

**Nykredit  
Bank**

## Annual Report 2020



# CONTENTS

## MANAGEMENT COMMENTARY

<b>Financial highlights</b>	<b>3</b>
<b>Financial review</b>	<b>4</b>
Performance highlights in 2020	4
Results for Q4/2020 relative to Q3/2020	6
Results relative to outlook	7
Outlook and guidance for 2021	7
Uncertainty as to recognition and measurement	7
Events since the balance sheet date	7
<b>Capital</b>	<b>8</b>
Equity and own funds	8
Credit ratings	8
Supervisory Diamond for banks	9
<b>Impairment and lending</b>	<b>10</b>
<b>Organisation and management</b>	<b>12</b>
Organisation and responsibilities	12
Corporate responsibility	13
Corporate governance	13
Remuneration	13
Internal control and risk management systems	14
<b>Company details</b>	<b>16</b>
<b>Group chart</b>	<b>17</b>
<b>Nykredit Bank A/S</b>	<b>18</b>
<b>Alternative performance measures</b>	<b>19</b>
<b>MANAGEMENT STATEMENT AND AUDIT REPORTS</b>	<b>20</b>
Statement by the Board of Directors and the Executive Board	20
Independent auditor's report	21
<b>FINANCIAL STATEMENTS</b>	<b>25</b>
Statements of income and comprehensive income	25
Balance sheets	26
Statement of changes in equity	28
Cash flow statement	30
Notes	31
<b>MANAGEMENT COMMENTARY (CONTINUED)</b>	<b>120</b>
Financial calendar for 2021	120
<b>MANAGEMENT COMMENTARY (CONTINUED)</b>	<b>121</b>
Directorships and executive positions	121
Executive Board	122


# FINANCIAL HIGHLIGHTS


DKK million

Nykredit Bank Group	2020	2019	2018	2017	2016	Q4/ 2020	Q3/ 2020	Q4/ 2019
<b>BUSINESS PROFIT AND PROFIT FOR THE PERIOD</b>								
Net interest income	1,711	1,520	1,533	1,493	1,467	436	432	402
Net fee income	521	538	521	540	385	129	118	133
Wealth management income	1,950	1,610	1,361	1,402	1,184	504	459	494
Net interest from capitalisation	(29)	(28)	(30)	(32)	5	(7)	(8)	(6)
Net income relating to customer benefits programmes <sup>1</sup>	276	(9)	0	0	0	71	69	(9)
Trading, investment portfolio and other income	634	720	755	986	428	207	282	325
<b>Income</b>	<b>5,063</b>	<b>4,350</b>	<b>4,141</b>	<b>4,388</b>	<b>3,470</b>	<b>1,341</