 2017 improved by approx DKK 1.0bn to DKK 2.5bn, fuelled particularly by higher income from value adjustment of derivatives as well as Wealth Management income and net fee income.

OUTLOOK FOR 2018

2017 saw a positive activity level and relatively high income from value adjustment of derivatives. In 2018 Nykredit Bank does not expect the same gains on derivatives, but a more moderate activity level, which combined with continued low interest rate levels means that income is expected to be lower than in 2017.

Costs for 2018 are expected to be in line with 2017.

While the impairment level in 2017 resulted in a gain, impairment levels in 2018 are once again expected to have an adverse earnings impact. This is due to our forecast of generally increasing impairment levels.

Overall, business profit for 2018 is expected to be around DKK 1.5bn-2.0bn. Profit before tax is expected to remain at the same level, as there are no specific expectations for legacy derivatives.

The most significant uncertainty factors in respect of our outlook for 2018 relate to movements in interest rate markets and uncertainty about loan impairment.

EVENTS SINCE THE BALANCE SHEET DATE

No events have occurred in the period up to the presentation of the Annual Report 2017 which materially affect the Nykredit Bank Group's financial position.

SPECIAL ACCOUNTING CIRCUMSTANCES

New earnings presentation in Management Commentary

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

As part of the Group's ongoing adjustment of its internal and external reporting, various changes have been made as from Q1-Q3/2017. For more details, please refer to "Alternative performance measures" on page 29.

OTHER

Secure capital position

On 23 November 2017, the Committee of Representatives of Forenet Kredit approved an agreement on the sale of a shareholding in Nykredit A/S to a group of Danish pension companies headed by PFA Pension and with PensionDanmark, PKA, AP Pension and MP Pension as co-investors. The sale of shares provides Nykredit with a stable and

lasting ownership structure consisting of robust Danish owners and a strong capacity for raising equity and thus a very secure future capital position.

Recoveries on claims on housing cooperatives previously written off

The trustees of the estates in bankruptcy AB Hostrups Have and AB Duegård sold the properties of the housing cooperatives in 2017. In continuation thereof, being principal creditor of the estates in bankruptcy, Nykredit was able to recognise DKK 0.9bn as income relating to loans, advances and swaps previously recognised.

Effect of new IFRS 9 accounting standard

As mentioned in the accounting policies, IFRS 9 will enter into force on 1 January 2018. The accounting standard will have an effect mainly on the size of Nykredit Bank Group's impairment charges for loans and advances measured at amortised cost.

The implementation is expected to result in an increase in total impairment provisions of around DKK 0.6bn.

Reference is made to accounting policies as described in notes 1 and 48 of the Financial Statements.

CREDIT RATINGS

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

Fitch Ratings

Nykredit Realkredit and Nykredit Bank each have a long-term rating of A and a short-term 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.

Listing of ratings

A table listing Nykredit's credit ratings with S&P and Fitch Ratings is available at nykredit.com/rating.

Nykredit Bank Group
Summary balance sheet

DKK million	31.12.2017	31.12.2016
Assets		
Receivables from credit institutions	19,991	35,723
Loans and advances at fair value (reverse repurchase lending)	27,566	30,091
Loans and advances at amortised cost	55,783	55,003
Retail	32,097	30,079
- Personal Banking	11,973	11,952
- Business Banking	20,124	18,127
Wholesale Clients	19,672	21,554
Wealth Management	3,344	2,603
Other loans and advances	670	767
Bonds and equities	47,454	42,576
Remaining assets	22,791	31,533
Liabilities and equity		
Payables to credit institutions and central banks	40,218	51,606
Deposits and other payables	76,502	66,263
Retail	46,646	43,037
- Personal Banking	27,214	25,760
- Business Banking	19,432	17,277
Wholesale Clients	14,164	12,207
Wealth Management	13,464	9,522
Other deposits	2,228	1,497
Bonds in issue	6,473	10,158
Other non-derivative financial liabilities at fair value	13,976	21,348
- of which deposits at fair value (repo deposits)	8,214	14,562
Remaining payables and provisions	14,539	26,807
Subordinated debt	2,000	2,000
Equity	19,877	16,744
Balance sheet total	173,585	194,926

Nykredit Bank Group
Equity

DKK million	31.12.2017	31.12.2016
Equity, beginning of year	16,744	16,117
Profit after tax	3,133	627
Total equity	19,877	16,744

BALANCE SHEET, EQUITY AND CAPITAL ADEQUACY

Balance sheet

The balance sheet stood at DKK 173.6bn compared with DKK 194.9bn at end-2016.

The balance sheet reduction should primarily be seen in the context of declining repo deposits and reverse repurchase lending, balances with credit institutions and reduced market values of derivatives (remaining assets and remaining liabilities). Conversely, bonds and equities as well as lending and deposits went up.

Receivables from credit institutions and central banks reduced by DKK 15.7bn to DKK 20.0bn, while loans and advances at fair value (reverse repurchase lending) decreased by DKK 2.5bn to DKK 27.6bn.

Bank lending at amortised cost was DKK 55.8bn, up DKK 0.8bn on end-2016. This trend should be seen against the backdrop of the Bank's transfer of secured homeowner loans of a total amount of DKK 3.4bn to Totalkredit in 2017. Adjusted for this effect, loans and advances generally increased by DKK 4.2bn in 2017.

Retail accounted for DKK 2.0bn of the increase in loans and advances resulting in particular from a rise in business lending. Personal lending was on a par with end-2016. However, including secured homeowner loans transferred to Totalkredit, personal lending grew by DKK 3.4bn. Lending in Wholesale Clients dropped by DKK 1.9bn, whereas Wealth Management saw an increase of DKK 0.7bn. Group Items declined by DKK 0.1bn.

The bond and equity portfolio stood at DKK 47.5bn, which was an increase on the beginning-of-year portfolio. The bond 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.

Remaining assets were DKK 22.8bn compared with DKK 31.5bn at end-2016. At end-2017, DKK 18.4bn was attributable to positive market values of derivatives compared with DKK 26.9bn at end-2016. 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 11.5bn. Moreover, "Other assets" includes interest and commission receivable.

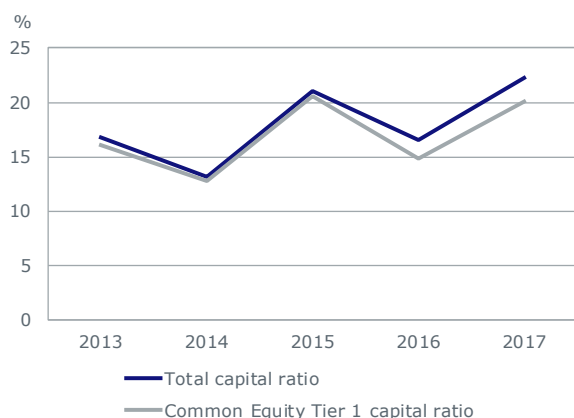
Payables to credit institutions and central banks were down by DKK 11.4bn to DKK 40.2bn. Deposits and other payables totalled DKK 76.5bn, which represented an increase of DKK 10.2bn on end-2016. Retail deposits grew by DKK 3.6bn, particularly driven by increased deposits from business customers, while Wealth Management accounted for a rise of DKK 3.9bn. Wholesale Clients grew by DKK 2.0bn, while Group Items and other deposits rose by DKK 0.7bn.

Nykredit Bank Group		
Capital and capital adequacy		
DKK million	31.12.2017	31.12.2016
Share capital	8,045	8,045
Retained earnings	11,832	8,699
Equity, year-end	19,877	16,744
Profit for the year not included	-	-
Prudent valuation adjustment	(30)	(46)
Intangible assets and deferred tax assets	(17)	(22)
Deduction for difference between IRB losses and impairments	(43)	(315)
Other deductions	(4)	(63)
Transitional adjustment of deductions	9	126
Common Equity Tier 1 capital	19,791	16,424
Transitional adjustment of Additional Tier 1 capital	(4)	-
Set-off of excess deductions	4	-
Tier 1 capital	19,791	16,424
Tier 2 capital	2,000	2,000
Tier 2 capital additions/deductions	125	-
Transitional adjustment of Tier 2 capital	(4)	(63)
Own funds	21,912	18,361
Credit risk	80,663	95,079
Market risk	11,235	9,369
Operational risk	6,112	5,898
Total risk exposure amount	98,011	110,346
Total capital ratio, %	22.3	16.6
Tier 1 capital ratio, %	20.1	14.8
Common Equity Tier 1 capital ratio, %	20.1	14.8

At 1 January 2018, the CET1 capital ratio of the Nykredit Bank Group was 19.7% after recognition of the net impact of IFRS 9 as at 1 January 2018. Nykredit does not apply the transitional arrangements set out in Article 473a (4).

Nykredit Bank Group		
Required own funds and internal capital adequacy requirement		
DKK million	31.12.2017	31.12.2016
Credit risk	6,453	7,606
Market risk	899	750
Operational risk	489	472
Total Pillar I	7,841	8,828
Slightly weaker economic climate (stress tests, etc)	1,076	1,198
Other risks	1,488	1,192
Model and calculation uncertainties	-	561
Total Pillar II	2,564	2,951
Total required own funds	10,405	11,779
Internal capital adequacy requirement (Pillar I and Pillar II), %	10.6	10.7

Nykredit Bank Group **Total capital ratio and CET1 capital ratio**



As at 31 December 2017, the Bank's deposits exceeded lending at amortised cost by DKK 20.7bn. At end-2016, deposits exceeded lending by DKK 11.3bn.

Bonds in issue totalled DKK 6.5bn against DKK 10.2bn at end-2016. 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 14.0bn against DKK 21.3bn at end-2016.

Remaining payables and provisions amounted to DKK 14.5bn compared with DKK 26.8bn at end-2016. The item mainly consisted of interest and commission payable and negative market values of derivative financial instruments. The decline of DKK 12.3bn on end-2016 mainly reflected a decline in negative market values of derivative financial instruments from DKK 23.0bn at end-2016 to DKK 11.5bn.

Equity and capital adequacy

Equity carried for accounting purposes totalled DKK 19.9bn at end-2017. In 2017 equity increased by profit for the year of DKK 3.1bn. Equity is identical in Nykredit Bank A/S and the Nykredit Bank Group, as the same recognition and measurement principles are applied.

At end-2017, Nykredit Bank's own funds stood at DKK 21.9bn. Own funds have been determined inclusive of the results for 1 January to 31 December 2017. 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 19.8bn at end-2017 compared with DKK 16.4bn at end-2016.

The risk exposure amount (REA) totalled DKK 98.0bn at end-2017 against DKK 110.3bn at end-2016.

At end-2017, the total capital ratio was 22.3%. The Tier 1 capital ratio as well as the Common Equity Tier 1 capital ratio stood at 20.1%.

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 10.4bn at end-2017. 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 10.6% at end-2017 against 10.7% at end-2016.

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, which comprises the business units Corporate & Institutional Banking and Nykredit Markets. Corporate & Institutional Banking also comprises a portfolio of large non-continuing exposures.
- 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 income from securities.

Nykredit Bank Group Results by business area DKK million	Retail		Wholesale Clients		Wealth Management		Group Items		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Business profit and profit for the year										
Net interest income	1,002	1,032	442	392	47	44	2	(1)	1,493	1,467
Net fee income	295	239	246	159	15	10	(16)	(22)	540	385
Wealth management income	535	508	106	54	739	606	22	17	1,402	1,184
Net interest from capitalisation	(61)	(50)	(50)	(39)	(6)	(3)	84	98	(32)	5
Trading, investment portfolio and other income	339	(251)	657	520	30	20	(40)	139	986	428
Income	2,111	1,478	1,401	1,085	825	677	52	231	4,389	3,470
Costs	1,039	1,077	480	510	433	392	21	83	1,974	2,061
Impairment charges for loans and advances	72	42	(159)	(191)	8	14	(22)	(6)	(102)	(141)
Business profit	1,000	359	1,079	766	384	271	53	154	2,516	1,551
Legacy derivatives	357	(232)	1,160	(530)	-	-	-	-	1,517	(763)
Profit before tax	1,357	127	2,239	236	384	271	53	154	4,033	787
Costs as % of income	49.2	72.8	34.3	47.0	52.5	57.9	41.0	35.8	45.0	59.4

Results – Retail		
DKK million	2017	2016
Net interest income	1,002	1,032
Net fee income	295	239
Wealth management income	535	508
Net interest from capitalisation	(61)	(50)
Trading, investment portfolio and other income	339	(251)
Income	2,111	1,478
Costs	1,039	1,077
Business profit before impairment charges	1,072	401
Impairment charges for loans and advances	72	42
Business profit	1,000	359
Legacy derivatives	357	(232)
Profit before tax	1,357	127

Principal balance sheet items

DKK million	2017	2016
Personal customers		
Loans and advances at amortised cost	11,973	11,952
Deposits and other payables	27,214	25,760
Business customers		
Loans and advances at amortised cost	20,124	18,127
Deposits and other payables	19,432	17,277
Total impairment provisions, year-end		
Total impairment provisions	1,628	1,715
Total impairment provisions as % of loans and advances	4.8	5.4
Off-balance sheet items		
Guarantees	21,373	15,264

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 42 local customer centres and the nationwide sales and advisory centre Nykredit Direkte®. 18 of these centres serve business customers, of which five customer centres serve our largest Retail Business customers. Finally, ten centres have specialist wealth management teams that serve our Private Banking clients. The estate agencies of the Nybolig and Estate chains constitute other distribution channels. Nykredit offers insurance in partnership with Gjensidige Forsikring.

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

Strategy

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

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

2017 – summary

Retail Personal Banking

Since early 2017, Retail Personal Banking has intensified its focus on wealth clients in Nykredit's homeowner banking programme, BoligBanken. Specialist teams at ten customer centres are responsible for all wealth management services to Retail customers. In Q4/2017, we continued our efforts to pool our resources and strengthen our customer advisory services through reorganisation, giving higher priority to new as well as existing full-service customers.

We recorded satisfactory growth in Private Banking clients over the year as well as an increase in the number of full-service customers in Nykredit's homeowner banking programme, resulting in increased business volumes within especially banking, investment and pension products. Nykredit's full-service customers expressed the highest customer satisfaction.

Retail Business Banking

Five new corporate banking customer centres have also been established with specialist teams dedicated to serving our largest Retail Business customers.

The increase in business customers taking their daily banking to Nykredit was satisfactory, with a particular overweight of

full-service customers. Business customer activity generally went up, and measures aimed at raising profitability were implemented, ensuring a better match between price and risk.

Business profit

Retail recorded a business profit of DKK 1,000m compared with DKK 359m in 2016 and a profit before tax of DKK 1,357m against a profit of DKK 127m in 2016.

Results for the year

Income went up from DKK 1,478m in 2016 to DKK 2,111m in 2017. The increase was primarily attributable to growth in Retail Business Banking of DKK 524m, driven by increased value adjustments and growth in the number of business customers.

Net interest income fell slightly as market competition exerts pressure on interest margins. Deposit margins are also being squeezed by the current negative level of deposit rates.

Costs fell by DKK 38m to DKK 1,039m. Costs as a percentage of income totalled 49.2% against 72.8% in 2016.

Impairment charges were DKK 72m against DKK 42m in 2016. Impairments relating to business customers were a charge of DKK 36m against a gain of DKK 34m in 2016, while impairment charges for personal customers improved to DKK 36m against DKK 76m in 2016.

Impairment charges were 0.1% of loans and advances.

Legacy derivatives saw a positive change of DKK 589m, rising from a charge of DKK 232m in 2016 to a gain of DKK 357m. In both years, the value adjustment resulted from business customers, including small housing cooperatives.

Lending and deposits

Lending activity increased to DKK 32.1bn from DKK 30.1bn at end-2016. In this context, it should be noted that secured homeowner loans around DKK 3.4bn have been transferred to Totalkredit for the period. These loans would have constituted a portfolio increase of about DKK 5.4bn in 2017 had they remained in the Bank's balance sheet. Deposits came to DKK 46.6bn against DKK 43.0bn at end-2016.

Subsidiaries

Nykredit Leasing A/S

The company handles the leasing activities of the Nykredit Group.

2017 – summary

In 2017 focus was on Group customers and on growing the number of and building deeper relationships with personal and business customers, and the year under review saw strong growth across the board. We introduced the Flexleasing programme mainly aimed at Private Banking clients, and VIP car loans for Boligbank 360 and 365 customers.

Losses/provisions were low in 2017. Thanks to close collaboration with other Nykredit units and dealers as well as a

strong customer focus, Nykredit Leasing managed to increase lending by 17% and create the best financial performance ever.

Nykredit Leasing recorded a profit before tax of DKK 98m compared with DKK 87m in 2016. Profit after tax was DKK 78m against DKK 71m in 2016.

The higher profit mainly reflected growth in net financial income, up DKK 12m to DKK 130m, driven partly by a higher activity level. Financial assets grew by just over DKK 0.9bn, or 17.2%, to DKK 6.2bn.

Payroll costs were down 2.7% to DKK 36m, while impairment charges rose by DKK 5m to DKK 22m.

Equity stood at DKK 671m at end-2017.

Results – Wholesale Clients		
DKK million	2017	2016
Net interest income	442	392
Net fee income	246	159
Wealth management income	106	54
Net interest from capitalisation	(50)	(39)
Trading, investment portfolio and other income	657	520
Income	1,401	1,085
Costs	480	510
Business profit before impairment charges	920	575
Impairment charges for loans and advances	(159)	(191)
Business profit	1,079	766
Legacy derivatives	1,160	(530)
Profit before tax	2,239	236

Principal balance sheet items		
DKK million	2017	2016
Lending/deposits		
Loans and advances	19,672	21,554
Deposits and other payables	14,164	12,207
Total impairment provisions, year-end		
Total impairment provisions	637	805
Total impairment provisions as % of loans and advances	3.1	3.6
Off-balance sheet items		
Guarantees	8,272	6,048

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.

Strategy

Nykredit's business strategy in this area is to provide value to clients 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 operation 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.

2017 – summary

Corporate & Institutional Banking

In 2017 Corporate & Institutional Banking saw decent demand for bank financing despite continued fierce price competition. Moreover, strategic financial advisory services and capital market transactions continue to attract interest.

Nykredit Markets

Income in Nykredit Markets was driven by high client activity across all client segments in 2017, including growth in the client base and assets under management per client. Clients and market participants focused on risk profiling and positioning, and demand for corporate bonds generally increased.

Business profit

Business profit was DKK 1,079m against DKK 766m in 2016. The DKK 313m upturn primarily consisted of an income rise of DKK 316m, as well as a reversal of loan impairments DKK 32m lower than in 2016.

Results for the year

Income totalled DKK 1,401m, up DKK 316m, driven by growth in most types of income. Income in Corporate & Institutional Banking rose by DKK 327m, whereas income in Nykredit Markets was down by almost DKK 11m on 2016.

Costs were down by DKK 480m to DKK 30m compared with 2016.

Costs as a percentage of income totalled 34.3% compared with 47.0% in 2016.

Impairment charges for loans and advances equalled a gain of DKK 159m against a gain of DKK 191m in 2016. Of the income of DKK 159m, DKK 92m related to non-continuing exposures, and a one-off gain of DKK 183m related to reversed loan impairments on two large housing cooperative exposures.

Impairment charges equalled -0.7% of loans and advances against -0.8% in 2016.

Legacy derivatives produced a gain of DKK 1,160m in 2017, equal to a positive change of DKK 1,690m, against a charge of DKK 530m in 2016. The value adjustment concerns swaps entered into with housing cooperatives, including a one-off gain of DKK 739m concerning two large housing cooperatives.

Profit before tax for the Nykredit Bank Group was DKK 2,239m against DKK 236m in 2016.

Lending and deposits

Lending amounted to DKK 19.7bn compared with DKK 21.6bn at end-2016.

The loan portfolio amounted to DKK 14.2bn against DKK 12.2bn at end-2016.

Results – Wealth Management		
DKK million	2017	2016
Net interest income	47	44
Net fee income	15	10
Wealth management income	739	606
Net interest from capitalisation	(6)	(3)
Trading, investment portfolio and other income	30	20
Income	825	677
Costs	433	392
Business profit before impairment charges	392	285
Impairment charges for loans and advances	8	14
Business profit	384	271
Legacy derivatives	-	-
Profit before tax	384	271

Principal balance sheet items		
DKK million	2017	2016
Lending/deposits		
Loans and advances	3,344	2,603
Deposits and other payables	13,464	9,522
Total impairment provisions, year-end		
Total impairment provisions	24	17
Total impairment provisions as % of loans and advances	0.7	0.6
Off-balance sheet items		
Guarantees	1,952	931

Total assets under management and administration and investment funds		
DKK million	31.12.2017	31.12.2016
Managed by Nykredit	172,645	121,166
In sourced mandates	6,262	15,349
Total assets under management	178,906	136,515
Of which Nykredit Group investment funds	61,472	55,172
Assets under administration, Nykredit Portefølje Administration A/S	806,562	786,549

WEALTH MANAGEMENT

The business division 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. The latter is targeted at clients with investable assets in excess of DKK 7m.

Nykredit's asset management and portfolio administration services are undertaken by Nykredit Asset Management and Nykredit Portefølje Administration 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.

Award-winning private banking

Nykredit was awarded "Best Private Banking in Denmark 2017" at the Global Private Banking Awards ceremony. Furthermore, in 2017 our Danish private banking customers named Nykredit best private banking provider in Denmark in Prospera's annual private banking survey, and recently Nykredit won Euromoney's Best Private Banking survey. The awards are given in recognition of Nykredit's targeted and tenacious efforts within private banking. Nykredit's focus on holistic advisory services as well as a personal and individualised approach has landed Nykredit in the absolute top rank.

In 2017 Nykredit Invest was named investment fund of the year for the fourth time in five years by the research company Dansk Aktie Analyse together with the Danish newspaper Jyllandsposten and the financial website Finans.dk and include all equity subfunds targeted at Danish retail customers, each of them judged by their capacity to generate long-term risk-adjusted returns for their investors.

2017 – summary

Total assets under management went up by DKK 42.4bn to DKK 178.9bn at end-2017. The increase comprised net growth of DKK 33.3bn and capital gains of DKK 9.1bn.

Assets under administration grew by DKK 20.0bn to DKK 807.0bn at end-2017. The increase comprised net outflows of DKK 30.6bn and capital gains of DKK 50.6bn.

Nykredit Asset Management

Nykredit Asset Management delivered good investment results in 2017.

84.6% of Nykredit Asset Management's investment strategies (GIPS composites) generated above-benchmark returns in 2017, and 91.7% generated above-benchmark returns over the past three years. This is considered satisfactory. In 2017 especially investments in Danish government and covered bonds, including the hedge funds of Nykredit Alpha, performed extraordinarily well.

Private Banking Elite

Private Banking Elite achieved satisfactory client growth in 2017, both in terms of new clients and advancement of existing client relationships. Net growth in assets under administration for the year was very satisfactory.

Private Banking Elite has maintained focus on increasing its market share, both by landing new clients and by cultivating existing Nykredit client relationships with Private Banking Elite potential.

Business profit

Business profit totalled DKK 384m compared with DKK 271m in 2016, corresponding to a DKK 113m increase, which was primarily attributable to a rise in income owing to increased customer activity.

Results for the year

Wholesale Clients income totalled DKK 825m, a DKK 148m upturn on 2016. This was mainly a result of income growth in Private Banking Elite as well as Nykredit Asset Management. The rise in Private Banking Elite should be seen against the backdrop of Nykredit's intensified focus on this area.

Costs amounted to DKK 433m, equal to an increase of DKK 41m on 2016. This should be seen in the light of the intensified focus on the business area, including an increase in the number of staff.

Costs as a percentage of income totalled 52.5% compared with 57.9% in 2016.

Impairment charges amounted to DKK 8m against DKK 14m in 2016.

Profit before tax was DKK 384m against DKK 271m in 2016.

Lending and deposits

Lending amounted to DKK 3.3bn compared with DKK 2.6bn at end-2016.

The loan portfolio amounted to DKK 13.5bn against DKK 9.5bn at end-2016.

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.

Continued high activity in 2017

The high level of activity continued into 2017 with decent client uptake, and activity remains high following the establishment of a new securities fund. Investments in IT development and continued expansion of the services provided to managed Danish UCITS and AIF funds remain at a high level.

Income statement

Net interest and fee income for the year was DKK 353m against DKK 314m in 2016.

Total expenses amounted to DKK 177m in 2017 compared with DKK 178m in 2016.

Profit before tax for the year was DKK 175m against DKK 136m in 2016. Profit after tax in 2017 grew to DKK 136m from DKK 106m in 2016.

In 2017 the company's net interest and fee income was up 12.4% on 2016. Growth in fee income exceeded expectations, driven by growth in assets under administration and new services. Net interest and capital gains were still affected by the low interest rate level in 2017. In 2017 costs were fully aligned with expectations.

Profit for the year was higher than expected by Management at the beginning of 2017.

Balance sheet, capital adequacy and own funds

The company's balance sheet totalled DKK 784m against DKK 659m at end-2016. Equity rose from DKK 589m at the beginning of the year to DKK 725m at 31 December 2017. The rise corresponds to profit for the year less provisions for tax.

In 2017 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 risk. At end-2017, investments in Danish covered bonds and receivables from credit institutions were DKK 746m, equal to 95% of the company's assets. At end-2017, the company had no interest-bearing debt.

Required own funds were DKK 322.0m at end-2017.

Results – Group Items		
DKK million	2017	2016
Net interest income	2	(1)
Net fee income	(16)	(22)
Wealth management income	22	17
Net interest from capitalisation	84	98
Trading, investment portfolio and other income	(40)	139
Income	52	231
Costs	21	83
Business profit before impairment charges	31	148
Impairment charges for loans and advances	(22)	(6)
Business profit	53	154
Legacy derivatives	-	-
Profit before tax	53	154

Principal balance sheet items		
DKK million	2017	2016
Lending/deposits		
Loans and advances at amortised cost	670	767
Deposits and other payables	2,228	1,497
Total impairment provisions, year-end		
Total impairment provisions	-	23
Total impairment provisions as % of loans and advances	-	2.9
Off-balance sheet items		
Guarantees	318	931

GROUP ITEMS

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

Profit before tax for the Nykredit Bank Group was DKK 53m against DKK 154m in 2016.

Income came to DKK 52m in 2017 against DKK 231m in 2016. This development should be seen against the backdrop of high earnings in 2016 and an impairment charge for the Bank's equity investment in Bankernes EDB Central (BEC) of DKK 64m in 2017. Costs amounted to DKK 21m against DKK 83m in 2016.

IMPAIRMENT AND LENDING

Earnings impact

IFRS 9 enters into force on 1 January 2018, and loan impairments for the year under review are not affected.

Impairments were a gain of DKK 102m in 2017 compared with a gain of DKK 141m in 2016. The gains for 2017 included a one-off gain of DKK 183m resulting from the settlement of two large housing cooperative exposures.

Of the total gain of DKK 102m, the change in individual impairment provisions and other provisions accounted for the vast majority at a gain of DKK 284m, while collective impairment provisions were a charge of DKK 228m. Recoveries on loans and advances previously written off totalled DKK 89m, while write-offs on loans, advances and guarantees not previously impaired or provided for came to DKK 43m.

Provisions for guarantees were a charge of DKK 7m in 2017 against a gain of DKK 48m in 2016.

Retail impairment charges came to DKK 73m compared with DKK 42m in 2016. The increase was mainly attributable to falling impairment provisions for business customers from a gain of DKK 34m in 2016 to a charge of DKK 36m, equal to a negative earnings impact of DKK 70m. Impairment provisions for personal customers reduced by DKK 40m from a charge of DKK 76m in 2016 to a charge of DKK 36m.

Loan impairments in Wholesale Clients were a gain of DKK 159m against a gain of DKK 191m in 2016, which partly reflected one-off income from reversed loan impairments on two large housing cooperative exposures in Corporate & Institutional Banking of DKK 183m.

Impairment charges in Wealth Management were low at DKK 8m against DKK 14m in 2016.

For further specification of the Bank's impairment charges and credit risks, please refer to notes 14 and 45.

Total impairment provisions

Total provisions decreased by 10.1% from DKK 2,611m at 31 December 2016 to DKK 2,347m at 31 December 2017. Individual impairment provisions reduced by DKK 499m, of which impairment provisions for credit institutions fell by DKK 23m due to the reversal of provisions. Collective impairment provisions rose by DKK 228m.

Impairment provisions at the beginning of year, which were written off in 2017, came to DKK 199m compared with DKK 277m in 2016. Furthermore, losses on exposures not previously provided for came to DKK 43m compared with DKK 37m in 2016.

In addition, value adjustment of interest rate swaps of DKK 3.7bn was recorded, of which credit value adjustments amounted to DKK 3.4bn, comprising DKK 2.5bn relating to legacy derivatives and DKK 0.9bn relating to other items. Value adjustment was DKK 5.0bn in 2016.

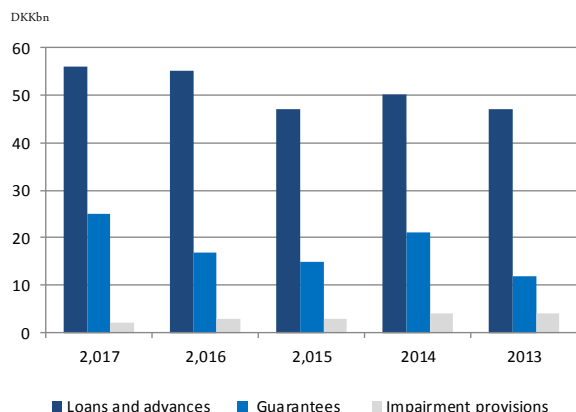
Impairment provisions in Retail fell from DKK 1,715m at end-2016 to DKK 1,628m due to a reduction of DKK 80m in impairment provisions for SMEs.

Impairment provisions for Wholesale Clients and Wealth Management exposures reduced by DKK 161m from DKK 822m at end-2016 to DKK 661m, of which the portfolio of non-continuing exposures accounted for a decline of DKK 88m from DKK 213m to DKK 125m. Other business units showed a DKK 23m reduction on end-2016.

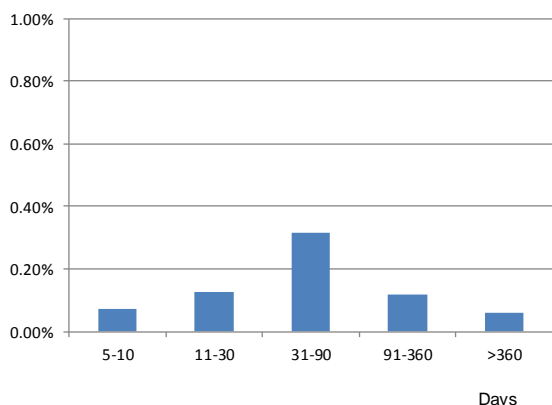
Total non-continuing exposures were fairly unchanged at DKK 0.2bn at 31 December 2017 (carrying amount after impairments).

Provisions for loan impairment and guarantees – Nycredit Bank Group	Retail		Wholesale Clients		Wealth Management		Group Items		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
DKK million										
Impairment provisions, beginning of year	1,715	1,784	805	1,011	17	4	23	76	2,560	2,875
Impairment provisions and reversals	(87)	(69)	(168)	(206)	7	13	(23)	(53)	(271)	(315)
Impairment provisions, year-end	1,628	1,715	637	805	24	17	-	23	2,289	2,560
Of which individual	1,448	1,628	466	762	16	16	-	-	1,930	2,406
Of which individual, banks	-	-	-	-	-	-	-	23	-	23
Of which collective	180	87	171	43	8	1	-	-	359	131
Provisions for guarantees										
Provisions, beginning of year	42	44	9	55	-	-	-	-	51	99
Provisions, year-end	55	42	3	9	-	-	-	-	58	51
Total provisions for loan impairment and guarantees	1,683	1,757	640	814	24	17	-	23	2,348	2,611
Earnings impact										
Impairment provisions and charges for the year, net	95	120	(98)	(129)	7	14	(23)	(6)	(19)	(1)
Recoveries on loans and advances previously written off	35	72	55	20	-	-	-	-	90	92
Total	60	48	(153)	(149)	7	14	(23)	(6)	(109)	(93)
Provisions for guarantees	13	(6)	(6)	(42)	-	-	-	-	7	(48)
Total earnings impact	73	42	(159)	(191)	7	14	(23)	(6)	(102)	(141)

Loans, advances, guarantees and impairment



Accounts overdrawn/in arrears not subject to individual provisioning



Provisions for guarantees amounted to DKK 58m against DKK 51m at end-2016.

Relative to total loans, advances and guarantees, provisions amounted to 2.1% compared with 2.5% at end-2016. Excluding guarantees, the ratio was 2.7% compared with 2.9% at end-2016. The carrying amount of non-accrual loans was DKK 0.2bn against DKK 0.2bn in 2016.

The total balance of accounts overdrawn/in arrears for which no impairment provisions had been made was very limited, equal to 0.7% of total lending at amortised cost against 0.5% at end-2016. 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 Group loans, advances and guarantees totalled DKK 108.4bn against DKK 102.2bn at end-2016, up DKK 6.2bn.

This figure comprised a decline in reverse repurchase lending of DKK 2.5bn, a rise in other loans and advances of DKK 0.8bn and a rise in guarantees of DKK 7.9bn. Reverse repurchase lending totalled DKK 27.6bn at 31 December 2017 against DKK 30.1bn at end-2016.

Finance and insurance still accounted for the largest single sector exposure at DKK 35.0bn against DKK 34.7bn at end-2016. The exposure widely comprised reverse repurchase lending with bonds serving as security.

Finance and insurance accounted for 32.2% against 34.0% at end-2016 and personal customers 25.6% against 21.7% at end-2016.

Lending to the real estate and construction sectors totalled DKK 14.2bn at end-2017 compared with DKK 14.8bn at end-2016. Of total loans, advances and guarantees, DKK 9.4bn

Loans, advances and guarantees by sector	Loans, advances and guarantees		Provisions	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
DKK million				
Public sector	714	597	2	-
Agriculture, hunting, forestry and fishing	4,645	2,661	104	95
Manufacturing, mining and quarrying	4,687	6,290	195	185
Energy supply	1,970	2,252	14	3
Construction	2,844	3,177	177	206
Trade	3,886	3,843	176	57
Transport, accommodation and food service activities	2,954	3,101	100	114
Information and communication	1,050	1,551	25	18
Finance and insurance	34,966	34,749	72	119
Real estate	11,345	11,589	663	950
Other	11,562	10,273	239	222
Total business customers	79,909	79,486	1,765	1,969
Personal customers	27,805	22,163	581	621
Total	108,428	102,246	2,348	2,590
Total, incl impairment provisions for banks	-	-	2,348	2,613

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

derived from the category renting of real estate which is in line with end-2016.

At 31 December 2017, loan impairment provisions for the real estate sector totalled DKK 0.8bn compared with DKK 1.2bn at end-2016, or 5.6% of total loans and advances to the sector. At end-2016, the percentage was 7.3%.

Supervisory Diamond

	2017	2016
Lending growth ¹ (limit value <20%)	1.7%	17.9%
Large exposures (limit value <125%)	-	-
Property exposure (limit value <25%)	11.6%	12.6%
Funding ratio (limit value <1.0)	0.5%	0.6%
Excess liquidity coverage (limit value 50%)	275.2%	264.7%

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 Q1-Q4/2017 and at 31 December 2017.

Nykredit Bank recorded lending growth of 1.7%, 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 2.1% on end-2016.

The Bank's property exposure was 11.6% against 12.6% at end-2016.

ORGANISATION, MANAGEMENT AND CORPORATE RESPONSIBILITY

BUSINESS CONCEPT

For more than 165 years, Nykredit has helped Danish families buy their homes and Danish businesses grow.

Today, we are Denmark's leading credit provider, the largest lender to homeowners and one of the largest lenders to small and medium-sized enterprises, the agricultural sector and the housing sector. Nykredit is lender to people and businesses all over Denmark.

Nykredit is unique in the Danish financial market, being predominantly mutually owned by an association, Forenet Kredit, which represents our customers. We were founded by our customers and exists for our customers.

This still holds true after a number of pension companies acquired a shareholding for DKK 7.5bn from Forenet Kredit and joined as shareholders in December 2017. Following the divestment, Forenet Kredit now holds 78.90% of the share capital of Nykredit A/S.

Nykredit's business concept was relaunched in 2017 and is denoted "The story of Nykredit: Nykredit in Denmark". The story comprises the Group's history, our key values and the six specific pledges given to our most valued stakeholders: our customers, Totalkredit partners, staff, owners, investors and Denmark.



Pledge to our customers: We will help our customers stay on top of their finances and will provide them with opportunities and security. We want to share their dreams and worries and help them find the right solutions.



Pledge to our business partners: In collaboration with our partners in the Totalkredit alliance, we want to make a difference to our customers by offering attractive products and effective solutions. We will actively develop the partnership to strengthen our combined competitiveness.



Pledge to communities: We will be active in all of Denmark and support growth – in urban and rural districts alike. At all times.



Pledge to our staff: We will prioritise development and opportunities for skilled and engaged people. We want to be known for our trusting culture guided by customer focus, team spirit and empowerment.



Pledge to our shareholders: As one of Denmark's largest financial institutions, we will strive to maintain a strong and stable share, delivering attractive risk-adjusted returns and dividends.



Pledge to our bond investors: As one of Europe's largest bond issuers, we will provide a stable and secure investment opportunity for domestic and foreign bond investors.

Our six pledges – to customers, partners, communities, staff, shareholders and bond investors – guide Nykredit's conduct and business. They are the values that we steer by every day – in everything that we do.

ORGANISATION AND RESPONSIBILITIES

Board of Directors

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

Group-level boards

Audit Board

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

Remuneration Board

- Prepares and recommends remuneration policy and other remuneration matters to the Board of Directors.

Nomination Board

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

Risk Board

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

Group Executive Board

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

Group committees

Governance and management within selected fields

Credits

- Recommends credit policy
- Approves credit applications and loan impairments and oversees the management of risk in the credits area

Asset/Liability

- Capital, funding, liquidity and market risk management

Risk

- Monitors risk profile and capital requirement

Contingency

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

Products

- Ensures development and maintenance of services, products and concepts

Corporate 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 CSR report 2017 at nykredit.com/CSRapport2017.

For more information on Nykredit, please see our CSR publication and our website.

Information on corporate governance is available at nykredit.com/corporategovernance.

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 instructions. 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.

Group-level boards

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

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

Audit Board

The Nykredit Group Audit Board only reviews audit and accounting matters in Nykredit Realkredit A/S and Nykredit 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 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.

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

The Audit Board held six meetings in 2017.

Risk Board

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

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

The Risk Board held six meetings in 2017.

Nomination Board

The Nomination Board is tasked with making recommendations to the Board of Directors on the nomination of candidates for the Board of Directors and the Executive Board. Other accountabilities are setting targets for the under-represented gender on the Board of Directors and laying down a diversity policy for the Board of Directors. In addition, the Nomination Board, reporting to the Board of Directors, is overall responsible for defining the skills profiles of the Board of Directors and the Executive Board and the continuous evaluation of their work and results.

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

The Nomination Board held four meetings in 2017.

Remuneration Board

The principal tasks of the Remuneration Board are to qualify proposals for remuneration prior to consideration by the Board of Directors and to make recommendations in respect of Nykredit's remuneration policy, including guidelines on incentive pay, for the approval of the Board of Directors as well as to assist in ensuring that they are observed. Moreover, the Remuneration Board makes proposals for remuneration of the Board of Directors and the Group Executive Board. It reviews and considers the criteria for and process of appointing risk takers, assesses whether the Group's processes and systems are sufficient and take into consideration the Group's risks relative to the remuneration structure, and ensures that the remuneration policy and practices are in alignment with and promote sound and effective risk management and are in accordance with the Group's business strategy, objectives, values and long-term interests, which is coordinated with the Risk

Board as required. Also, the Remuneration Board considers the overall results of the Group and the individual companies and business units and ensures that the Executive Board has evaluated whether the performance criteria behind the calculation of variable remuneration of members of the Board of Directors and the Executive Board and other risk takers are still met at the time of payout through spot checks of these evaluations.

Finally, the Remuneration Board ensures that the information in the Annual Report about remuneration of the Board of Directors and the Group Executive Board is correct, fair and satisfactory.

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

The Remuneration Board held four meetings in 2017.

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

Committees

Nykredit has set up five committees, which perform specific tasks within selected fields. Each committee must report to the entire Group Executive Board, and the individual members may at any time request the relevant 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 the Nykredit Group's credits area. The Committee regularly carries out portfolio management and submits recommendations on credit policies etc to the individual Executive Boards and Boards of Directors. The Committee lays down business procedures for the granting of credits within the limits of the guidelines laid down by the Group Executive Board and the Board of Directors. The Committee's remit covers Nykredit Realkredit A/S, Nykredit Bank A/S and Nykredit Leasing A/S.

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

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

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 entire spectrum of contingency plans covering IT as well as business aspects. The Committee's remit covers Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S.

The Products Committee's overarching objective 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 business models and the guidelines approved by the Executive Boards of the respective companies 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 an entire product range. The Committee's remit covers Nykredit Realkredit A/S, Totalkredit A/S, Nykredit Bank A/S, Nykredit Portefølje Administration A/S and Nykredit Leasing A/S.

THE UNDER-REPRESENTED GENDER

Nykredit Bank complies with the Nykredit Group's policy and objectives in this area.

Since 1995 Nykredit has worked actively to increase the proportion of women in management, with particular focus on recruiting female managers to top-level management. Targets have been set for the proportion of women on the Boards of Directors of all the Nykredit Group's financial companies, to be met by end-2018. The actual 2017 figures and the targets for 2018 are shown in the table below.

Nykredit has 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 CSR Report 2017, available at nykredit.com/CSRReport2017.

Nykredit Realkredit Group Female board representation	Actual	Target	Target
%	2017	2017	2018
Nykredit A/S	27	25	30
Nykredit Realkredit	33	25	30
Nykredit Bank	0	25	25
Totalkredit	11	25	25

CORPORATE GOVERNANCE

Nykredit Bank complies with the Nykredit Group's corporate governance policy and objectives.

Information on Nykredit's organisation and corporate governance is available at nykredit.com/corporategovernance.

REMUNERATION

Material risk takers

At end-2017, the Nykredit Bank Group had identified a total of 168 risk takers in addition to the members of the Bank's Exec-

utive Board and Board of Directors, who are risk takers exclusively by virtue of their directorships and executive positions. Of the 168 risk takers, 28 are on the payroll of Nykredit Bank, 10 are on the payroll of the Bank's subsidiaries, and 130 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 2017 variable remuneration provisions in respect of the Bank's Executive Board and other risk takers amounted to DKK 35m for 2017 compared with DKK 18m for 2016. The provisions for variable remuneration for 2017 corresponded to 62% of their fixed salaries.

The total remuneration of risk-takers subject to variable remuneration appears from note 12.

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

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 three months' salary. Of the bonus amount, the payout of at least 40% is deferred over five years, and a considerable part 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 2017 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 69m compared with bonus provisions of DKK 62m for 2016. The 2017 bonus provisions corresponded to 57% of their fixed salaries.

In addition, a limited number of individual bonus programmes apply to selected staff members responsible for corporate and institutional clients. The 2017 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 19m compared with bonus provisions of DKK 9m for 2016. The

2017 bonus provisions corresponded to 24% of their total fixed salaries.

Management executives and a small number of senior staff members participate in an individual bonus programme with a bonus potential of up to three months' salary. The 2017 bonus provisions in respect of these staff members amounted to DKK 1m compared with bonus provisions of DKK 2m for 2016.

The bonus programmes do not apply to other management or staff members, but they may receive individual one-off awards. For 2017 provisions of DKK 3m were made for one-off awards, the same as in 2016. The 2017 provisions for one-off awards corresponded to 0.9% of their total fixed salaries.

Total provisions for bonuses and one-off awards for 2017 came to DKK 124m against DKK 93m for 2016. The total provisions for bonuses and one-off awards for 2017 corresponded to 20% of total fixed salaries.

The rise in bonus payments from 2016 to 2017 was mainly prompted by growth during the same period in the business areas to which special bonus programmes apply.

In order to retain selected executive and key staff members, a commitment has been made that these may receive retention remuneration. For 2017, provisions for retention remuneration amounted to DKK 5m.

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 system 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 six 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 A/S Group are submitted to the Audit Board for review.

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

Risk assessment

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

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

Controls

The purpose of Nykredit's controls is to ensure that policies and guidelines laid down by the Executive Board are observed, and to ensure timely prevention, detection and correction of any errors, deviations or omissions.

Business procedures have been laid down and controls implemented for all material 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 controls comprise manual and physical controls as well as general IT controls and automatic controls in the IT systems applied.

The Executive Board has delegated its daily control duties, and overall control is based on three lines of defence:

First line of defence: The operational business units, which basically take and thereby own the risk. The management of each business area is responsible for identifying, assessing and reporting the risks arising in connection with the performance of its duties and for ensuring that satisfactory internal controls are in place at all times in respect of the risks related to the handling of business operations.

Second line of defence: Risk, Compliance and a number of control units. Together, these units are responsible for independent monitoring, control and reporting of risks and for the effectiveness of first line activities.

Third line of defence: Internal Audit, which provides independent assurance over the overall management of risks and internal controls in the Group and reports on its work to the Board of Directors and the Audit Board.

In connection with the preparation of financial statements, a number of standard procedures and internal controls are performed to ensure that the financial statements provide a fair presentation in accordance with current legislation. These procedures and controls include fixed analysis and reconciliation routines and compliance with standard business procedures as well as ongoing dialogue with Nykredit's business units and management support functions for the purpose of obtaining a business assessment of the information in the financial statements.

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

Communication and information

The Board of Directors has adopted an overall communication policy, stating that Nykredit is committed to a transparent and credible business conduct – in compliance with legislation and the Stock Exchange Code of Ethics. The communication policy is reviewed once a year by the Board of Directors and was last revised in August 2017.

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 2017, available at nykredit.com/riskandcapital-management.

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.

ALTERNATIVE PERFORMANCE MEASURES

NEW EARNINGS PRESENTATION IN MANAGEMENT COMMENTARY

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

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

This information is also provided in the Management Commentary as well as in note 3 of the Financial Statements for the business areas included in the internal reporting.

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

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

A key reporting concept going forward is the new item "Business profit", replacing the former "Profit from core business". The main difference between the two items is that "Business profit" comprises the former items "Investment portfolio income" and "Gain on sale of owner-occupied properties".

The change has been further described in the accounting policies and notes 3 and 4 of the Financial Statements. The change has no earnings impact. The organisational structure of the business areas also remains unchanged, but contrary to previously, costs of capital are charged against the individual business areas. These costs were previously included in Group Items.

Supplementary financial ratios

The financial highlights in the Management Commentary and the segmental financial statements include a number of internal income statement items, which have been specified in note 3 of the Financial Statements. It should be noted in particular that "Net interest income" in the financial highlights is based on net interest income from deposit and lending activities and is thus not directly comparable with "Net interest income" in the income statement.

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

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

Profit (loss) for the year as % of business capital (ROAC).

The return target in the financial highlights shows profit (loss) for the year relative to average business capital. Profit (loss) corresponds to net profit or loss. Business capital corresponds to a capital target of 16% of the risk exposure amount.

Profit (loss) for the year as % of average equity. Profit (loss) for the year is calculated as stated above. Average equity is calculated on the basis of the value at the end of the past five quarters.

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

Business profit as % of business capital. Business profit stated in the presentation of business areas reflects the relationship between business profit and business capital.

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 Forenet Kredit, Copenhagen, which owns 78.90% 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 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		
DKK million	2017	2016
Net interest and fee income	2,818	2,163
Value adjustments	2,563	85
Other operating income	4	1
Operating expenses	1,749	1,842
Impairment charges for loans, advances and receivables	(123)	(158)
Profit from investments in associates and Group enterprises	217	177
Profit before tax	3,976	742
Tax	843	115
Profit for the year	3,133	627

Nykredit Bank A/S		
Principal balance sheet items		
DKK million	2017	2016
Receivables from credit institutions	19,990	35,723
Loans, advances and receivables	81,974	83,572
Bonds and equities	46,813	42,025
Remaining assets	24,148	32,657
Total assets	172,925	193,977
Payables to credit institutions	39,948	51,066
Deposits and other payables	76,610	66,317
Bonds in issue at amortised cost	6,473	10,158
Other non-derivative financial instruments at fair value	13,976	21,348
Remaining payables and provisions	14,041	26,344
Tier 2 capital		
Subordinated debt	2,000	2,000
Equity	19,877	16,744
Total liabilities and equity	172,925	193,977

Nykredit Bank A/S		
Financial ratios		
DKK million	2017	2016
Total capital ratio, %	21.4	16.0
Common Equity Tier 1 capital ratio, %	19.4	14.3
Return on equity before tax, %	21.4	4.5
Return on equity after tax, %	16.8	3.8
Average number of staff, full-time equivalent	658	641

At 1 January 2018, the CET1 capital ratios of the Nykredit Bank Group were 19.0% after recognition of the net impact of IFRS 9 as at 1 January 2018. Nykredit does not apply the transitional arrangements set out in Article 473a (4).

Income statement

Nykredit Bank A/S recorded a profit of DKK 3,133m for 2017, up DKK 2,506m from a profit of DKK 627m in 2016.

Income rose by DKK 3,136m from DKK 2,249m in 2016 to DKK 5,385m in 2017.

Net interest and fee income increased by DKK 655m, while value adjustments and other operating income grew by DKK 2,481m in aggregate.

Costs decreased from DKK 1,842m in 2016 to DKK 1,749m in 2017. Please also refer to the previous section "Costs" of this Annual Report.

Impairment charges for loans and advances were a gain of DKK 123m in 2017 compared with a gain of DKK 158m in 2016.

Profit from equity investments came to a gain of DKK 217m compared with DKK 177m in 2016. Of this amount, Nykredit Portefølje Administration contributed DKK 136m and Nykredit Leasing DKK 78m.

Principal balance sheet items

The balance sheet total declined from DKK 194.0bn at end-2016 to DKK 172.9bn.

Cash balances and receivables from credit institutions decreased from DKK 35.7bn to DKK 20.0bn.

Loans and advances at fair value dropped by DKK 2.5bn, whereas other loans and advances at amortised cost grew by DKK 0.9bn as a result of higher lending in Retail and Wealth Management.

Bonds and equities amounted to DKK 46.8bn against DKK 42.0bn at end-2016. 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 39.9bn against DKK 51.0bn at end-2016. Balances with credit institutions and bonds in issue particularly reflected the Bank's general liquidity adjustment.

Deposits and other payables went up from DKK 66.3bn to DKK 76.6bn.

Equity

Equity increased by profit for the year of DKK 3.1bn to DKK 19.9bn.

Total capital ratio

The total capital ratio rose from 16.0% in 2016 to 21.4%.

Dividend

It will be recommended for approval by the Annual General Meeting that no dividend be distributed for 2017.

MANAGEMENT STATEMENT AND AUDIT REPORTS

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

The Board of Directors and the Executive Board have today reviewed and approved the Annual Report 2017 of 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 2017 and of the results of the Group's and the Parent's operations and the Group's cash flows for the financial year 2017.

Further, in our opinion, the Management Commentary gives a fair review of the development in the operations and financial circumstances of the 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, 8 February 2018

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 2017 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 2017 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.

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

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 2017. 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, 8 February 2018

Lars Maagaard
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 parent financial statements of Nykredit Bank A/S for the financial year 1 January to 31 December 2017, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including the summary of significant accounting policies, for the Group as well as the Parent 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 parent 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 financial position at 31 December 2017 and of its financial performance and cash flows for the financial year 1 January to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds.

Also, in our opinion, the parent financial statements give a true and fair view of the financial position of the Parent at 31 December 2017 and of its financial performance for the financial year 1 January to 31 December 2017 in accordance with the Danish Financial Business Act.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements* section of this auditor's report. We are independent of the Group in accordance with the IESBA Code of Ethics for Professional Accountants and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We were appointed auditors of Nykredit Bank A/S for the first time on 23 September 1994 for the financial year 1994. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 24 years up to and including the financial year 2017.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan impairment charges	How the matter was addressed in our audit
<p>The Group's loans and advances amount to DKK 83,349m at 31 December 2017 (DKK 85,094m at 31 December 2016), and impairment charges therefor amount to a gain of DKK 102m in 2017 (a gain of DKK 141m in 2016) in the consolidated financial statements.</p> <p>Determining impairment charges for loans and advances is subject to significant uncertainty and is highly based on management judgement. Due to the significance of such management judgement and the loan volumes of the Parent and the Group, impairment charges for loans and advances are a key audit matter.</p> <p>The principles for determining the impairment charges are described in the Summary of significant accounting policies, and Management has further described the management of credit risks and the review for impairment in notes 14 and 45 to the consolidated financial statements.</p> <p>In 2017, loans and advances to housing cooperatives required special audit attention due to swaps 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, including properties in particular which form part of the determination of impairment charges ▪ Management estimates related to the add-on for collective impairment provisions. <p>From 1 January 2018, the Group will adopt IFRS 9 which will cause impairment charges for loans and advances at amortised cost to increase when recognising expected credit loss rather than incurred losses. Management has disclosed information regarding the transition effect of IFRS 9 in note 48, including the impact in equity at 1 January 2018.</p> <p>Expected credit losses under IFRS 9 require Management to make further judgements not previously required under an incurred loss model, including expected future credit losses.</p>	<p>Our audit comprised a review of relevant central and decentral business procedures, test of controls and analysis of the amount of impairment charges.</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 housing cooperatives ▪ Challenging management add-ons with special focus on management consistency and bias, including special focus on documentation of the adequacy of management add-ons related to housing cooperatives ▪ We have tested key controls over the calculation of the transition effect and challenged Management on the methodology, principles and assumptions applied to determine their expectations for future credit losses by using our industry knowledge and credit model experts.

Fair value of swaps	How the matter was addressed in our audit
<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 17,278m (DKK 25,604m at 31 December 2016) and DKK 10,400m (DKK 21,612m at 31 December 2016) for positive and negative fair values at 31 December 2017.</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 42 and 45 to the consolidated financial statements.</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 parent 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 parent 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 and the parent 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 parent 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 responsibilities for the consolidated financial statements and the parent 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 parent financial statements that give a true and fair view in accord-

ance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent'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 parent financial statements unless Management either intends to liquidate the Group or the Parent 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 parent financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent 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 Parent'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 parent 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 Parent'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 parent 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent 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 requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent 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, 8 February 2018

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR no 33 96 35 56

Henrik Wellejus
State-Authorised
Public Accountant
MNE no 24807

Bjørn Philip Rosendal
State-Authorised
Public Accountant
MNE no 40039

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

DKK million

Nykredit Bank A/S				Nykredit Bank Group	
2016	2017		Note	2017	2016
INCOME STATEMENT					
1,642	1,724	Interest income	6	1,872	1,778
(176)	(196)	Negative interest, income	6a.	(196)	(176)
(211)	(215)	Negative interest, expenses	6a.	(215)	(211)
314	297	Interest expenses	7	296	315
1,363	1,446	Net interest income		1,594	1,498
11	12	Dividend on equities	8	12	11
1,298	1,675	Fee and commission income	9	2,069	1,679
509	315	Fee and commission expenses	10	367	593
2,163	2,818	Net interest and fee income		3,308	2,595
85	2,563	Value adjustments	11	2,562	84
1	4	Other operating income		34	28
1,785	1,712	Staff and administrative expenses	12	1,934	2,000
16	12	Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	13	12	16
41	25	Other operating expenses		28	44
(158)	(123)	Impairment charges for loans, advances and receivables	14	(102)	(141)
177	217	Profit from investments in associates and Group enterprises	15	2	-
742	3,976	Profit before tax		4,033	788
115	843	Tax	16	901	161
627	3,133	Profit for the year		3,133	627
Proposal for the distribution of profit					
177	217	Statutory reserves		-	-
450	2,916	Retained earnings		3,133	627
627	3,133	Profit for the year		3,133	627
Comprehensive income					
627	3,133	Profit for the year		3,133	627
-	-	Other additions and disposals		-	-
-	-	Other comprehensive income		-	-
627	3,133	Comprehensive income for the year		3,133	627

BALANCE SHEETS

DKK million

Nykredit Bank A/S				Nykredit Bank Group	
2016	2017		Note	2017	2016
ASSETS					
1,980	1,893	Cash balances and demand deposits with central banks	18	1,893	1,980
33,743	18,097	Receivables from credit institutions and central banks	19	18,098	33,743
30,091	27,566	Loans, advances and other receivables at fair value	20	27,566	30,091
53,481	54,408	Loans, advances and other receivables at amortised cost	21	55,783	55,003
41,768	42,885	Bonds at fair value	22	43,520	42,318
-	3,711	Bonds at amortised cost	23	3,711	-
257	217	Equities	24	218	258
-	4	Investments in associates	25	4	-
1,181	1,396	Investments in Group enterprises	25	-	-
22	14	Intangible assets	26	14	22
3	-	Other property, plant and equipment	27	-	3
-	-	Current tax assets	34	-	5
109	144	Deferred tax assets	34	145	110
27	-	Assets in temporary possession	28	-	27
31,300	22,351	Other assets	29	22,387	31,343
15	238	Prepayments		245	23
193,977	172,925	Total assets		173,585	194,926

BALANCE SHEETS

DKK million

Nykredit Bank A/S				Nykredit Bank Group	
2016	2017		Note	2017	2016
LIABILITIES AND EQUITY					
51,066	39,948	Payables to credit institutions and central banks	30	40,218	51,606
66,317	76,610	Deposits and other payables	31	76,501	66,263
10,158	6,473	Bonds in issue at amortised cost	32	6,473	10,158
21,348	13,976	Other non-derivative financial liabilities at fair value	33	13,976	21,348
8	1	Current tax liabilities	34	31	15
29	-	Liabilities temporarily assumed		-	29
26,153	13,922	Other liabilities	35	14,258	26,493
5	6	Deferred income		9	9
175,084	150,937	Total payables		151,467	175,921
Provisions					
-	-	Provisions for deferred tax	34	130	112
52	58	Provisions for losses under guarantees	36	58	52
97	53	Other provisions	36	53	97
149	111	Total provisions		241	261
2,000	2,000	Subordinated debt	37	2,000	2,000
Equity					
8,045	8,045	Share capital		8,045	8,045
Accumulated value adjustments					
-	-	- revaluation reserves		-	-
Other reserves					
713	930	Statutory reserves		-	-
7,986	10,902	Retained earnings		11,832	8,699
16,744	19,877	Total equity		19,877	16,744
193,977	172,925	Total liabilities and equity		173,585	194,926
Off-balance sheet items					
17,790	25,449	Contingent liabilities	38	25,080	17,152
5,225	6,726	Other commitments	39	6,835	5,375

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Bank Group

	Share capital ¹	Retained earnings	Total
2017			
Equity, 1 January	8,045	8,699	16,744
Comprehensive income			
Profit for the year	-	3,133	3,133
Total comprehensive income	-	3,133	3,133
Total changes in equity	-	3,133	3,133
Equity, 31 December 2017	8,045	11,832	19,877
2016			
Equity, 1 January	8,045	8,072	16,117
Comprehensive income			
Profit for the year	-	627	627
Total comprehensive income	-	627	627
Total changes in equity	-	627	627
Equity, 31 December 2016	8,045	8,699	16,744

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 Forenet Kredit, Kalvebod Brygge 1-3, Copenhagen, Denmark, which owns 78.9% of Nykredit Realkredit A/S. The Financial Statements (in Danish) of Forenet Kredit may be obtained from the association.

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Bank A/S

	Share capital ¹	Statutory reserves	Retained earnings	Total
2017				
Equity, 1 January	8,045	713	7,986	16,744
Comprehensive income				
Profit for the year	-	217	2,916	3,133
Total comprehensive income	-	217	2,916	3,133
Total changes in equity	-	217	2,916	3,133
Equity, 30 December 2017	8,045	930	10,902	19,877
2016				
Equity, 1 January	8,045	536	7,536	16,117
Comprehensive income				
Profit for the year	-	177	450	627
Total comprehensive income	-	177	450	627
Total changes in equity	-	177	450	627
Equity, 31 December 2016	8,045	713	7,986	16,744

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 Forenet Kredit, Kalvebod Brygge 1-3, Copenhagen, Denmark, which owns 78.9% of Nykredit Realkredit A/S. The Financial Statements (in Danish) of Forenet Kredit may be obtained from the association.

CASH FLOW STATEMENT

DKK million

Nykredit Bank Group	2017	2016
Profit for the year	3,133	627
Adjustments		
Net interest income	(1,595)	(1,498)
Depreciation and impairment charges for property, plant and equipment	12	16
Other non-cash changes	(2)	31
Impairment charges for loans, advances and receivables	(22)	(78)
Tax on profit for the year	901	161
Total	2,427	(742)
Change in operating capital		
Loans, advances and other receivables	1,712	1,178
Deposits and other payables	11,238	3,569
Payables to credit institutions and central banks	(11,180)	16,864
Bonds	(6,247)	(2,770)
Equities	36	103
Other operating capital	(10,896)	10,863
Total	(15,337)	29,066
Interest income received	2,355	2,206
Interest expenses paid	(784)	(786)
Corporation tax paid, net	(896)	(279)
Cash flows from operating activities	(12,235)	30,207
Cash flows from investing activities		
Property, plant and equipment	(1)	-
Total	(1)	-
Cash flows from financing activities		
Subordinated debt	-	1,900
Bonds in issue	(3,492)	(9,817)
Total	(3,492)	(7,917)
Total cash flows for the year	(15,728)	22,290
Cash and cash equivalents, beginning of year	35,723	13,425
Foreign currency translation adjustment of cash	(4)	8
Cash and cash equivalents, year-end	19,991	35,723
Cash and cash equivalents, year-end		
Specification of cash and cash equivalents, year-end:		
Cash balances and demand deposits with central banks	1,893	1,980
Receivables from credit institutions and central banks	18,098	33,743
Total	19,991	35,723

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9. Fee and commission income	59	47. Reverse repurchase lending and repo transactions	100
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20. Loans, advances and other receivables at fair value	66		
21. Loans, advances and other receivables at amortised cost	67		
22. Bonds at fair value	68		
23. Bonds at amortised cost	68		
24. Equities	69		
25. Investments in associates and Group enterprises	69		
26. Intangible assets	70		
27. Other property, plant and equipment	71		
28. Assets in temporary possession	71		
29. Other assets	72		
30. Payables to credit institutions and central banks	73		
31. Deposits and other payables	73		
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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 earnings presentation in Financial Highlights on page 5 as well as business areas (note 3) have been adjusted compared with the Annual Report 2016, and investment portfolio income is now included in "Income", and interest on capital is now allocated to the business areas. This item was previously included in "Group Items".

In the presentation of business areas "Net interest income" includes interest from deposits and lending activities. The corresponding item in the income statement includes all interest.

The distribution of certain costs which were previously recognised in "Group Items" has been subject to a minor adjustment.

The organisational structure of the business areas is unchanged compared with previous practice.

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. Reference is made to notes 3 and 4.

Other general comments on accounting policies

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

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 the financial year beginning on 1 January 2017:

IAS 7 "Statement of Cash Flows" (amendment to standard) (approved for use in the EU with effect from 1 January 2017).

IAS 12 "Income Taxes" (amendment to standard) (approved for use in the EU with effect from 1 January 2017).

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 for the financial year beginning on 1 January 2017.

IFRS 9 "Financial Instruments" (new standard) (approved for use in the EU, effective from 1 January 2018). The standard significantly affects the level of impairment charges for loans and advances at amortised cost (total impairment provisions). The standard and its impact as at 1 January 2018 are described in note 48, which is a supplement to the accounting policies.

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).

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). This standard has no discernible effect on the Financial Statements.

IFRS 16 "Leases" (new standard). The standard will imply capitalisation of a lessee's rights to the leased assets, including leasehold premises and the recognition of liabilities arising from the lease (approved for use in the EU with effect from 1 January 2019). For Nykredit Bank, the implementation will comprise capitalisation of minor rental leases and the establishment of corresponding liability. Depreciation of leased assets and interest on leasing commitments are recognised in the income statement. Compared with current policies, the impact on earnings, comprehensive income, the balance sheet and equity will be insignificant.

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 2018).

Annual improvements to IFRS 2015-2017. Issued on 12 December 2017 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 2019).

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).

IFRIC 23 Uncertainty over Income Tax Treatments. Issued on 7 June 2017 (not approved for use in the EU; expected to be effective for financial years starting on 1 January 2019).

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 the Financial Statements.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSESSMENTS

The preparation of the Financial Statements involves the use of informed accounting estimates and assessments. These estimates and assessments are made by the Bank's Management in accordance with accounting policies based on past experience and an assessment of future conditions.

Accounting estimates are tested and assessed regularly. The estimates and assessments applied are based on assumptions which Management considers reasonable and realistic, but which are inherently uncertain and unpredictable.

Areas implying a high degree of assessment or complexity or areas in which assumptions and estimates are material to the Financial Statements are:

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

For a number of years, the market practice for valuation of derivatives has increasingly included market inputs in the valuation. Nykredit Bank thus uses FVA (Funding Valuation Adjustment), CVA (Credit Valuation Adjustment) and DVA (Debt Valuation Adjustment) in the measurement. FVA adjustment corresponds to future funding costs resulting from customers' insufficient or lacking provision of collateral, while CVA and DVA adjustments allow for the development in the credit quality of customers and Nykredit Bank.

Note 45 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 39.3% and 0.7%, respectively, of the balance sheet total at end-2017 (45.8% and 0.4% at end-2016) for the financial assets, and 17.0% and 0.0%, respectively (23.9% and 0.0% at end-2016) for financial liabilities.

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 Bank 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. The fair value of unlisted derivative financial instruments was 10.6% of the Group's assets at end-2017 (13.8% 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 40.0% of the Group's assets at end-2017 (46.2% 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 45 for a more detailed description of credit risk.

Impairment charges for loans and advances involve 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 charges for 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 2016, the Danish FSA authorised Nykredit to apply 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 model-based impairments (rating model). This estimate is made by managers and staff with in-depth knowledge of the credits area. The reasons may be changes in agricultural settlement prices due to changed economic trends and/or changed export opportunities as well as special financial and legal conditions in the cooperative housing sector that may affect credit risk beyond the result derived on the basis of model-based impairment provisions. The estimates are adjusted and evaluated on a regular basis.

In accordance with the accounting rules, impairment of loans measured at fair value or amortised cost is based on an assessment of whether there is objective evidence of impairment (OEI).

According to IFRS 9, from 1 January 2018, impairment must be based on expected credit losses and recognised in three stages depending on the credit quality of the customer. Impairment in accordance with IFRS 9 applies to loans and advances, guarantees and loan commitments measured at amortised cost, and the implementation effect of the new rules is recognised directly in equity as at 1 January 2018, cf the description in note 48.

Loans and advances made up 48.0 of the Group's assets at end-2017 (43.7% at end-2016).

Provisions

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

Provisions for losses under guarantees are subject to significant estimates where there is uncertainty in determining the extent to which the guarantee will become effective in the event of financial collapse on the part of the guarantee applicant, whereas other provisions are based on a legal or constructive obligation where a significant estimate is involved in determining the amount by which the obligation is expected to be settled. Provisions for losses under guarantees and other provisions came to DKK 111m at end-2017.

NOTES

Nykredit Bank Group

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 (95% at end-2016).

Recognition

Financial instruments are recognised on the settlement date. With respect to financial instruments that are subsequently measured at fair value, changes in the fair value of instruments purchased or sold in the period between the trade date and the settlement date are recognised as financial assets or liabilities in "Other assets" and "Other liabilities", respectively, in the balance sheet and set off against "Value adjustments" in the income statement.

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

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

Initially, financial instruments are recognised at fair value. Financial instruments are subsequently measured at amortised cost or fair value depending on the categorisation of the individual instrument. Financial instruments subsequently measured at amortised 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 46.

Financial instruments are classified as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Derivative financial instruments are classified as financial assets or financial liabilities held for trading. The fair values of derivative financial instruments are determined using generally accepted valuation methods based on market information and other generally accepted valuation methods. Positive and negative fair values of derivative financial instruments are recognised in "Other assets" or "Other liabilities".

Realised and unrealised gains and losses arising from changes in the fair value are recognised in "Value adjustments" through profit or loss for the period in which they arose.

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

On initial recognition, a financial asset or a financial 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 Management based on fair value in accordance with a documented risk management strategy or investment strategy.

Reverse repurchase lending and repo deposits are included in this category.

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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 charges for loans, advances and receivables

Impairment charges for 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 impact 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

Continuous individual reviews and risk assessments are performed of all significant loans, advances and receivables to determine whether there is any OEI.

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

- The borrower has serious financial difficulties
- The borrower fails to honour its payment obligations
- It is probable that the borrower will go bankrupt or be subject to other financial restructuring
- Nykredit Bank 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 (including the value of security provided). 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 expected costs.

Strategy and action plans are prepared for all large 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 credit 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 expected credit losses 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 charges for loans, advances and receivables".

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

Impairments deemed to be conclusive are recorded as written off.

RECOGNITION, MEASUREMENT AND PRESENTATION IN GENERAL

Recognition and measurement

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

Hedge accounting

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

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

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is 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 and receives a variable return 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.

Business profit

The Group Financial Highlights in the Management Commentary as well as the segment financial statements are presented in a statement of business profit 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.

As stated in the Management Commentary, Management has relative to the Annual Report 2016 made a number of adjustments to the internal reporting that forms an integral part of the governance of the Company. The presentation has been changed primarily to present a more varied picture of the Group's income.

This information is considered important and relevant to readers of the external Financial Statements as a supplement to the income statement. Review of results for the year in the Management Commentary is consequently based on the regular reporting made to and considered by Management.

Compared with 2016, the most important change is that income is now broken down into several items, differentiating more clearly between stable types of income and relatively more volatile income, such as trading and investment portfolio income. Furthermore, investment portfolio income is recognised in "Income", as opposed to previously, when investment portfolio income was recognised as a separate item.

A key reporting concept going forward is the new item "Business profit", replacing the former "Profit from core business". The main difference between the two items is that "Business profit" comprises the former item "Investment portfolio income".

This implies a new presentation of income in the income statement grouped in two main items; "Income" and "Legacy derivatives". In addition, income is divided into five sub-items. The principles of recognition and measurement are identical. The change is further described in notes 3 and 4.

The change did not affect the results, comprehensive income, balance sheet or equity of Nykredit Bank A/S or the Nykredit Bank Group.

Segment information

Segment information is provided on business areas as well as specification of core income and loans and advances in geographical markets. In 2017, Nykredit Bank closed down the branch in Sweden and no longer has business segments outside of Denmark. Business areas are defined on the basis of differences in customer segments and services. Items that cannot be allocated to the business areas are included in Group Items. The presentation of the business areas is based on the internal management reporting and reflects the Group's return and risk, and these business areas are considered the Group's core segments. Segment information is in accordance with the Group's accounting policies.

The presentation of the individual business area's profit is based on the internal performance measure "Business profit", cf the description above.

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

The average business capital of the individual business areas is determined according to Nykredit's internal capital determination model, calculated as 16% of the risk exposure amount. The business return corresponds to the individual segment's "Business profit" relative to the average "Business capital".

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.

On the balance sheet date, monetary assets and liabilities in foreign currencies are translated at the exchange rates prevailing on the balance sheet date. Foreign currency translation adjustments are recognised in the income statement.

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.

NOTES

Nykredit Bank Group

Repo transactions and reverse repurchase lending

Securities sold as part of repo transactions are retained in the appropriate principal balance sheet item, eg "Bonds".

The amount received is recognised under payables to the counterparty or in "Non-financial liabilities at fair value". The liability is fair value adjusted over the life of the agreement through profit or loss.

Reverse repurchase lending are stated as receivables from credit institutions or in "Loans, advances and other receivables at fair value". The receivables are fair value adjusted over the life of the agreement through profit or loss.

Where the Group resells assets received in connection with reverse repurchase lending, and where the Group is obliged to return the instruments, the value thereof is included in "Other non-derivative financial liabilities at fair value".

Repo transactions and reverse repurchase lending are recognised and measured at fair value, and the return is recognised as interest income and interest expenses in the income statement.

Leases

Leases where companies in the Nykredit Bank Group are lessors 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 are deducted from the carrying amount as received.

Direct costs of establishment of leases are recognised in the net investment.

Leases where companies in the Nykredit Bank Group are lessees comprise minor rental leases and a few car leases.

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 charges for 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 carried as a separate item 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 relating to loans and advances measured at amortised cost are treated as interest if they form an integral part of the effective interest of a financial instrument.

Other fees and commissions are fully recognised in the income statement at the date of transaction.

Other operating income

"Other operating income" comprises operating income not attributable to other income statement items, including income from leasing activities.

Value adjustments

Value adjustments consist of foreign currency translation adjustments and value adjustments 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 as well as one-off expenses.

Tax

Tax for the year, consisting of current tax for the year and changes to deferred tax and adjustment of tax for previous years, is recognised in the income statement, unless the tax effect concerns items recognised in "Other comprehensive income". Tax relating to "Other comprehensive income" items is recognised in the same item.

Current tax liabilities and current tax assets are recognised in the balance sheet as tax calculated on taxable income for the year adjusted for tax paid on account. The current tax for the year is calculated on the basis of the tax rates and rules prevailing on the balance sheet date.

The Danish tax of the jointly taxed companies is payable in accordance with the scheme for payment of tax on account. Interest payable or deductible relating to voluntary payment of tax on account and interest receivable or payable on over-/underpaid tax are recognised in "Other interest income" or "Other interest expenses", as appropriate.

Deferred tax on all temporary differences between the carrying amounts and the tax base of an asset or liability is recognised based on the balance sheet liability method, with the exception of deferred tax on temporary differences having arisen on initial recognition of goodwill.

NOTES

Deferred tax is determined on the basis of the intended use of each asset or the settlement of each liability. Deferred tax is measured using the tax rates expected to apply to temporary differences upon reversal and the tax rules prevailing on the balance sheet date.

Deferred tax assets, including the tax base of any tax loss carryforwards, are recognised in the balance sheet at the value at which they are expected to be realised, either by set-off against deferred tax liabilities or as net tax assets for set-off against tax on future positive taxable income. On each balance sheet date, it is assessed whether it is probable that a deferred tax asset can be used.

The Nykredit Group's Danish companies are jointly taxed with Forenet Kredit. Current Danish corporation tax payable is distributed among the jointly taxed Danish companies relative to their taxable income (full distribution subject to refund for tax losses).

Current tax assets and current tax liabilities are offset when there is a legally enforceable right to do so.

ASSETS

Loans, advances and other financial assets

Reference is made to the above description under "Significant accounting estimates and assessments" and "Financial instruments" for these items.

Investments in associates

Investments in associates include enterprises that the Nykredit Bank Group does not control, but in which the Nykredit Bank Group exercises significant influence. Enterprises in which the Group holds between 20% and 50% of the voting rights are generally considered associates.

Investments in associates are recognised and measured according to the equity method and are therefore measured at the proportional ownership interest of the enterprises' equity value determined in accordance with the Group's accounting policies less/plus the proportionate share of unrealised intercompany gains and losses plus goodwill.

The proportionate share of associates' profit or loss after tax is recognised in the consolidated income statement.

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 charges are recognised in the income statement and are not reversed.

Other intangible assets

Customer relationships are recognised at cost less accumulated amortisation. Customer relationships are amortised on a straight-line basis over the estimated useful lives of the assets. The amortisation period is 3 years.

Equipment

Equipment is measured at cost less accumulated depreciation and impairment. Cost includes the purchase price and costs directly related to the acquisition up to the time when the assets are ready for entry into service.

Depreciation is made on a straight-line basis over the expected useful lives of:

- Computer equipment, tools and other equipment and machinery up to 5 years
- Leasehold improvements; maximum term of the lease is 15 years.

The residual values and useful lives of the assets are revalued at each balance sheet date. The carrying amount of an asset is written down to the recoverable amount if the carrying amount of the asset exceeds the estimated recoverable amount.

Gains and losses on the divestment of property, plant and equipment are recognised in "Other operating income" or "Other operating expenses".

Assets in temporary possession

Assets in temporary possession include property, plant and equipment or groups thereof as well as investments in subsidiaries and associates in respect of which:

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

Properties acquired in connection with the termination of an exposure are recognised in "Assets in temporary possession".

Liabilities directly attributable to the assets concerned are presented as liabilities relating to assets in temporary possession in the balance sheet.

Assets in temporary possession are measured at the lower of the carrying amount at the time of classification as assets in temporary possession and the fair value less selling costs. Assets are not depreciated or amortised once classified as assets in temporary possession.

Impairment 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 charges for loans, advances and receivables" in the income statement.

Income and expenses relating to subsidiaries in temporary possession are recognised separately in the income statement if the impact is significant.

Other assets

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

LIABILITIES AND EQUITY

Payables

Reference is made to the above description under "Financial instruments" for these items.

Provisions

Provisions are recognised where, as a result of an event having 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.

NOTES

Nykredit Bank Group

Bonds in issue at amortised cost

On initial recognition, bonds in issue are measured at fair value corresponding to consideration received less any costs incurred. Subsequently, the bonds in issue are measured at amortised cost. If a derivative financial hedging instrument that is measured at fair value is attached to the bonds in issue, those of the bonds that are hedged by means of the derivative financial instrument will be subjected to regular value adjustment. This way, the value adjustment of the hedged instrument and the hedging derivative financial instrument is made symmetrically.

Other non-derivative financial liabilities at fair value

Other non-derivative financial liabilities at fair value comprise deposits and negative securities portfolios measured at fair value after initial recognition.

Negative securities portfolios include securities received by the Bank in connection with a reverse transaction and then resold by the Bank, which, however, is obliged to return the securities.

Subordinated debt

Subordinated debt consists of financial liabilities in the form of subordinate loan capital and Additional Tier 1 capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.

On initial recognition, subordinated debt is measured at fair value less any transaction costs. The subordinated debt is subsequently measured at amortised cost, and differences, if any, between the proceeds less transaction costs and the redemption value are recognised in the income statement over the term of the loan by applying the effective interest method.

When the interest rate risk relating to fixed-rate subordinated debt is effectively hedged using derivatives, amortised cost is supplemented with the fair value of the hedged interest rate risk.

Equity

Share capital

Shares in issue are classified as equity where there is no legal obligation to transfer cash or other assets to the shareholder.

Retained earnings

Retained earnings comprise reserves which are in principle distributable to the Company's shareholders. However, under the Danish Financial Business Act, distribution must in certain circumstances ensure Nykredit Bank'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 cash flow statement shows the changes in the Group's cash and cash equivalents for the year and the Group's cash and cash equivalents at the beginning and end of the year.

Cash and cash equivalents consist of "Cash balances and demand deposits with central banks" and "Receivables from credit institutions and central banks".

ACCOUNTING POLICIES APPLYING SPECIFICALLY TO THE PARENT NYKREDIT 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 Danish 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 as described above.

Changes to the Danish Executive Order on 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 2017 that have affected the Parent Financial Statements.

Investments in Group enterprises

Investments in Group enterprises (subsidiaries) are recognised and measured according to the equity method.

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 Banks's share of the enterprises' profit or loss after tax and elimination of unrealised intercompany gains and losses less depreciation, amortisation and impairment charges 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.

Statutory reserves

The Parent's statutory reserves include value adjustment of investments in subsidiaries and associates (net revaluation according to the equity method). The reserves are reduced by dividend distribution to the Parent and are adjusted for other changes in the equity of subsidiaries and associates. The reserves are non-distributable.

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
2. CAPITAL AND CAPITAL ADEQUACY			
16,744	19,877	Equity	
(46)	(30)	Prudent valuation adjustment	
(22)	(17)	Intangible assets	
(315)	(43)	Deduction for difference between IRB losses and impairments	
(63)	(4)	Other deductions	
126	9	Transitional adjustment of deductions	
(320)	(86)	Common Equity Tier 1 capital deductions	
16,424	19,791	Common Equity Tier 1 capital	
-	(4)	Transitional Additional Tier 1 capital adjustment	
-	4	Set-off of excess deductions	
-	-	Additional Tier 1 capital	
16,424	19,791	Tier 1 capital	
2,000	2,000	Tier 2 capital	
-	125	Tier 2 capital additions/deductions	
(63)	(4)	Transitional adjustment of Tier 2 capital	
18,361	21,912	Own funds	
99,622	85,454	Credit risk	
9,369	11,235	Market risk	
5,201	5,300	Operational risk	
114,192	101,989	Total risk exposure amount	
14.3	19.4	Common Equity Tier 1 capital ratio, %	
14.3	19.4	Tier 1 capital ratio, %	
16.0	21.4	Total capital ratio, %	

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 Realkredit A/S 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 1.2%. To this should be added the phase-in of the permanent buffer requirement, currently 1.25%, applicable to all financial institutions.

At 1 January 2018, the CET1 capital ratios of the Nykredit Bank Group were 19.7% after recognition of the net changes resulting from IFRS 9 as at 1 January 2018. Nykredit does not apply the transitional arrangements set out in Article 473a (4).

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.

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 opinion, 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, lending growth, interest rate risk on swaps, CVA etc.

Nykredit Bank has initiated an analysis to assess the concentration risk of large exposures and industries. Nykredit Bank has allocated capital under Pillar II to cover any potential concentration risk.

At end-2017, required own funds stood at DKK 10.4bn, of which Pillar I made up DKK 7.8bn and Pillar II made up DKK 2.6bn, equal to an internal capital adequacy requirement of 10.6%.

The report Risk and Capital Management 2017 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. The report is available at nykredit.com/riskandcapital-management.

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 line 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.

Baseline scenario

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 2018-2020

The stress scenario is designed to illustrate a slightly weaker economic climate relative to the base line 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 1.1bn at end-2017.

NOTES

DKK million

Nykredit Bank Group

3. BUSINESS AREAS

RESULTS 2017	Personal Banking	Business Banking	Total Retail	Corporate & Institutional Banking	Markets	Wholesale Clients	Wealth Management	Group Items	Total
Results by business area									
Net interest income	447	555	1,002	442	-	442	47	2	1,493
Net fee income	158	138	295	246	-	246	15	(16)	540
Wealth management income	359	176	535	106	-	106	739	22	1,402
Net interest from capitalisation	(20)	(41)	(61)	(42)	(8)	(50)	(6)	84	(32)
Trading, investment portfolio and other income	20	319	339	264	393	657	30	(40)	986
Income	964	1,147	2,111	1,016	385	1,401	825	52	4,389
Costs	662	377	1,039	257	224	480	433	21	1,974
Business profit before impairment charges	302	770	1,072	759	161	920	392	31	2,415
Impairment charges for loans and advances	36	36	72	(159)	-	(159)	8	(22)	(102)
Business profit	266	734	1,000	918	161	1,079	384	53	2,516
Legacy derivatives	(1)	358	357	1,130	30	1,160	-	-	1,517
Profit before tax	266	1,091	1,357	2,048	191	2,239	384	53	4,033
Of which transactions between business areas	320	151	470	65	(395)	(330)	(371)	231	-
Average allocated business capital	2,329	4,794	7,123	4,883	1,133	6,016	658	1,315	15,112
Business profit as % of average business capital	11.4	15.3	14.0	18.8	14.2	17.9	58.4	-	16.7
BALANCE SHEET									
Assets									
Loans and advances at fair value								27,566	27,566
Loans and advances at amortised cost	11,973	20,124	32,097	19,672	-	19,672	3,344	670	55,783
Assets by business area	11,973	20,124	32,097	19,672	-	19,672	3,344	28,236	83,349
Unallocated assets									90,236
Total assets									173,585
Liabilities and equity									
Deposits and other payables at amortised cost	27,214	19,432	46,645	14,164	-	14,164	13,464	2,228	76,501
Liabilities by business area	27,214	19,432	46,645	14,164	-	14,164	13,464	2,228	76,501
Unallocated liabilities									77,207
Equity									19,877
Total liabilities and equity									173,585

The income statement format has been adjusted in some areas. The previous income statement items "Income from core business" and "Profit from core business" have been replaced by "Income" and "Business profit". Compared with previously, these items now comprise "Investment portfolio income" which was separated out from core business but will be recognised as an integral part of "Income" ("Trading, investment portfolio and other income") going forward.

Another important element is a more detailed presentation reflecting partly the composition of income and origin in the individual business divisions, and partly, the degree of volatility of the individual items. Previously, income from the business divisions was presented as one single item "Core income from business operations". In future income will be divided into and presented as five different items:

"Net interest income" comprising net interest income from bank lending and deposits. "Net fee income" comprising income from banking lending, service fees, guarantees and leasing business.

"Wealth management income" comprising asset management and administration fees. This item pertains to business with customers performed by the Group's entities Nykredit Markets, Nykredit Asset Management and Nykredit Portefølje Administration A/S but where income is ascribed to the business divisions serving the customers.

"Net interest from capitalisation" comprising the risk-free interest attributable to equity and net interest from subordinated debt.

"Trading, investment portfolio and other income" which includes income from swaps currently offered, derivatives transactions, Nykredit Markets activities, repo deposits and lending, debt capital markets activities as well as other income and expenses not allocated to the business divisions.

The organisation of the business areas is unchanged compared with previously. Capital costs previously recognised in Group Items have been allocated to the business divisions and the allocation key has been slightly adjusted.

NOTES

DKK million

Nykredit Bank Group

3. BUSINESS AREAS (CONTINUED)

RESULTS 2016	Personal Banking	Business Banking	Total Retail	Corporate & Institutional Banking	Markets	Wholesale Clients	Wealth Management	Group Items	Total
Results by business area									
Net interest income	527	506	1,032	392	-	392	44	(1)	1,467
Net fee income	119	119	239	159	-	159	10	(22)	385
Wealth management income	336	172	508	54	-	54	606	17	1,184
Net interest from capitalisation	(17)	(33)	(50)	(32)	(7)	(39)	(3)	98	5
Trading, investment portfolio and other income	(110)	(141)	(251)	117	403	520	20	139	428
Income	855	623	1,478	689	396	1,085	677	231	3,470
Costs	654	422	1,077	245	264	510	392	83	2,061
Business profit before impairment charges	200	201	401	444	131	575	285	148	1,410
Impairment charges for loans and advances	76	(34)	42	(191)	-	(191)	14	(6)	(141)
Business profit	124	235	359	635	131	766	271	154	1,551
Legacy derivatives	-	(232)	(232)	(440)	(91)	(530)	-	-	(763)
Profit before tax	124	3	127	195	41	236	271	154	787
Of which transactions between business areas	314	119	433	(9)	(290)	(299)	(336)	202	-
Average allocated business capital	2,520	4,605	7,125	4,575	1,301	5,876	524	1,212	14,737
Business profit as % of average business capital	4.9	5.1	5.0	13.9	10.1	13.0	51.7	-	10.5
BALANCE SHEET, 31 DECEMBER 2016									
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									194,926
Liabilities and equity									
Deposits and other payables at amortised cost	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									194,926

Nykredit Bank Group

4. RECONCILIATION OF INTERNAL AND REGULATORY INCOME STATEMENT	2017			2016		
	Earnings presentation in Management Commentary	Reclassification	Income statement	Earnings presentation in Management Commentary	Reclassification	Income statement
Net interest income	1,493	101	1,594	1,467	31	1,498
Dividend on equities		12	12		11	11
Fee and commission income, net	540	1,162	1,702	385	701	1,086
Net interest and fee income	2,033	1,276	3,308	1,853	742	2,595
Wealth management income	1,402	(1,402)	-	1,184	(1,184)	-
Net interest from capitalisation	(32)	32	-	5	(5)	-
Trading, investment portfolio and other income	986	(986)	-	428	(428)	-
Value adjustments		2,562	2,562		84	84
Other operating income		34	34		28	28
Total income	4,388			3,470		
Costs	1,974	-	1,974	2,061	-	2,061
Business profit before impairment charges	2,415			1,410		
Impairment charges for loans and advances	(102)	-	(102)	(141)	-	(141)
Profit from investments in associates		2	2		-	-
Business profit	2,516			1,551		
Legacy derivatives	1,517	(1,517)	-	(763)	763	-
Profit before tax	4,033	0	4,033	787	-	787

Note 4 combines the presentation of income in the Management Commentary (internal presentation), including the financial highlights and business areas, and the formal income statement of the Financial Statements.

The most important difference is that all income is recognised in two main items in the internal presentation: "Income" including sub-items and "Legacy derivatives". The sum of these two items thus corresponds to "Net interest and fee income", "Value adjustments" and "Other operating income" in the income statement of the Financial Statements. The column "Reclassification" thus comprises only differences between the internal presentation and the income statement with respect to these items.

Costs in the internal presentation correspond to total costs recognised in the Financial Statements: "Staff and administrative expenses", "Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets" and "Other operating expenses".

Impairment charges for loans and advances correspond to the presentation in the income statement.

The internal presentation is based on the same recognition and measurement principles as the IFRS-based Consolidated Financial Statements. Thus, profit before tax is unchanged.

NOTES

DKK million

Nykredit Bank Group

5. NET INTEREST INCOME AND VALUE ADJUSTMENTS

	Interest income	Interest expenses	Net interest income	Dividend on equities	Value adjustments	Total
2017						
Financial portfolios at amortised cost						
Receivables from and payables to credit institutions and central banks	(18)	(40)	21	-	-	21
Lending and deposits	1,994	14	1,980	-	(33)	1,947
Bonds	(3)	-	(3)	-	-	(3)
Bonds in issue	-	83	(83)	-	(60)	(143)
Subordinated debt	-	41	(41)	-	-	(41)
Other financial instruments	5	77	(72)	-	-	(72)
Total	1,977	175	1,802	-	(93)	1,709
Financial portfolios at fair value and financial instruments at fair value						
Bonds in issue	-	-	-	-	-	-
Repo transactions and reverse repurchase lending	(138)	(94)	(44)	-	5	(40)
Bonds	158	-	158	-	146	304
Equities	-	-	-	12	(24)	(12)
Derivative financial instruments	(321)	-	(321)	-	2,476	2,155
Total	(301)	(94)	(207)	12	2,602	2,407
Foreign currency translation adjustment					53	53
Net interest income and value adjustments	1,676	81	1,595	12	2,562	4,169
2016						
Financial portfolios at amortised cost						
Receivables from and payables to credit institutions and central banks	(7)	(24)	17	-	-	17
Lending and deposits	1,907	19	1,888	-	(175)	1,713
Bonds	-	-	-	-	-	-
Bonds in issue	-	139	(139)	-	(109)	(248)
Subordinated debt	-	3	(3)	-	-	(3)
Other financial instruments	5	54	(49)	-	-	(49)
Total	1,905	191	1,714	-	(284)	1,430
Financial portfolios at fair value and financial instruments at fair value						
Bonds in issue	-	-	-	-	-	-
Repo transactions and reverse repurchase lending	(151)	(87)	(64)	-	2	(62)
Bonds	248	-	248	-	190	438
Equities	-	-	-	11	20	31
Derivative financial instruments	(400)	-	(400)	-	113	(287)
Total	(303)	(87)	(216)	11	325	120
Foreign currency translation adjustment					43	43
Net interest income and value adjustments	1,602	104	1,498	11	84	1,593

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
6. INTEREST INCOME			
9	15	15	9
1,783	1,872	2,018	1,916
247	155	155	248
(400)	(321)	(321)	(400)
Of which			
167	74	74	167
(551)	(384)	(384)	(551)
(22)	(10)	(10)	(22)
6	(1)	(1)	6
3	3	5	5
1,642	1,724	1,872	1,778
Of which interest income from genuine purchase and resale transactions entered as			
-	1	1	-
8	24	24	8
Of total interest income:			
1,787	1,866	2,013	1,922
52	45	85	89
-	-	138	135
Interest income accrued on individually impaired bank loans totalled DKK 24m (2016: DKK 79m). 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.			
6A. NEGATIVE INTEREST			
Interest income			
(77)	(82)	(82)	(77)
(99)	(114)	(114)	(99)
(176)	(196)	(196)	(176)
Of which interest income from genuine purchase and resale transactions entered as			
(61)	(48)	(48)	(61)
(98)	(114)	(114)	(98)
Interest expenses			
(99)	(95)	(95)	(99)
(112)	(120)	(120)	(112)
(211)	(215)	(215)	(211)
Of which interest expenses for genuine purchase and resale transactions entered as			
(23)	(48)	(48)	(23)
(67)	(50)	(50)	(67)
7. INTEREST EXPENSES			
55	12	12	55
64	85	84	64
139	83	83	139
3	41	41	3
53	77	77	54
314	297	296	315
Of which interest expenses for genuine sale and repurchase transactions entered as			
3	4	4	3
-	-	-	-
Bonds in issue			
17	13	13	17
Of total interest expenses:			
311	293	292	312

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
8. DIVIDEND ON EQUITIES			
11	12	12	11
	Dividend on equities		
11	12	12	11
9. FEE AND COMMISSION INCOME			
770	888	1,259	1,130
	Securities trading and custody accounts		
103	120	120	103
	Payment services		
17	19	34	30
	Loan fees		
73	64	63	71
	Guarantee commission		
335	584	593	345
	Other fees and commission		
1,298	1,675	2,069	1,679
Total			
Comparative figures for 2016 for the Nykredit Bank Group have been restated, transferring DKK 690m from "Other fees and commission" to "Securities trading and custody accounts", DKK 628m (for Nykredit Bank A/S) and DKK 13m from "Other fees and commission" to "Loan fees" (no changes for Nykredit Bank A/S).			
Of which:			
138	163	213	190
	Fees relating to financial instruments not measured at fair value		
684	785	1,155	1,026
	Fees relating to asset management activities and other fiduciary activities		
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".			
10. FEE AND COMMISSION EXPENSES			
509	315	367	593
	Fee and commission expenses		
509	315	367	593
Total			
Of which:			
178	56	81	199
	Fees relating to financial instruments not measured at fair value		
127	61	89	199
	Fees relating to asset management activities and other fiduciary activities		
11. VALUE ADJUSTMENTS			
2	5	5	2
	Other loans, advances and receivables at fair value		
191	147	146	190
	Bonds		
20	(24)	(24)	20
	Equities		
43	53	53	43
	Foreign exchange		
(171)	2,383	2,383	(171)
	Foreign exchange, interest rate and other contracts as well as derivative financial instruments		
85	2,563	2,562	84
Total			
503	1,334	1,334	503
	Of which value adjustment of assets and liabilities recognised at amortised cost		
(819)	1,890	1,890	(819)
	Of which value adjustment of interest rate swaps		
	Of which value adjustment relating to fair value hedging for accounting purposes		
19	1	1	19
	Fair value hedging		
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.			
12. STAFF AND ADMINISTRATIVE EXPENSES			
6	6	6	6
	Remuneration of Board of Directors and Executive Board		
693	713	833	815
	Staff expenses		
1,086	994	1,095	1,179
	Administrative expenses		
1,785	1,712	1,934	2,000
Total			

Nykredit Bank Group

12. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

Remuneration of Board of Directors:

Nykredit Bank A/S

2017

Fees paid to 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 125 thousand as staff-elected board member of Nykredit Realkredit A/S as well as a fee of DKK 228 thousand as board member of Nykredit 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.

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

2017

Remuneration of the Executive Board	Michael Rasmussen	Kim Duus	Søren Holm	Anders Jensen	David Hellemann	Total
Contractual salary	10,786	6,374	6,374	6,374	6,374	36,282
Pension contributions ¹	2,497	-	-	1,466	1,466	5,429
Total	13,283	6,374	6,374	7,840	7,840	41,711
Defined benefit plans	-	1,511	1,511	-	-	3,022
Total expenses for accounting purposes/earned income	13,283	7,885	7,885	7,840	7,840	44,733
Various benefits ²	30	16	16	25	12	99

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.

² In addition to total expenses for accounting purposes/earned income, the Executive Board receive the following benefits: Telephone free of charge, medical examination, critical illness insurance, group life insurance, accident and health insurance as well as reimbursement costs of security surveillance.

With the exception of Michael Rasmussen, Executive Board members receive the same contractual salary, but are covered by different pension plans. The pension plans have varying impacts on expenses for accounting purposes. Members of the Executive Board entitled to pension contributions receive 23% of their contractual salary, whereas the carrying amount of expenses for defined pension plans are provisions for expected future pension contributions for the persons concerned.

Pension, retention and termination benefits	Michael Rasmussen	Kim Duus ¹	Søren Holm ¹	Anders Jensen	David Hellemann
Pension plan	-	Defined benefit	Defined benefit	-	-
Pension terms	-	60% of fixed salary for up to five years from the age of 60	60% of fixed salary for up to five years from the age of 60	-	-
Retention terms ²	1 year's salary excl pensions	-	-	1 year's salary excl pensions	1 year's salary excl pensions
Termination benefit	23 mths	-	-	12 mths	12 mths
Term of notice by the member of the Executive Board	6 mths	12 mths	12 mths	6 mths	6 mths
Term of notice by Nykredit	6 mths	6 mths	6 mths	6 mths	6 mths

¹ If the Group Managing Directors Kim Duus and Søren Holm decide to retire, they must give 12 months' notice from the age of 60 until the age of 70 and are entitled to pension benefits equal to 60% of their base salaries. Pension benefits are paid for a maximum of five 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 six months' notice.

² Nykredit A/S has entered into a retention agreement with members of the Executive Board. The expense for 2017 has been recognised at DKK 3,017 thousand in Nykredit A/S's Financial Statements. The retention benefit, which is made in two instalments, has been fixed at one year's salary excluding pension contributions. The retention benefit is paid out only if the members are still employed at the time of payout. Provisions are made for the retention benefit during the vesting period. For Michael Rasmussen, the vesting period runs from 1 April 2017 to end-December 2019, and for Anders Jensen and David Hellemann, the vesting period runs from 1 January 2018 to end-December 2020.

Group Managing Directors will retire in the month they attain the age of 70 at the latest.

NOTES

DKK '000

Nykredit Bank Group

12. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

Nykredit Bank A/S

2016

Fees paid to 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 thousand as staff-elected board member of Nykredit Realkredit A/S as well as a fee of DKK 185 thousand as board member of Nykredit A/S.

2016

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 for a maximum of five years		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, David Hellemann 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.

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	
2016	2017	2017	2016
12. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)			
Executive Board			
6	6	6	6
		Salaries	
6	6	Total	6
Of which:			
1	1	1	1
		Bonus provisions for the financial year	
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
Henrik Rasmussen:			
2,737	2,819	2,819	2,737
		Base salary	
667	704	704	667
		Bonus	
3,404	3,523	Total	3,404
Dan Sørensen:			
1,999	2,087	2,087	1,999
		Base salary	
533	205	205	533
		Bonus	
2,532	2,292	Total	2,532
5,936	5,815	Earned in the financial year	5,815
Furthermore, a retention bonus payable by Nykredit A/S has been agreed.			
For Henrik Rasmussen, this amount represents DKK 876 thousand and for Dan Sørensen DKK 613 thousand.			
Various benefits			
135	135	135	135
		¹ Various benefits Henrik Rasmussen	
10	11	11	10
		¹ Various benefits Dan Sørensen	
DKK million	DKK million	DKK million	DKK million
Loans, charges or guarantees issued or created in respect of the members of			
-	-	-	-
		Executive Board	
3	-	-	3
		Board of Directors	
3	-	-	3
		Related parties of the Bank's Executive Board or Board of Directors	
Deposits from the members of			
2	1	1	2
		Executive Board	
11	9	9	11
		Board of Directors	
2	2	2	2
		Related parties of the Bank's Executive Board or Board of Directors	

¹ 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, and for Henrik Rasmussen also a company car.

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 2.75-10.75% (2016: 1.18-10.75%), and the deposit rate was around 0.0% (2016: 0.0-0.25%).

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

No changes were made to the composition of the Executive Board in 2017.

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 2017 the bonus provision amounted to DKK 1,108 thousand. Adjustment relating to previous years amounted to DKK 199 thousand.

The bonus awarded to management executives is based on a bonus potential, currently three 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	
2016	2017	2017	2016
12. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)			
Staff expenses			
560	568	666	661
51	54	65	61
79	87	97	89
3	4	4	4
693	713	833	815
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):			
36	46	59	51
16	29	31	18
-	(2)	(2)	-
52	73	88	69
641	658	822	800
Average number of staff, full-time equivalent			
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 168 other staff members. 28 of these are on the payroll of Nykredit Bank, 10 are on the payroll of the Bank's subsidiaries, and 130 are on the payroll of Nykredit Realkredit. The latter staff group performs Group-wide tasks, settled through intercompany agreements.			
For details on the remuneration policy, see the Management Commentary and nykredit.com/remuneration .			
Total fees to Deloitte, auditors appointed by the General Meeting, who perform the statutory audit:			
2	1	2	2
-	0	0	-
-	-	0	-
1	3	3	1
3	4	4	3
Fees for non-auditing services provided by Deloitte Statsautoriseret Revisionspartnerselskab to the Group covers advisory services relating to the IT platform, sundry statements, review in connection with ongoing recognition of earnings and general accounting, regulatory and tax advice.			
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.			
13. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES FOR PROPERTY, PLANT AND EQUIPMENT AS WELL AS INTANGIBLE ASSETS			
4	3	3	4
12	9	9	12
16	12	12	16
14. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES			
Specification of impairment provisions			
2,346	1,872	1,931	2,406
23	-	-	23
126	342	359	131
2,495	2,214	2,290	2,560

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
14. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES (CONTINUED)			
Individual impairment provisions for loans, advances and receivables			
2,660	2,346	2,406	2,711
460	384	416	493
497	659	692	521
277	199	199	277
2,346	1,872	1,931	2,406
Individual impairment provisions for receivables from credit institutions			
23	23	23	23
-	(23)	(23)	-
-	-	-	-
-	-	-	-
-	-	-	-
23	-	-	23
Collective impairment provisions			
136	126	131	141
(10)	216	228	(10)
126	342	359	131
Earnings impact			
(47)	(81)	(71)	(38)
29	32	43	37
92	89	89	92
-	9	9	-
(110)	(129)	(108)	(93)
(48)	6	6	(48)
(158)	(123)	(102)	(141)
(148)	(339)	(330)	(131)
(10)	216	228	(10)
-	(23)	(23)	-
Receivables from credit institutions with objective evidence of impairment			
25	-	-	25
23	-	-	23
2	-	-	2
Loans and advances with objective evidence of impairment			
3,339	2,310	2,450	3,493
1,939	1,531	1,536	1,946
1,400	779	914	1,547
2,346	1,872	1,931	2,406
1,939	1,531	1,536	1,946
407	341	395	460
Carrying amount of loans and advances at amortised cost with individual impairment provisioning			
993	438	519	1,087
52,614	54,312	55,623	54,047
126	342	359	131
52,488	53,970	55,264	53,916
15. PROFIT FROM INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES			
-	2	2	-
177	214	-	-
177	217	2	-

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
16. TAX			
115	843	901	161
115	843	901	161
Tax on profit for the year has been calculated as follows:			
169	878	917	206
(42)	(36)	(17)	(33)
-	-	-	-
(14)	-	(1)	(14)
2	1	1	2
115	843	901	161
Tax on profit for the year can be specified as follows:			
163	875	887	173
(39)	(47)	-	-
Tax effect of			
(2)	-	(2)	(4)
5	15	15	4
(12)	-	-	(12)
-	-	-	-
115	843	901	161
15.5	21.2	22.3	20.4
17. SECONDARY BUSINESS AREA			
Foreign entities' contributions to profit for the year in the form of interest income, fee income and other operating income			
-	-	-	-
-	-	-	-
(1)	-	-	(1)
Balance sheet			
3	-	-	3
4	-	-	4

In 2016 the branch balance sheet essentially consisted of balances with Nykredit Markets, payables relating to salaries and social security as well as minor balances with suppliers.

The branch ceased its activities at end-January 2015 and was wound up in 2017.

NOTES

DKK million

Nykredit Bank A/S			Nykredit Bank Group	
2016	2017		2017	2016
18. CASH BALANCES AND DEMAND DEPOSITS WITH CENTRAL BANKS				
1,980	1,893	Cash balances and demand deposits with central banks	1,893	1,980
1,980	1,893	Total	1,893	1,980
19. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS				
12,648	6,171	Receivables at call from central banks	6,171	12,648
21,095	11,926	Receivables from credit institutions	11,927	21,095
33,743	18,097	Total	18,098	33,743
By time-to-maturity				
6,245	6,624	On demand	6,625	6,245
22,413	10,517	Up to 3 months	10,517	22,413
5,085	956	Over 3 months and up to 1 year	956	5,085
-	-	Over 1 year and up to 5 years	-	-
-	-	Over 5 years	-	-
33,743	18,097	Total	18,098	33,743
14,417	6,141	Of which genuine purchase and resale transactions	6,141	14,417
20. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE				
30,091	27,566	Loans and advances at fair value	27,566	30,091
30,091	27,566	Total	27,566	30,091
30,091	27,566	Of which reverse repurchase lending (purchase and resale transactions)	27,566	30,091
By time-to-maturity				
-	386	On demand	386	-
30,091	27,180	Up to 3 months	27,180	30,091
30,091	27,566	Total	27,566	30,091

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
21. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST			
53,481	54,408	55,783	55,003
53,481	54,408	55,783	55,003
By time-to-maturity			
14,992	9,953	5,184	11,270
15,564	13,225	13,225	15,564
4,727	7,059	7,059	4,727
7,499	12,012	18,156	12,743
10,699	12,159	12,159	10,699
53,481	54,408	55,783	55,003
Fixed-rate loans			
912	702	702	912
928	712	712	928
Finance leases			
-	-	5,055	4,525
-	-	4,525	4,031
-	-	2,360	2,144
-	-	1,831	1,650
-	-	5,055	4,525
By time-to-maturity			
-	-	460	428
-	-	1,060	835
-	-	3,376	3,146
-	-	159	116
-	-	5,055	4,525
Gross investments in finance leases			
By time-to-maturity			
-	-	1,588	1,317
-	-	3,520	3,226
-	-	395	423
-	-	5,504	4,966
-	-	449	441
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.			
-	-	45	47
Non-guaranteed residual values upon expiry of the leases amount to DKK 0.			

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
21. 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	1	1
Public sector			
Business customers			
2	3	4	3
5	3	4	6
2	2	2	2
2	2	3	3
4	4	4	4
2	2	3	3
2	1	1	1
39	37	32	34
11	11	10	11
8	10	11	10
78	75	74	78
Total business customers			
22	25	26	22
100	100	100	100
Total			
The sector distribution is based on the official Danish activity codes.			
22. BONDS AT FAIR VALUE			
38,474	37,904	38,539	39,024
1,198	2,146	2,146	1,198
3,436	3,557	3,557	3,436
43,108	43,607	44,242	43,658
Total			
1,340	722	722	1,340
41,768	42,885	43,520	42,318
Total			
The effect of fair value adjustment is recognised in the income statement.			
1,733	372	374	1,733
26,296	15,758	15,758	26,296
Of which redeemed bonds			
Assets sold as part of genuine sale and repurchase transactions			
Maturities based on the nominal maturities of the securities			
10,445	15,819	15,926	10,886
25,778	23,386	23,914	25,887
5,545	3,680	3,680	5,545
41,768	42,885	43,520	42,318
Total			
23. BONDS AT AMORTISED COST			
-	3,711	3,711	-
-	3,711	3,711	-
Total			
This concerns only bonds issued by Nykredit Realkredit A/S.			
3,285	85	85	3,285
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.			

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
24. EQUITIES			
257	217	218	258
Equities measured at fair value through profit or loss			
257	217	218	258
Total			
Specification of equity portfolios			
110	92	93	111
Listed on Nasdaq Copenhagen A/S			
3	2	2	3
Listed on other stock exchanges			
144	123	123	144
Unlisted equities carried at fair value			
257	217	218	258
Total			
25. INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES			
Investments in associates			
10	-	-	10
Cost, beginning of year			
-	2	2	-
Additions			
(10)	-	-	(10)
Disposals on discontinuation of operations			
-	2	2	-
Cost, year-end			
(10)	-	-	(10)
Revaluations and impairment charges, beginning of year			
-	2	2	-
Profit before tax			
10	-	-	10
Disposals on discontinuation of operations			
-	2	2	-
Total revaluations and impairment charges, year-end			
-	4	4	-
Balance, year-end			
Investments in Group enterprises			
425	425	-	-
Cost, beginning of year			
-	-	-	-
Additions			
-	-	-	-
Disposals			
425	425	-	-
Cost, year-end			
579	756	-	-
Revaluations and impairment charges, beginning of year			
223	272	-	-
Profit before tax			
46	57	-	-
Tax			
756	971	-	-
Total revaluations and impairment charges, year-end			
1,181	1,396	-	-
Balance, year-end			
Subordinated receivables			
-	-	-	-
Group enterprises			
-	-	-	-
Associates			
54	157	157	54
Other enterprises			
54	157	157	54
Total			

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
25. INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES (CONTINUED)			
Balances with associates and Group enterprises			
Group enterprises			
Asset items			
3,721	4,769	-	-
32	2	-	-
3,753	4,771	-	-
Liability items			
54	109	-	-
1	1	-	-
55	110	-	-
26. INTANGIBLE ASSETS			
Customer relationships			
35	35	35	35
-	-	-	-
35	35	35	35
15	27	27	15
12	8	8	12
27	35	35	27
8	-	-	8

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
26. INTANGIBLE ASSETS (CONTINUED)			
GOODWILL			
29	29	29	29
-	(15)	(15)	-
29	14	14	29
Total, year-end			
15	15	15	15
-	(15)	(15)	-
15	-	-	15
Impairment charges, year-end			
14	14	14	14
Total goodwill, year-end			
14	14	14	14
14	14	14	14
Total goodwill, year-end			
Acquisition of Amber Fondsmæglerselskab A/S in 2011: Goodwill is allocated to the business area Wholesale.			
27. OTHER PROPERTY, PLANT AND EQUIPMENT			
3	-	-	3
3	-	-	3
Total			
Equipment			
40	33	34	43
Cost, beginning of year			
-	1	1	-
7	34	34	9
33	-	1	34
Cost, year-end			
33	30	31	36
Depreciation and impairment charges, beginning of year			
4	3	3	4
7	33	33	9
30	-	1	31
Depreciation and impairment charges, year-end			
3	-	-	3
Balance, year-end			
Equipment is depreciated over 3-5 years and had an average residual depreciation period of 0 years at 31 December 2017 (end-2016: 1.5 years).			
28. ASSETS IN TEMPORARY POSSESSION			
31	27	27	31
Assets, beginning of year			
-	-	-	-
4	27	27	4
27	-	-	27
Total			

Assets in temporary possession comprise properties acquired by foreclosure.

Nykredit Bank accepts mortgages on real estate as security for loans. In a number of instances, the Bank acquires the properties by foreclosure in the event of borrowers' non-performance of loan agreements etc.

The valuation of assets in temporary possession is based on the expected sales values in case of disposal within a period of 12 months.

NOTES

DKK million

Nykredit Bank A/S			Nykredit Bank Group	
2016	2017		2017	2016
29. OTHER ASSETS				
1,699	1,055	Interest and commission receivable	1,086	1,765
26,940	18,379	Positive market value of derivative financial instruments	18,379	26,940
2,661	2,917	Other	2,922	2,638
31,300	22,351	Total	22,387	31,343
Positive market value of derivative financial instruments				
By time-to-maturity				
1,405	644	Up to 1 year	644	1,405
4,012	2,875	Over 1 year and up to 5 years	2,875	4,012
21,523	14,860	Over 5 years	14,860	21,523
26,940	18,379	Total	18,379	26,940
The items "Interest and commission receivable" and "Other" fall due within 1 year.				
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.				
430	403	The unamortised minimum margin at the beginning of the year amounted to	403	430
(62)	(58)	Amortised through profit or loss over the year	(58)	(62)
47	37	Minimum margin on new contracts	37	47
(12)	(9)	Terminated contracts	(9)	(12)
403	373	Total unamortised minimum margin at year-end	373	403
223	216	- of which recognised in FVA and CVA	216	223

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group		
2016	2017	2017	2016	
30. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS				
7,087	3,568	Payables to central banks	3,568	7,087
43,979	36,380	Payables to credit institutions	36,650	44,519
51,066	39,948	Total	40,218	51,606
6,555	7,626	Of which genuine sale and repurchase transactions	7,626	6,555
By time-to-maturity				
15,556	13,120	On demand	13,120	15,556
20,150	10,224	Up to 3 months	10,224	20,150
8,112	6,412	Over 3 months and up to 1 year	6,412	8,112
5,248	10,192	Over 1 year and up to 5 years	10,462	5,788
2,000	-	Over 5 years	-	2,000
51,066	39,948	Total	40,218	51,606
<p>Payables to credit institutions comprise a balance of DKK 10.2bn 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>				
31. DEPOSITS AND OTHER PAYABLES				
55,466	65,224	On demand	65,115	55,412
2,096	1,286	At notice	1,286	2,096
5,923	7,484	Time deposits	7,484	5,923
2,832	2,616	Special deposits	2,616	2,832
66,317	76,610	Total	76,501	66,263
By time-to-maturity				
56,074	62,959	On demand	62,850	56,020
5,751	10,727	Up to 3 months	10,727	5,751
838	645	Over 3 months and up to 1 year	645	838
1,855	695	Over 1 year and up to 5 years	695	1,855
1,799	1,584	Over 5 years	1,584	1,799
66,317	76,610	Total	76,501	66,263
32. BONDS IN ISSUE AT AMORTISED COST				
11,498	7,196	Bonds in issue	7,196	11,498
(1,340)	(722)	Own portfolio	(722)	(1,340)
10,158	6,473	Total	6,473	10,158
By time-to-maturity				
1,912	2,624	Up to 3 months	2,624	1,912
5,539	1,685	Over 3 months and up to 1 year	1,685	5,539
2,707	2,164	Over 1 year and up to 5 years	2,164	2,707
-	-	Over 5 years	-	-
10,158	6,473	Total	6,473	10,158
Issues				
6,948	3,902	EMTN issues*	3,902	6,948
3,055	2,513	ECP issues*	2,513	3,055
155	58	Other issues	58	155
10,158	6,473	Total	6,473	10,158

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

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
33. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE			
14,562	8,214	8,214	14,562
6,786	5,762	5,762	6,786
21,348	13,976	13,976	21,348
33. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE			
14,562	8,214	8,214	14,562
By time-to-maturity			
-	970	970	-
21,348	13,006	13,006	21,348
21,348	13,976	13,976	21,348
34. DEFERRED AND CURRENT TAX			
Deferred tax			
(70)	(109)	2	32
(41)	(36)	(17)	(32)
2	1	1	2
-	-	-	-
(109)	(144)	(15)	2
Deferred tax recognised in the balance sheet			
(109)	(144)	(145)	(110)
-	-	130	112
(109)	(144)	(15)	2
Deferred tax relates to			
(42)	(49)	129	104
(2)	(3)	(3)	(2)
(2)	(2)	(2)	(2)
-	-	(47)	(33)
20	(16)	(16)	20
(83)	(74)	(75)	(85)
(109)	(144)	(15)	2
Current tax assets/liabilities			
98	8	10	98
169	878	917	206
(245)	(884)	(896)	(279)
(14)	-	-	(15)
8	1	31	10
Current tax recognised in the balance sheet			
-	-	-	(5)
8	1	31	15
8	1	31	10

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
35. OTHER LIABILITIES			
1,803	1,097	1,098	1,801
22,963	11,540	11,540	22,963
1,387	1,285	1,620	1,729
26,153	13,922	14,258	26,493
Negative market value of derivative financial instruments			
By time-to-maturity			
1,265	826	826	1,265
3,009	1,614	1,614	3,009
18,689	9,100	9,100	18,689
22,963	11,540	11,540	22,963
The items "Interest and commission payable" and "Other payables" fall due within one year.			
36. PROVISIONS			
Provisions for losses under guarantees			
100	52	52	100
21	27	27	21
69	21	21	69
-	-	-	-
52	58	58	52
Other provisions			
82	97	97	82
48	13	13	48
-	22	22	-
33	35	35	33
97	53	53	97
Total provisions for losses under guarantees and other provisions			
182	149	149	182
69	40	40	69
69	43	43	69
33	35	35	33
149	111	111	149

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	
2016	2017		2017	2016
37. 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. Subordinate loan capital. The loan is non-callable and falls due in its entirety on 1 January 2027 and carries an interest rate of 2.25% pa above 3M Cibur				
2,000	2,000		2,000	2,000
2,000	2,000	Total subordinated debt	2,000	2,000
Included in the determination of own funds				
2,000	2,000	Subordinate loan capital	2,000	2,000
-	-	Additional Tier 1 capital	-	-
-	-	Costs related to raising and redeeming subordinated debt	-	-
38. CONTINGENT LIABILITIES				
11,123	14,100	Financial guarantees	13,830	10,585
1,366	5,665	Registration and refinancing guarantees	5,665	1,366
5,301	5,684	Other contingent liabilities	5,585	5,201
17,790	25,449	Total	25,080	17,152
By remaining term				
12,088	15,861	Up to 1 year	15,591	12,088
3,523	3,045	Over 1 year and up to 5 years	3,045	3,523
2,179	6,543	Over 5 years	6,444	1,541
17,790	25,449	Total	25,080	17,152

The breakdown of remaining term 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. 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 an IT provider of Nykredit Bank. According to BEC's articles of association, Nykredit Bank may terminate its membership of BEC giving five years' notice to expire at the end of a financial year. Should the membership terminate otherwise for 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 deposit guarantee scheme. A new scheme was introduced in 2015, as the Danish Guarantee Fund took over the activities and assets of the Danish Guarantee Fund for Depositors and Investors on 1 June 2015. The purpose of the Danish Guarantee Fund is to provide cover for depositors and investors of failing institutions included in the Fund's scheme. The scheme includes both natural and legal persons, and deposits are covered by an amount equivalent to EUR 100,000 per depositor and EUR 20,000 per investor.

The Danish Resolution Fund, which is a finance scheme, was also established in 2015. The Danish Resolution Fund is funded by annual contributions from participating banks, mortgage lenders and investment companies and, as from 31 December 2024, the assets of the scheme must make up 1% of the sector's covered deposits. Participating institutions make annual contributions to cover any losses incurred by the Danish Resolution Fund in connection with the resolution of failing institutions.

Joint taxation

The Company is jointly taxed in Denmark with Forenet Kredit as the administration company. Pursuant to the Danish Corporation Tax Act, the Company is liable 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	
2016	2017		2017	2016
39. OTHER COMMITMENTS				
5,130	6,617	Irrevocable credit commitments	6,617	5,130
95	109	Other	218	245
5,225	6,726	Total	6,835	5,375

40. 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.

No unusual related party transactions occurred in 2016 and 2017.

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 2016 or 2017 include:

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 2017 Nykredit Bank transferred secured homeowner loans worth DKK 3.4bn.

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
40. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)			
Transactions with the Parent, Nykredit Realkredit A/S, and its Group enterprises and associates			
Income statement			
151	67	67	151
(36)	(44)	(44)	(36)
(55)	(94)	(94)	(52)
7	60	60	4
116	255	255	116
255	76	76	255
86	(166)	(167)	86
670	576	625	724
Asset items			
13,397	4,115	4,115	13,397
3	-	-	3
6,994	12,485	12,811	7,283
478	453	453	478
Liability items			
34,613	28,376	28,376	34,613
849	588	588	849
160	92	92	160
2,000	2,000	2,000	2,000
Transactions with other Group enterprises			
Income statement			
24	17	-	-
-	1	-	-
266	190	-	-
8	5	-	-
16	9	-	-
Asset items			
3,721	4,769	-	-
32	2	-	-
Liability items			
54	109	-	-
1	1	-	-

NOTES

DKK million

Nykredit Bank Group

41. OFFSETTING

	Gross amounts	Financial instruments offset	Carrying amount after set-off	Further off-setting, master netting agreements	Collateral	Net amounts
2017						
Financial assets						
Derivatives with a positive fair value	30,292	11,913	18,379	7,544	1,041	9,794
Reverse repo transactions	35,643	1,936	33,707	-	33,445	262
Total	65,935	13,849	52,086	7,544	34,486	10,056
Financial liabilities						
Derivatives with a negative fair value	23,453	11,913	11,540	7,544	3,610	386
Repo transactions	17,776	1,936	15,840	-	15,758	82
Total	41,229	13,849	27,380	7,544	19,368	468
2016						
Financial assets						
Derivatives with a positive fair value	40,089	13,149	26,940	13,810	2,579	10,551
Reverse repo transactions	48,569	4,061	44,508	-	44,346	162
Total	88,658	17,210	71,448	13,810	46,925	10,713
Financial liabilities						
Derivatives with a negative fair value	36,112	13,149	22,963	13,810	3,360	5,793
Repo transactions	25,178	4,061	21,117	-	20,953	164
Total	61,290	17,210	44,080	13,810	24,313	5,957

42. FAIR VALUE DISCLOSURES

Valuation principles

Financial instruments are measured at fair value or amortised cost in the balance sheets. The tables in notes 42 a and 42 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 measured based on publicly listed prices or market terms in active markets on the balance sheet date.

If an asset or liability measured at fair value has both a purchase and a sales price, the mean value is used as a basis for measurement. The measurement is the value at which a financial asset may be traded, or the amount at which a financial liability may be settled, between two independent and willing parties.

If the market for a financial asset or liability is illiquid, or if there are no publicly recognised prices, Nykredit 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 measured at fair value using valuation methods according to which the fair value is estimated as the price of an asset traded between independent parties or based on the company's equity value, if the equity value is assumed equal to the fair value of the instrument.

Financial instruments measured at amortised cost

In connection with the determination of the fair value of the financial instruments measured at amortised cost in the Financial Statements, the following methods and significant assumptions have been applied:

- For loans, advances and receivables as well as 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 fixed-rate assets and financial liabilities measured at amortised cost has been determined using generally accepted valuation methods.
- The credit risk of fixed-rate financial assets (loans and advances) has been assessed in relation to other loans, advances and receivables.
- The fair value of assets and liabilities without a fixed term has been assumed to be the value disburseable at the balance sheet date.
- The fair value of bonds in issue is measured based on valuation techniques, taking into account comparable transactions and observable inputs such as yield curves, at which Nykredit might launch issues.

Note 42 a shows the fair value of the financial instruments measured 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 recognised at listed prices if external prices have been updated within the past three trading days prior to the balance sheet date. If no listed prices have been observed during this time span, the portfolio is recognised at 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 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 to this category.

Bonds not traded in the past three trading days belong to this category. The valuation 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). Redeemed bonds are transferred to this category, as there is no access to official prices in active markets.

Further, the valuation of derivatives implies the use of Credit Valuation Adjustment (CVA), thus including counterparty credit risk in the valuation. The CVA of derivatives with positive market value is primarily based on external credit curves such as Itraxx Main, but also on internal data as regards customers without OEI in the lowest rating categories, as there are no external curves suitable for the calculation of credit risk on these customers. Finally, calculations are made to simulate future exposures to interest rate swaps. Calculations involving increased CVA are included in the value adjustment.

Furthermore, Funding Valuation Adjustment (FVA) for the valuation of derivatives is used. FVA allows for Nykredit's future funding costs incurred by derivatives transactions where customers 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 customers' insufficient or lacking provision of collateral. 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 366m at 31 December 2017 against a negative DKK 791m at end-2016.

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Nykredit Bank Group

Observable inputs (continued)

Upon entering into derivatives contracts, further provisions are made in the form of a so-called minimum margin for liquidity and credit risk and return on capital. The minimum margin is amortised at the valuation of derivatives over their times-to-maturity. At 31 December 2017, the non-amortised minimum margin amounted to DKK 157m compared with DKK 181m at end-2016. With regard to liquidity and credit risk, these amounts are included above in the net value adjustment of FVA and CVA, and thus, the DKK 216m for 2017 and DKK 223m for 2016 stated in note 29, are not included here. Finally, in some instances further value adjustment based on management judgement is made if the models are not deemed to take into account all known risks, including eg legal risks.

In some cases, markets, eg the bond market, have become inactive and illiquid. When assessing market transactions, it may therefore be difficult to conclude whether the transactions were executed at arm's length or were forced sales. If measurement is based on recent transactions, the transaction price is compared with a price based on relevant yield curves and discounting techniques.

Unobservable inputs

When it is not possible to measure financial instruments at fair value based on prices in active markets or observable inputs, measurement is based on own assumptions and extrapolations etc. Where possible and appropriate, measurement is based on actual transactions adjusted for differences in eg the liquidity, credit spreads and maturities of the instruments. The Group's unlisted equities are generally classified under this heading and valuation 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 amounted to DKK 1,104m at 31 December 2017. Credit value adjustments came to DKK 3,110m at 31 December 2017 (end-2016: DKK 3,926m).

The interest rate risk on these interest rate swaps is hedged in all material respects. However, interest rate fluctuations may impact results to the extent that the market value must be adjusted due to increased counterparty credit risk. A 0.1 percentage point change in interest rate levels will impact the fair value by +/- DKK 118m.

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 2017, the proportion was thus 1.2% compared with 0.6% at end-2016. The proportion of financial liabilities was 0.0% against 0.0% at end-2016.

Valuation, notably of instruments classified as unobservable inputs, is subject to some uncertainty. Of total assets and liabilities, DKK 1.2bn (end-2016: DKK 0.7bn), respectively, belonged to this category. Assuming that an actual market price will deviate by +/- 10% from the calculated fair value, the earnings impact will be DKK 118m at 31 December 2017 (0.6% of equity at 31 December 2017). The earnings impact for 2016 was estimated at DKK 71m (0.4% of equity at 31 December 2016).

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 2017 and 2016, transfers between the categories Observable inputs and Unobservable inputs mainly resulted from changes to the ratings (credit risk) of counterparties and primarily concerned interest rate swaps, as regards financial instruments with positive market value.

Transfers between the categories Listed prices and Observable inputs resulted in all material respects from bonds that were reclassified either due to traded volume or the number of days between last transaction and the time of determination. In 2017, financial assets of DKK 0.6bn have been transferred from Listed prices to Observable inputs and DKK 0.2bn from Observable inputs to Listed prices. Financial liabilities of DKK 0.1bn have been transferred from Listed prices to Observable inputs and DKK 0.1bn from Observable inputs to Listed prices.

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 2017, the amount was DKK 0.1bn against DKK 0.0bn at end-2016.

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

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DKK million

Nykredit Bank Group

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

Assets and liabilities recognised at amortised cost by valuation category (IFRS hierarchy)

31 December 2017	Carrying amount	Fair value	Balance	Fair value calculated on the basis of		
				Listed prices	Observable inputs	Unobservable inputs
Assets:						
Loans, advances and other receivables at amortised cost	55,783	56,010	227	-	-	56,010
Bonds at amortised cost	3,711	3,726	15	1,467	2,259	-
Total	59,494	59,736	242	1,467	2,259	56,010
Liabilities						
Bonds in issue at amortised cost	6,473	6,402	71	-	6,402	-
Total	6,473	6,402	71	-	6,402	-
Transfer from assets			242			
Total balance			314			

31 December 2016	Carrying amount	Fair value	Balance	Fair value calculated on the basis of		
				Listed prices	Observable inputs	Unobservable inputs
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			

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DKK million

Nykredit Bank Group

42 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 2017	Listed prices	Observable inputs	Unobservable inputs	Total fair value
Financial assets:				
- reverse repurchase lending to credit institutions and central banks	-	6,141	-	6,141
- other reverse repurchase lending	-	27,566	-	27,566
- bonds at fair value	26,181	17,339	-	43,520
- equities measured at fair value through profit or loss	139	-	79	218
- positive fair value of derivative financial instruments	19	17,256	1,104	18,379
Fair value, 31 December 2017, assets	26,339	68,302	1,183	95,824
Percentage	27.5	71.3	1.2	100

Financial liabilities:

- repo transactions with credit institutions and central banks	-	7,626	-	7,626
- other non-derivative financial liabilities at fair value	3,656	10,320	-	13,976
- negative fair value of derivative financial instruments	14	11,526	-	11,540
Fair value, 31 December 2017, liabilities	3,670	29,472	-	33,142
Percentage	11.1	88.9	-	100

Assets and liabilities measured on the basis of unobservable inputs

	Bonds	Equities	Derivatives	Total
Fair value, beginning of year, assets	-	123	587	710
Unrealised capital gains and losses recognised in "Value adjustments" in the income statement	-	(59)	113	54
Realised capital gains and losses recognised in "Value adjustments" in the income statement	-	1	-	1
Purchases for the year	-	21	-	21
Sales for the year	-	(7)	(43)	(50)
Redemptions for the year	-	-	-	-
Transferred from Listed prices and Observable inputs	-	-	698	698
Transferred to Listed prices and Observable inputs	-	-	(251)	(251)
Reclassified to "Other assets"	-	-	-	-
Fair value, 31 December 2017, assets	-	79	1,104	1,183

For 2017 unrealised negative value adjustments of DKK 150m relating to the portfolio of financial instruments measured on the basis of unobservable inputs at 31 December 2017 have been recognised in the income statement.

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DKK million

Nykredit Bank Group

42 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 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	8.3	91.7	-	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

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

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DKK million

Nykredit Bank Group

43. DERIVATIVE FINANCIAL INSTRUMENTS

By time-to-maturity

	Net market value				Positive market value	Gross market value		Nominal value
	Up to 3 months	3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years		Negative market value	Net market value	
2017								
Foreign exchange contracts								
Forward contracts/futures, purchased	(133)	(17)	(1)	-	137	288	(151)	37,189
Forward contracts/futures, sold	81	16	1	-	221	123	98	29,550
Swaps	-	(47)	88	65	197	90	107	5,947
Options, purchased	3	1	-	-	4	-	4	361
Options, written	(3)	(1)	-	-	-	4	(4)	361
Interest rate contracts								
Forward contracts/futures, purchased	9	-	-	-	35	26	9	18,867
Forward contracts/futures, sold	6	-	-	-	25	19	6	24,094
Forward Rate Agreements, purchased	(2)	-	-	-	1	3	(2)	72,471
Forward Rate Agreements, sold	2	-	-	-	3	2	1	73,487
Swaps	(36)	(64)	1,258	5,617	17,064	10,291	6,773	669,415
Options, purchased	-	-	521	123	662	19	643	33,819
Options, written	-	-	(589)	(45)	-	634	(634)	19,740
Equity contracts								
Forward contracts/futures, purchased	-	-	-	-	-	-	-	122
Forward contracts/futures, sold	(1)	-	-	-	-	1	(1)	44
Equity swaps	(1)	17	(18)	-	17	19	(2)	543
Options, purchased	-	-	-	-	-	-	-	-
Options, written	-	-	-	-	-	-	-	-
Credit contracts								
Credit swaps	-	-	-	-	-	-	0	27
Total							6,847	
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	

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DKK million

44. UNSETTLED SPOT TRANSACTIONS

Nykredit Bank Group

	2017			2016	
	Nominal value	Positive	Negative	Net market value	Net market value
Foreign exchange contracts, purchased	5,627	1	3	(2)	(9)
Foreign exchange contracts, sold	6,447	5	-	5	1
Interest rate contracts, purchased	7,682	3	18	(15)	(25)
Interest rate contracts, sold	4,996	1	1	1	1
Equity contracts, purchased	164	-	-	-	1
Equity contracts, sold	179	1	-	-	-
Total	25,095	11	22	(11)	(31)
Total, the year before	40,423	43	74	(31)	(20)

Nykredit Bank A/S

	2017			2016	
	Nominal value	Positive	Negative	Net market value	Net market value
Foreign exchange contracts, purchased	5,627	1	3	(2)	(9)
Foreign exchange contracts, sold	6,447	5	-	5	1
Interest rate contracts, purchased	7,682	3	18	(15)	(25)
Interest rate contracts, sold	4,996	1	1	1	1
Equity contracts, purchased	164	-	-	-	1
Equity contracts, sold	179	1	-	-	-
Total	25,095	11	22	(11)	(31)
Total, the year before	40,423	43	74	(31)	(20)

45. 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 and various other committees. The Group's risk management is based on the Three Lines of Defence model.

Risk profile

Nykredit's risk profile mainly relates to loans and credit facilities provided to personal and business customers. The business activities combined with the management of the investment portfolio involve credit, market, liquidity and operational risks, including IT and compliance risks.

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

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

Credit risk

Credit risk reflects the risk of loss resulting from Nykredit's customers and counterparties defaulting on their obligations.

Credit risk is managed in accordance with the Group's credit policy, which lays down the risk profiles of the individual Group companies. It is reviewed and adopted by the Boards of Directors and is based on the Nykredit Group's strategy and the aim that customers should perceive Nykredit and Totalkredit as reliable and qualified partners.

Based on the credit policy, customers' willingness and ability to meet their obligations to Nykredit are assessed, their creditworthiness being the core element. The credit assessments factor in any security provided, including mortgages on real estate.

Nykredit's customer centres have been authorised to process most credit applications independently, as Nykredit aims to process most credit applications locally. The authority comes with a requirement of certification in credit policy and business processes every three years.

Nykredit has five regional credit units which process credit applications from business customers exceeding the authority assigned to the customer centres. Larger applications are processed centrally by Group Credits, unless they involve exposures requiring escalation to the Credits Committee, the Bank's Executive Board or the Board of Directors.

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 write-offs and impairment charges and annually about any exposures to members of the Board of Directors, the Executive Board, etc.

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 prudent valuation.

At least once a year, the Bank's exposures exceeding DKK 1m are re-viewed. 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.

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 values of derivatives cleared through a central clearing house.

NOTES

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). These three key parameters are usually referred to as risk parameters. Nykredit estimates risk parameters on the basis of Nykredit's default and loss history.

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.

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	Nykredit considers an exposure to be in default at the time of sending the third reminder (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.

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%	100.00%

Modelling principles

According to the CRR, PDs must be estimated on the basis of historical 1-year PDs and must reflect a suitable weighting between the long-term average and the current level. For the purpose of determining capital requirements, LGD estimates must always reflect an economic downturn.

The above principles applied to estimate the risk parameters ensure that the Group's REA remains more stable throughout an economic cycle than if the calculations had exclusively reflected the current economic climate.

Probability of Default (PD)

PD expresses the probability of a customer defaulting on an obligation to Nykredit within a period of one year. Nykredit calculates a PD for each individual customer.

PDs are calculated using statistical models. These models are based on, for instance, data on the customer's financial position and payment behaviour as well as any impairment. Corporate and institutional clients and production farming businesses are also required to submit financial statements regularly, which will be applied in the determination of their ratings.

Credit ratings

The PDs of individual customers are converted into ratings from 0 to 10, 10 being the highest rating. Exposures in default are placed in a category of their own. The individual rating categories have been defined based on fixed PD ranges. This means that, in periods of high business activity, a high rating will be assigned to relatively more customers, while the opposite will apply during an economic downturn.

A rating reflects the customer's financial position and creditworthiness, and besides being included in the determination of capital requirements, the customer rating is also a key element of any customer assessment.

Manual correction of a customer's rating is possible if, due to objective data not already factored into the model, the calculated rating is not deemed to reflect the customer's real credit quality. Manual correction of the calculated rating is referred to as override.

Loss Given Default (LGD)

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.

Exposure at Default (EAD)

Nykredit Bank estimates an EAD for all exposures relating to a customer, reflecting the total expected exposure to the customer at the time of default, including any additional drawn parts of approved credit commitments. The latter is factored in using conversion factors (CF).

NOTES

Risk exposure amount for credit risk

Nykredit Bank's total REA for credit risk decreased from DKK 95.1bn in 2016 to DKK 80.7bn in 2017.

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	2017	2016
Standardised approach	6,863	6,366
IRB approach	73,343	87,792
Credit Valuation Adjustment (CVA)	379	738
Default fund contribution (CCP)	78	183
Total credit risk	80,663	95,079

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 2017.

The Bank's largest single exposure to a non-financial counterparty was DKK 1.8bn at end-2017, equal to 8% of eligible capital. Thus, Nykredit Bank had no large exposures exceeding 10% of eligible capital.

The Bank's 20 largest exposures to non-financial counterparties amounted to an aggregate DKK 19.0bn, equivalent to 87% of eligible capital, at end-2017. In 2016 the Bank's 20 largest exposures to non-financial counterparties amounted to DKK 18.2bn, equivalent to 99% of eligible capital.

Nykredit Bank has initiated an analysis to assess the concentration risk caused by large exposures and industries. Nykredit Bank has allocated capital under Pillar II to cover any potential concentration risk which may not be covered by the regulatory capital requirement under Pillar I.

Counterparty risk

Nykredit applies financial instruments, such as interest rate derivatives and repurchase agreements (repo transactions), for serving customers. Liquidity and market risks are also managed using financial instruments.

The market value of a derivative changes according to the underlying market parameters, such as interest rates and exchange rates. This may lead to market values in favour of both Nykredit and its counterparties.

In some cases, a counterparty is unable to meet its payment obligations (default). This gives rise to counterparty risk. 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. Nykredit uses central counterparties (CCPs) for professional derivatives clearing, including interest rate swaps and FRAs, and for repo transactions.

The counterparty risk exposure is affected by the market value of the financial instruments and the probability of non-payment by customers. Thus, counterparty risk involves both market risk and credit risk.

The calculated value adjustment of derivatives (CVA etc) is recognised in the financial statements. The value adjustment is thus affected by several factors, including the level of long-term interest rates, credit spreads, funding spreads, the maturities of the contracts as well as customers' credit quality.

REA for counterparty risk after netting and collateral was DKK 15.1bn at end-2017. Of this amount, derivatives represented DKK 13.8bn and repo transactions DKK 0.8bn. The remaining DKK 0.5bn related to credit valuation adjustment (CVA) and default fund contributions (CCP).

Value adjustment of derivatives

Nykredit makes fair value adjustment of derivatives in accordance with the International Financial Reporting Standards (IFRS). This includes individual value adjustments of customers showing objective evidence of impairment (OEI), credit valuation adjustments (CVA) based on customers' current credit quality as well as management judgement.

The Danish FSA has encouraged the adoption of a prudent approach to the assessment of customers with swap contracts. This means that swap contracts with customers showing OEI (rating 0 and exposures in default) are value adjusted in full. This despite the fact that customers with rating 0 still make timely payments to Nykredit.

Nykredit also makes adjustments for other factors. As at end-2017, Nykredit had made funding valuation adjustments (FVA) where customers had not provided security for derivatives. The valuation adjustments referred to above go under the umbrella name of xVA.

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Market risk

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

Market risk mainly arises 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 yield 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:

- Day-to-day 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 is that losses on exposures involving market risk must not have a significant earnings impact. Market risk is managed by means of estimated losses in stress scenarios. Statistical as well as forward-looking stress scenarios are used to calculate the estimated losses.

The guidelines restrict 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.

Day-to-day market risk management

The traditional risk measures, such as interest rate, equity price, volatility and foreign exchange risks, are monitored by means of 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.

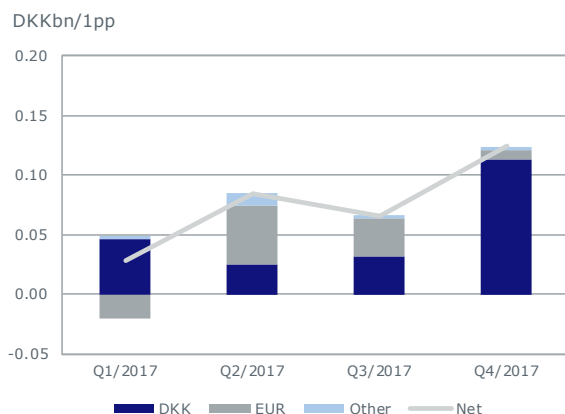
The traditional risk measures do not indicate the probability of a particular event, but rather how much the occurrence of the event would affect the value of a portfolio.

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

Interest rate risk

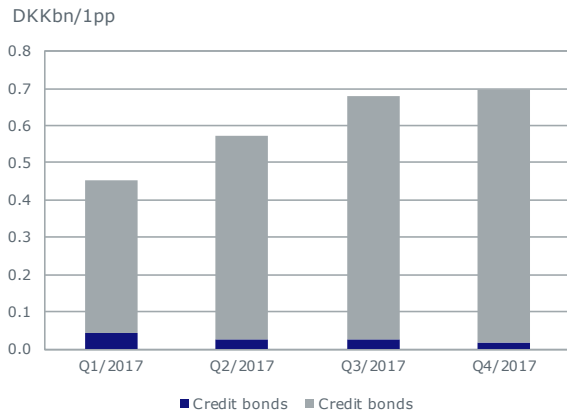
Interest rate risk is the risk of loss as a result of interest rate changes, and the Nykredit Bank Group's interest rate risk is measured as the change in market value caused by a general interest rate increase of 1 percentage point. Developments in the Bank's interest rate exposure are shown in the chart below. The net interest rate exposure was DKK 124m at end-2017. This means that the Bank would lose DKK 124m at a general interest rate rise of 1 percentage point.

Nykredit Bank Group Interest rate risk



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Nykredit Bank Group Yield spread risk



Yield spread risk

Yield spread risk is the risk of spread widening between the yield of a given bond and general swap rates. The yield spread risk on the Bank's portfolio of covered bonds amounted to DKK 678m and approximately DKK 17m on the portfolio of corporate bonds at end-2017.

This means that Nykredit Bank would lose DKK 678m on its portfolio of covered bonds if the spread between covered bond yields and swap rates widened by 1 percentage point.

Overall, this risk makes up a substantial part of the Bank's total market risk given its large covered bond portfolios. The yield spread risk has increased in recent quarters, one reason being the placement of part of the liquidity reserves in short-term covered bonds, which causes a higher yield 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 133m at end-2017; this means that a 10% decline in equity prices would reduce the value of the portfolio by DKK 13m.

Foreign exchange risk

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

In 2017 the Bank's most significant foreign exchange positions were mainly in EUR, and it had only limited foreign exchange positions in other currencies.

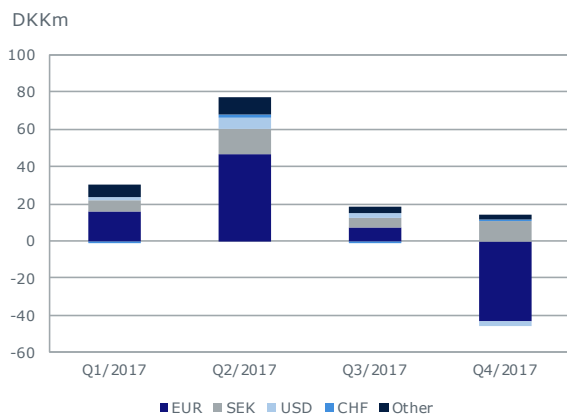
At end-2017 the Bank had a EUR position of a negative DKK 43m and only minor positions in other currencies.

Volatility risk

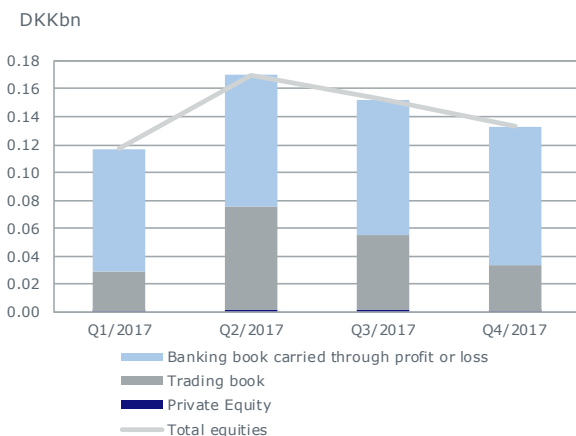
Volatility risk is measured as the change in market value resulting from an increase in volatility of 1 percentage point, increased volatility implying a loss on Nykredit Bank's part.

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

Nykredit Bank Foreign exchange risk



Nykredit Bank Market value of equity portfolio



NOTES

Nykredit Bank Group

Value-at-Risk (VaR)

Value-at-Risk (VaR) is an internal model applied in the market risk area 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 to determine REA for market risk. The model set-up and choice of parameters depend on the purpose, and the amounts calculated for either purpose are not comparable.

The 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 yield spread risks. For the daily internal determination of VaR, an addition for the Bank's position in equities is also calculated.

Nykredit's VaR for internal management totalled DKK 10m at end-2017 against DKK 12m at end-2016. This means that Nykredit Bank would, at a 99% probability, lose a maximum of DKK 10m in one day in consequence of market fluctuations.

REA for market risk

To determine REA for market risk, the Bank applies the VaR model calibrated at a confidence level of 99% and a time horizon of 10 days. In addition to this, VaR must be multiplied by a factor determined by the Danish FSA.

Nykredit Bank's total REA for market risk amounted to DKK 11.2bn at end-2017, of which REA from VaR amounted to DKK 5.9bn. By comparison, REA from VaR was DKK 5.2bn at end-2016.

The standardised approach for determination of market risk is defined in the legislation. It 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 5.3bn at end-2017.

Nykredit Bank Group REA – market risk

DKK million	2017	2016
Internal models (Value-at-Risk)	5,904	5,240
Standardised approach	5,330	4,044
Settlement risk	2	85
Total market risk	11,235	9,369

Liquidity risk

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

At end-2017, the Liquidity Coverage Ratio (LCR) was 148% compared with a statutory requirement of 100%. This corresponded to excess liquidity coverage in the amount of DKK 14bn. The aggregate amount issued under the ECP (Euro Commercial Paper) and EMTN (Euro Medium-Term Note) programmes was DKK 6.7bn at end-2017.

The Bank's deposits exceeded lending by DKK 21bn at end-2017.

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.

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

Given its nature and characteristics, operational risk is best mitigated and managed through the day-to-day business conduct. The responsibility for the day-to-day management of operational risk is decentralised and lies with the individual business areas. Operational risk management activities are coordinated centrally to ensure coherence, consistency and optimisation across the Group.

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

In addition to the recording of operational risk events, Nykredit is continuously working on identifying significant operational risks. Operational risks are mapped on the basis of input supplied by each business area about its own significant risks to Nykredit's centralised operational risk function. Operational risk mapping provides a valuable overview of particularly risky processes and systems and therefore constitutes a good management tool.

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

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 6.1bn throughout 2017.

NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
45. CREDIT, FOREIGN EXCHANGE, EQUITY PRICE AND INTEREST RATE EXPOSURES (CONTINUED)			
Credit risk			
The Group's maximum credit exposure comprises selected balance sheet and off-balance sheet items.			
Total credit exposure			
Balance sheet items			
1,980	1,893	1,893	1,980
33,743	18,097	18,098	33,743
30,091	27,566	27,566	30,091
53,481	54,408	55,783	55,003
24,836	25,954	32,097	30,079
21,554	19,672	19,672	21,554
2,603	3,344	3,344	2,603
4,488	5,438	670	767
41,768	42,885	43,520	42,318
31,300	22,351	22,387	31,343
Off-balance sheet items			
17,790	25,449	25,080	17,152
5,225	6,726	6,835	5,375
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-2017, collateral security excluding guarantees included:			
4,667	4,459	4,459	4,667
2,009	2,078	2,078	2,009
1,347	1,422	1,422	1,347
-	4	4	-
284	170	170	284
1,203	733	733	1,203
Nykredit Leasing's lending is essentially secured by Nykredit Leasing's ownership of the leased equipment.			
When opening credit lines for financial products, Nykredit Bank will also often require that a contractual basis be established providing it with a netting option. 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.			

Nykredit Bank Group

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

Loans, advances, guarantees and provisions by sector

	Carrying amount			Proportion, %	Provisions		Total
	Loans and advances	Guarantees	Total		Individual impairment provisions	Collective impairment provisions	
31 December 2017							
Public sector	714	-	714	1	-	2	2
Business customers							
Agriculture, hunting, forestry and fishing	2,408	2,237	4,645	4	91	13	104
Manufacturing, mining and quarrying	4,488	199	4,687	4	174	21	195
Energy supply	1,940	30	1,970	2	9	5	14
Construction	2,285	559	2,844	3	164	13	177
Trade	3,344	542	3,886	4	61	115	176
Transport, accommodation and food service activities	2,404	550	2,954	3	97	3	100
Information and communication	808	242	1,050	1	23	2	25
Finance and insurance	33,937	1,029	34,966	32	63	9	72
Real estate	8,697	2,648	11,345	10	574	89	663
Other	9,983	1,579	11,562	11	193	46	239
Total business customers	70,294	9,615	79,909	74	1,449	316	1,765
Personal	12,341	15,464	27,805	26	540	41	581
Total	83,349	25,079	108,428	100	1,989	359	2,348
Of which reverse repurchase lending (loans and advances at fair value)	27,566	-	27,566	25	-	-	-
31 December 2016							
Public sector	446	151	597	1	-	-	-
Business customers							
Agriculture, hunting, forestry and fishing	2,091	570	2,661	3	85	10	95
Manufacturing, mining and quarrying	6,099	191	6,290	6	177	8	185
Energy supply	2,205	47	2,252	2	3	-	3
Construction	2,302	875	3,177	3	204	2	206
Trade	3,447	396	3,843	4	53	4	57
Transport, accommodation and food service activities	2,505	596	3,101	3	110	4	114
Information and communication	1,370	181	1,551	2	17	1	18
Finance and insurance	33,776	973	34,749	34	117	2	119
Real estate	9,510	2,079	11,589	11	887	63	950
Other	9,138	1,135	10,273	10	218	4	222
Total business customers	72,443	7,043	79,486	78	1,871	98	1,969
Personal	12,205	9,958	22,163	22	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	-	-	-

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

Nykredit Bank Group

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

Loans and advances at amortised cost by rating category

2017	Manufacturing and construction	Credit and finance	Property management and trade	Transport, trade and accommodation	Other trade and public	Personal customers	Total
Rating category							
10	1,950	582	435	141	1,094	1,638	5,840
9	594	1,600	798	842	1,133	1,239	6,206
8	1,375	1,329	1,652	583	1,364	1,325	7,628
7	2,023	1,270	2,211	1,770	2,951	1,204	11,429
6	1,638	1,102	1,633	1,037	4,517	1,812	11,739
5	479	419	703	767	885	1,802	5,055
4	100	424	466	146	499	1,674	3,309
3	125	104	308	124	527	866	2,054
2	138	9	64	235	412	351	1,209
1	15	11	42	28	84	220	400
0	63	74	22	15	40	39	253
Exposures in default	529	105	912	308	458	639	2,951
Total	9,029	7,029	9,246	5,996	13,964	12,809	58,073
Individual and collective impairment provisions							2,290
Carrying amount							55,783
Total exposures in default*							2,951
Individual impairment provisions							1,931
Carrying amount after impairment provisions							1,020
* Of which loans and advances with individual impairment provisioning							2,450
Individual impairment provisions as % of loans and advances with individual impairment provisioning							78.8

Exposures in default: Comprises exposures subject to individual impairment provisioning and exposures in arrears with third reminders for which individual impairment provisioning has not been deemed necessary.

Rating categories 0-2: Rating category 0 comprises customers with objective evidence of impairment (OEI) but without a need for individual impairment provisioning. Rating categories 1-2 comprise customers without OEI but of a low credit quality resulting from uncertainty about future earnings, poor financial results and a vulnerable financial situation.

The carrying amount of exposures in default, totalling DKK 1,020m (2016: DKK 1,195m), 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 exposures in default.

The rating categories are described in detail in the report Risk and Capital Management 2017, available at nykredit.com/riskandcapitalmanagement.

NOTES

DKK million

Nykredit Bank Group

45. 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							
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

NOTES

DKK mil-
lion

Nykredit Bank Group

45A. CREDIT, FOREIGN EXCHANGE, EQUITY PRICE AND INTEREST RATE EXPOSURES (CONTINUED)

Loans carrying a reduced interest rate

Group	2017	2016
Gross lending	795	941
Impairment provisions	615	736
Carrying amount	180	205
of which non-accrual	175	199
of which carrying a reduced interest rate	5	6

Provisioning rate, %	2017				2016			
	Q4/	Q3/	Q2/	Q1/	Q4/	Q3/	Q2/	Q1/
Group								
Total loans and advances	83,349	77,438	79,055	79,705	85,094	77,986	79,904	83,936
Total guarantees	25,080	20,572	19,627	15,164	17,152	15,528	13,688	13,615
Impairment provisions	2,290	2,177	2,209	2,473	2,537	2,611	2,585	2,753
Provisions for guarantees	58	55	59	49	51	50	64	97
Total loans, advances, guarantees and provisions	110,776	100,242	100,950	97,391	104,834	96,175	96,241	100,401
Provisioning rate, %	2.1	2.2	2.2	2.6	2.5	2.8	2.8	2.8
Provisioning rate excluding guarantees	2.7	2.7	2.7	3.0	2.9	3.2	3.1	3.2

Secured lending before impairment provisions

Group	2017			2016				
	Public sector	Personal customers	Business	Public sector	Personal customers	Business		
Unsecured lending		22	6,071	29,587		10	6,013	27,325
Lending secured by way of legal charge or other collateral security:								
Fully secured		541	2,496	33,702		411	2,697	35,778
Partially secured		153	4,331	8,736		25	4,108	11,264
Total lending before impairment		716	12,898	72,025		446	12,818	74,367

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 1.4bn (2016: around DKK 1.7bn), approximately DKK 0.2bn, or 17% (2016: around 29%), 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 and personal circumstances such as divorce, unemployment or long-term illness are taken into consideration.

Non-impaired loans and advances in arrears at amortised cost

Nykredit Bank A/S	As % of		As % of	
	2017	loans and advances	2016	loans and advances
5-10 days	39	0.1	10	0.0
11-30 days	70	0.1	18	0.0
31-90 days	177	0.3	58	0.1
91-360 days	65	0.1	189	0.3
Over 360 days	33	0.1	21	0.0
Total loans and advances in arrears	384	0.7	296	0.5
Total loans and advances at amortised cost	55,783		55,003	

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 5,876m.

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DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2016	2017	2017	2016
45. CREDIT, FOREIGN EXCHANGE, EQUITY PRICE AND INTEREST RATE EXPOSURES (CONTINUED)			
Foreign exchange risk			
34,480	31,446	31,446	34,480
Total foreign exchange assets			
Of which			
18,601	21,758	21,758	18,601
- Receivables from credit institutions, loans and advances and securities			
15,879	9,688	9,688	15,879
- Interest receivable and positive market value of financial instruments			
48,522	45,537	45,537	48,522
Total foreign exchange liabilities			
Of which			
32,251	40,098	40,098	32,251
- Payables to credit institutions, deposits and bonds in issue			
16,271	5,439	5,439	16,271
- Interest payable and negative market value of financial instruments			
167.8	48.5	48.5	167.8
Exchange rate indicator 1 (DKKm)			
1.0	0.2	0.2	1.0
Exchange rate indicator 1 as % of Tier 1 capital after deductions			
0.4	0.3	0.3	0.4
Exchange rate indicator 2 (DKKm)			
-	0.0	0.0	-
Exchange rate indicator 2 as % of Tier 1 capital after deductions			
Interest rate risk by the currency involving the highest interest rate exposure			
106	116	122	108
DKK			
(14)	6	6	(14)
EUR			
(4)	6	6	(4)
SEK			
(2)	-	-	(2)
CHF			
3	3	3	3
NOK			
(1)	(4)	(4)	(1)
USD			
(1)	(2)	(2)	(1)
GBP			
(1)	(1)	(1)	(1)
Other currencies			
86	124	130	88
Total interest rate exposure of debt instruments, end of period			
Interest rate exposure measured at a general rise in interest rates of 1 percentage point ranged between a gain of DKK 12m and a loss of DKK 167m in 2017 (2016: between a gain of DKK 85m and a loss of 161m).			
Value-at-Risk			
12	10	10	12
Year-end			
11	9	9	11
Average for the year			
Value-at-risk ranged between DKK 7m and DKK 13m in 2017 (2016: DKK 8m and DKK 22m).			
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.			
(0.6)	(0.2)	(0.2)	(0.6)
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.			
570	694	694	570
Yield spread risk			
Yield spread risk totalled DKK 694m at end-2017 (2016: DKK 570m). This figure indicates that a spread widening of 100bp at bank level will trigger a loss of DKK 694m.			
138	133	133	138
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 13m (2016: DKK 14m).			
153%	148%	148%	153%
Liquidity risk, Liquidity Coverage Ratio			

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DKK million

Nykredit Bank Group

46. 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 accounting purposes
2017			
Assets			
Loans and advances	702	712	10
Liabilities			
Deposits and other payables	1,507	1,550	(43)
Bonds in issue	2,198	2,258	(60)
Derivative financial instruments			
Interest rate swaps, loans and advances as well as deposits and other payables, net	2,877	16	
Interest rate swaps, bonds in issue	2,362	69	
Credit derivatives, deposits and other payables	60	17	
Equity derivatives, deposits and other payables	442	-	
Gain/loss for the year on hedging instruments		(190)	
Gain/loss for the year on hedged items		191	
Net gain/loss		1	
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	

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 its overall interest rate sensitivity taking into consideration expected the interest rate development. Hedging is performed by defining a portfolio of loans, advances, deposits and other payables with a uniform risk level (in certain instances as net portfolios), which is subsequently hedged using derivative financial instruments.

According to reporting provisions, loans, advances and deposits must generally be measured at amortised cost, while derivative financial instruments are measured at fair value. To obtain accounting symmetry between hedging and hedged transactions, adjustment of the carrying amounts of the financial assets and liabilities that form part of the effective accounting hedge has been allowed. The fair value adjustment exclusively concerns the hedged part.

NOTES

DKK million

Nykredit Bank A/S			Nykredit Bank Group	
2016	2017		2017	2016
47. REVERSE REPURCHASE LENDING AND REPO TRANSACTIONS				
Of the asset items below, reverse repurchase lending represents:				
14,417	6,141	Receivables from credit institutions and central banks, carrying amount	6,141	14,417
14,370	6,094	Bonds received as collateral but not offset against the balance	6,094	14,370
47	47	Total less collateral	47	47
34,152	29,502	Loans, advances and other receivables at fair value, gross	29,502	34,152
4,061	1,936	Set-off against "Other non-derivative financial liabilities at fair value"	1,936	4,061
30,091	27,566	Carrying amount after set-off	27,566	30,091
29,976	27,351	Bonds received as collateral but not offset against the balance	27,351	29,976
115	215	Total less collateral	215	115
Of the liability items below, repo transactions represent:				
6,555	7,626	Payables to credit institutions and central banks, carrying amount	7,626	6,555
6,566	7,615	Bonds provided as collateral	7,615	6,566
18,623	10,150	Other non-derivative financial liabilities at fair value, gross	10,150	18,623
4,061	1,936	Set-off against "Loans, advances and other receivables at fair value"	1,936	4,061
14,562	8,214	Carrying amount after set-off	8,214	14,562
14,398	8,143	Bonds provided as collateral	8,143	14,398

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

Nykredit offsets financial assets and liabilities in connection with derivative contracts entered into with the same counterparty, where there is a right of set-off and netting of payments has been agreed.

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Nykredit Bank Group

48. TRANSITION TO IFRS 9 AT 1 JANUARY 2018

The description below is a supplement to note 1, accounting policies.

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

In 2017 the Danish FSA issued amendments to the IFRS-compatible Danish Executive Order on Financial Reports. The amended Executive Order comprises significant elements from IFRS 9, including provisions for impairment of loans and advances at amortised cost as well as classification and measurement of financial assets.

For Nykredit Bank, an important feature of IFRS 9 is the new principles for calculating impairment charges for loans, advances and receivables as well as guarantees and loan commitments, including unutilised credit facilities. The total impact as at 1 January 2018 for the Group is so far calculated at around DKK 600m (total impairment provisions). The impact after tax is DKK 468m. Some adjustments are still pending, but the final impact on total provisions of the Company and the Group, which will be included in the Q1/2018 Financial Statements, is not expected to differ significantly.

Impact at 1 January 2018

DKK million	Nykredit Bank A/S	Nykredit Bank Group
Impact (total impairment provisions)	600	600
Impact after tax	468	468
Impact on equity at 1 January 2018	468	468

As at 1 January 2018, the impairment will impact loans and advances by a negative DKK 600m. On-balance sheet loans and advances in the Nykredit Bank Group will thus be reduced from DKK 55.8bn at 31 December 2017 to DKK 55.2bn.

Under the provisions of IFRS 9, comparative figures for previous periods have not been restated.

Previously, provisions for guarantees and unutilised credit facilities were based on IAS 37, but in future these areas will also be governed by IFRS 9 and included in the calculation above.

Compared with the current standard, IFRS 9 implies earlier recognition of impairment of loans and advances, as impairment must be recognised for 12-month expected credit losses already on initial recognition.

If the credit risk subsequently increases significantly expected credit losses on the asset/loan for the entire lifetime of the asset/loan must be recognised. The standard thus implies earlier recognition of impairment than previously and consequently higher total impairments at the time of implementation. The Group's Risk unit is responsible for processes and calculations underlying Nykredit's IFRS 9 project. The Group's Capital, Credits and Finance units 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 size of both the 12-month expected credit losses as well as the expected credit losses for the entire lifetime of the asset/loan will be calculated based on models already applied as part of Nykredit's daily risk management. Impairments will thus reflect the Probability of Default (PD) and Loss Given Default (LGD).

Classification and measurement

The general principles for measurement of financial assets and liabilities will generally change following implementation of IFRS 9. But for the Nykredit Group the implementation has not given rise to significant changes.

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

Going forward, classification of financial instruments will be based on the following business models:

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

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

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

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

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

Thus, bank loans and deposits are essentially still measured at amortised cost.

Repo lending and deposits previously measured at fair value will be measured at amortised cost going forward. The change is not expected to impact profit or loss or total comprehensive income noticeably, due to the short maturity of the instruments combined with low interest rate levels.

Repo lending – from fair value to amortised cost:
Nykredit Bank A/S and the Nykredit Bank Group: DKK 35.6bn

Repo deposits – from fair value to amortised cost:
Nykredit Bank A/S and the Nykredit Bank Group: DKK 17.8bn

Apart from a bond portfolio so far treated according to the rules on amortised cost, the Bank's bond portfolio is generally still measured at fair value through profit or loss. The reason is that the business model behind the portfolio is not intrinsically based on collecting cash flows from payments of principal and interest but is based on, for example, short-term trading activity and investments focused on cost minimisation, where contractual cash flows do not constitute a central element but follow solely from the investment.

Generally, financial liabilities should be measured at amortised cost after initial recognition.

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

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. In Nykredit Bank, 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.

Capital

In connection with the implementation of IFRS 9, the EU has introduced transitional arrangements allowing for a five-year gradual phase-in of the impact that the increased impairment charges for loans and advances will have on capital for regulatory purposes. This is to avert an immediate accounting impact on the statement of changes in equity. Nykredit Bank has opted not to apply the transitional rules.

The impact on "Common Equity Tier 1 capital" in Nykredit Bank A/S Group is expected to drop by around 0.4pps on implementation of IFRS 9. The Common Equity Tier 1 capital ratio came to 19.4% and 20.1% in Nykredit Bank and the Nykredit Bank Group, respectively as at 31 December 2017.

Impairment provisions

Going forward, the approach to impairment provisions for bank lending involves three stages:

Stage 1 covers loans and advances without significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the 12-month expected credit losses.

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

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

The Nykredit Group's IFRS 9 impairment calculations are based on further development of existing methods and models for impairment, taking into account forward-looking information and scenarios, of the rules of the Danish FSA.

The classification of customers into stages 1, 2 and 3 follows the standard definitions of the Danish FSA based on short- and long-term Probability of

Default (PD). The definition of default has not been changed and will continue being dictated by the customer's circumstances and payment behaviour (90 days past due).

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

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

Customers subject to individual impairment provisions under the current rules will chiefly be classified in stage 3. For uniform partial portfolios, the impairment provisions are mechanically adjusted in accordance with the requirements of more than one scenario.

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DKK million

Nykredit Bank Group

49. GROUP STRUCTURE

Name and registered office	Ownership interest as %, 31 December 2017	Profit for 2017	Equity, 31 December 2017	Profit for 2016	Equity, 31 December 2016	Number of staff
Nykredit Bank A/S (Parent), Copenhagen, a)		3,133	19,877	627	16,744	658
Consolidated subsidiaries						
Nykredit Portefølje Administration A/S, Copenhagen, b)	100	136	725	106	588	109
Nykredit Leasing A/S, Gladsaxe c)	100	78	671	71	593	55

Geographical distribution of activities

	Number of staff	Revenue ²	Profit before tax	Tax	Government aid received
Denmark: Companies and activities appear from the Group structure	822	3,778	4,033	901	-
Sweden: Nykredit Bank A/S, branch ¹	-	-	-	-	-

¹ The branch in Sweden ceased its activities at end-January 2015 and was wound up in 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

Name and registered office	Ownership interest as %, 31 December 2017	Revenue 2017	Profit for 2017	Assets, 31 December 2017	Liabilities, 31 December 2017	Equity, 31 December 2017	Nykredit Bank's share of profit for 2017	Nykredit Bank's share of equity value, 31 December 2017	Profit for 2016	Equity, 31 December 2016
Associates¹										
Core Property Management P/S, Copenhagen, a)	20	-	-	-	-	-	-	-	-	-

¹ The company is newly established. An annual report for 2017 is not yet available.

a) Investment company

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DKK million

Nykredit Bank Group	2017	2016	2015	2014	2013
50. FIVE-YEAR FINANCIAL HIGHLIGHTS					
SUMMARY INCOME STATEMENT					
Net interest and fee income	3,308	2,595	2,842	3,373	3,265
Value adjustments	2,562	84	945	(3,516)	(815)
Other operating income	34	28	25	26	29
Staff and administrative expenses	1,934	2,000	1,832	1,928	1,992
Other operating expenses, depreciation and amortisation	40	60	91	107	131
Impairment charges for loans, advances and receivables	(102)	(141)	(121)	219	349
Profit from investments in associates and Group enterprises	2	-	-	-	78
Profit (loss) before tax	4,033	788	2,010	(2,371)	85
Tax	901	161	468	(599)	8
Profit (loss) for the year	3,133	627	1,542	(1,772)	77
Comprehensive income	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Total comprehensive income	3,133	627	1,542	(1,772)	77
SUMMARY BALANCE SHEET					
Assets					
Cash balances and receivables from credit institutions and central banks	19,991	35,723	13,425	33,885	23,173
Loans, advances and other receivables at fair value	27,566	30,091	39,467	35,228	56,814
Loans, advances and other receivables at amortised cost	55,783	55,003	46,747	50,494	47,024
Bonds and equities	47,453	42,576	40,412	65,314	64,219
Remaining assets	22,791	31,533	34,288	44,962	32,904
Total assets	173,585	194,926	174,339	229,883	224,134
Liabilities and equity					
Payables to credit institutions and central banks	40,218	51,606	34,957	63,876	57,732
Deposits and other payables	76,501	66,263	62,758	65,350	65,405
Bonds in issue at amortised cost	6,473	10,158	20,150	25,881	26,689
Other non-derivative financial liabilities at fair value	13,976	21,348	11,776	19,943	29,248
Remaining payables	14,298	26,546	28,267	41,913	30,216
Total payables	151,467	175,921	157,908	216,963	209,290
Provisions	241	261	214	245	247
Subordinated debt	2,000	2,000	100	100	250
Equity	19,877	16,744	16,117	12,575	14,347
Total liabilities and equity	173,585	194,926	174,339	229,883	224,134
OFF-BALANCE SHEET ITEMS					
Contingent liabilities	25,080	17,152	15,180	20,893	11,620
Other commitments	6,835	5,375	5,566	4,839	6,906

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Nykredit Bank Group

	2017	2016	2015	2014	2013
50. FIVE-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)					
Financial ratios					
Total capital ratio, %	22.3	16.6	21.1	13.1	16.8
Tier 1 capital ratio, %	20.1	14.8	20.7	12.8	16.4
Return on equity before tax, %	21.7	4.8	14.0	(17.6)	0.6
Return on equity after tax, %	16.8	3.9	10.7	(13.2)	0.5
Income:cost ratio	3.15	1.41	2.12	(0.05)	1.03
Interest rate exposure, %	0.7	0.5	0.5	0.6	0.6
Foreign exchange position, %	0.2	1.0	1.1	0.4	2.7
Foreign exchange exposure, %	0.0	0.0	0.0	0.0	0.0
Loans and advances:deposits	1.1	1.3	1.4	1.3	1.6
Loans and advances:equity	4.2	5.1	5.3	6.8	7.2
Growth in loans and advances excl repo transactions for the year, %	1.4	17.7	(7.4)	7.4	(5.6)
Excess coverage:statutory liquidity requirements, %	278.0	263.5	347.2	281.7	275.5
Total large exposures, %	0.0	0.0	11.1	34.5	0.0
Impairment charges for the year, %	(0.1)	(0.1)	(0.1)	0.2	0.3
Return on capital employed, %	1.8	0.3	0.9	(0.8)	0.0
Average number of staff, full-time equivalent	822	800	761	820	859

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DKK million

Nykredit Bank A/S

	2017	2016	2015	2014	2013
51. FIVE-YEAR FINANCIAL HIGHLIGHTS					
SUMMARY INCOME STATEMENT AND COMPREHENSIVE INCOME					
Net interest and fee income	2,818	2,163	2,452	3,026	2,949
Value adjustments	2,563	85	951	(3,511)	(812)
Other operating income	4	1	1	1	-
Staff and administrative expenses	1,712	1,785	1,629	1,733	1,800
Other operating expenses, depreciation and amortisation	37	57	87	104	126
Impairment charges for loans, advances and receivables	(123)	(158)	(136)	201	327
Profit from investments in associates and Group enterprises	217	177	151	125	188
Profit (loss) before tax	3,976	742	1,975	(2,397)	72
Tax	843	115	433	(625)	(5)
Profit (loss) for the year	3,133	627	1,542	(1,772)	77
Comprehensive income					
Other comprehensive income	-	-	-	-	-
Total comprehensive income	3,133	627	1,542	(1,772)	77
BALANCE SHEET, YEAR-END					
Assets					
Cash balances and receivables from central banks and credit institutions	19,990	35,723	13,425	33,884	23,172
Loans, advances and other receivables at fair value	27,566	30,091	39,467	35,228	56,814
Loans, advances and other receivables at amortised cost	54,408	53,481	45,345	49,024	45,906
Bonds and equities	46,813	42,025	39,984	64,966	64,004
Profit from investments in associates and Group enterprises	1,400	1,181	1,004	869	545
Remaining assets	22,748	31,476	34,307	44,949	32,693
Total assets	172,925	193,977	173,532	228,920	223,134
Liabilities and equity					
Payables to credit institutions and central banks	39,948	51,066	34,417	63,131	56,987
Deposits and other payables	76,610	66,317	62,834	65,440	65,543
Bonds in issue at amortised cost	6,473	10,158	20,150	25,881	26,689
Other non-derivative financial liabilities at fair value	13,976	21,348	11,776	19,943	29,248
Remaining payables	13,929	26,195	27,956	41,661	29,898
Total payables	150,937	175,084	157,133	216,056	208,365
Provisions	111	149	182	189	172
Subordinated debt	2,000	2,000	100	100	250
Equity	19,877	16,744	16,117	12,575	14,347
Total liabilities and equity	172,925	193,977	173,532	228,920	223,134
OFF-BALANCE SHEET ITEMS					
Contingent liabilities	25,449	17,790	15,279	20,993	11,719
Other commitments	6,726	5,225	5,480	4,685	6,707

NOTES

Nykredit Bank A/S

	2017	2016	2015	2014	2013
51. FIVE-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)					
FINANCIAL RATIOS					
Total capital ratio, %	21.4	16.0	20.1	13.0	16.8
Tier 1 capital ratio, %	19.4	14.3	19.7	12.7	16.4
Return on equity before tax, %	21.4	4.5	13.8	(17.8)	0.5
Return on equity after tax, %	16.8	3.8	10.7	(13.2)	0.5
Income:cost ratio	3.44	1.44	2.25	(0.18)	1.03
Interest rate exposure, %	0.6	0.5	0.5	0.6	0.6
Foreign exchange position, %	0.2	1.0	1.1	0.4	2.7
Foreign exchange exposure, %	0.0	0.0	0.0	0.0	0.0
Loans and advances:deposits	1.1	1.3	1.4	1.3	1.6
Loans and advances:equity	4.1	5.0	5.3	6.7	7.2
Growth in loans and advances excl repo transactions for the year, %	1.7	17.9	(7.5)	6.8	(7.6)
Excess coverage:statutory liquidity requirements, %	275.2	264.7	346.5	281.6	276.0
Total large exposures, %	0.0	0.0	11.1	34.5	0.0
Impairment charges for the year, %	(0.1)	(0.2)	(0.1)	0.2	0.3
Return on capital employed, %	1.8	0.3	0.9	(0.8)	0.0
Average number of staff, full-time equivalent	658	641	606	672	714

NOTES

Nykredit Bank Group

52. FINANCIAL RATIOS, DEFINITIONS

Financial ratios

Return on equity before tax, %

Return on equity after tax, %

Income:cost ratio

Interest rate exposure, %

Foreign exchange position, %

Foreign exchange exposure, %

Loans and advances:deposits

Loans and advances:equity

Growth in loans and advances excluding repo transactions, %

Growth in loans and advances including repo transactions, %

Excess coverage:statutory liquidity requirements, %

Total large exposures, %

Impairment charges for the year, %

Return on capital employed, %

Financial ratios – capital and capital adequacy

Total capital ratio, %

Tier 1 capital ratio, %

Common Equity Tier 1 capital ratio, %

Other financial ratios on page 5 and in note 3

Profit (loss) for the year as % of business capital (ROAC) (return on allocated capital)

Profit (loss) for the year as % pa of average equity*

Costs as % of income

Business profit as % pa of average equity*

* Equity is calculated as a five-quarter average.

Definition

Profit (loss) before tax as a percentage of average equity

Profit (loss) after tax as a percentage of average equity

Income including profit (loss) from associates and Group enterprises divided by costs excluding tax

Interest rate exposure divided by Tier 1 capital

Exchange rate indicator 1 divided by Tier 1 capital

Exchange rate indicator 2 divided by Tier 1 capital

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 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 from the beginning of the year to the end of the year/period (loans and advances at the beginning of the year 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 from the beginning of the year to the end of the year/period (loans and advances at the beginning of the year 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 relative to the 10% requirement of section 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 divided by eligible capital

Impairment charges for the year divided by loans and advances plus guarantees plus impairment provisions

Profit (loss) for the year divided by total assets

Definition

Own funds divided by total risk exposure amount

Tier 1 capital divided by total risk exposure amount

Common Equity Tier 1 capital divided by total risk exposure amount

Profit (loss) for the year relative to business capital. Profit (loss) corresponds to net profit or loss. Business capital corresponds to a capital target of 16% of the risk exposure amount.

Annualised profit (loss) divided by average equity

Costs divided by income

Business profit divided by average equity

The financial ratios, exclusive of "Common Equity Tier 1 capital ratio, %" (cf note 2), "Growth in loans and advances excluding repo transactions, %", have been calculated in accordance with the Danish FSA's guidelines for reporting purposes.

NOTES

Nykredit Bank Group

53. OTHER INFORMATION

No significant events have occurred in the period up to the presentation of the Annual Report 2017 which affect the financial position of the Nykredit Bank Group.

MANAGEMENT COMMENTARY (CONTINUED)

DKK mil-
lion

Nykredit Bank Group	Q4/ 2017	Q3/ 2017	Q2/ 2017	Q1/ 2017	Q4/ 2016	Q3/ 2016	Q2/ 2016	Q1/ 2016
EIGHT-QUARTER FINANCIAL HIGHLIGHTS								
Business profit and profit for the year								
Net interest income	368	381	381	363	379	352	374	362
Net fee income	153	145	121	120	90	116	97	82
Wealth management income	355	356	349	342	328	283	315	258
Net interest from capitalisation	(8)	(8)	(8)	(9)	(1)	2	2	2
Trading, investment portfolio and other income	114	96	309	466	158	49	187	34
Income	983	972	1,152	1,283	955	801	975	739
Costs	536	484	483	470	586	500	500	474
Business profit before impairment charges	447	487	669	813	369	301	475	265
Impairment charges for loans and advances	166	(60)	(152)	(55)	(82)	28	(70)	(16)
Business profit	281	548	821	867	451	273	545	282
Legacy derivatives	29	122	1,029	337	422	66	(510)	(741)
Profit (loss) before tax	310	670	1,850	1,204	872	341	34	(459)

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Bank Group

FINANCIAL CALENDAR FOR 2018

8 February	Publication of annual reports 2017 and announcements of financial statements of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
21 March	Annual General Meeting of Nykredit Bank A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
21 March	Annual General Meeting of Totalkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
22 March	Annual General Meeting of Nykredit Realkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
9 May	Publication of Q1 interim reports 2018 of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
23 August	Publication of H1 interim reports 2018 of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
8 November	Publication of Q1-Q3 interim reports 2018 of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Bank Group

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 2017. Re-election is not subject to any restrictions. The next annual general meeting of the Company is scheduled for 21 March 2018.

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:
Nykredit A/S
Nykredit Realkredit A/S

Chairman of:
Totalkredit A/S
Finans Danmark
FR I af 16. september 2015 A/S*
Investeringsfonden for Udviklingslande (IFU)

Director of:
Copenhagen Business School Handelshøjskolen

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 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 A/S
Nykredit Realkredit A/S

Chairman of:
Nykredit Portefølje Administration A/S

Director of:
Nærpension A/S*
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 A/S
Nykredit Realkredit A/S

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

Deputy Chairman of:
JN Data A/S**

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

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Bank Group

Anders Jensen

Group Managing Director, Nykredit

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

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

Chairman of:
Nykredit Leasing A/S
Nykredit Mægler A/S
Bolighed A/S**

Director of:
Totalkredit A/S**
Bokis A/S*
e-nettet A/S*
Grænsefonden
Niels Brock (Copenhagen Business College)

Allan Kristiansen***

Chief Relationship Manager

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

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

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 2017

** Resigned in 2017

*** 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.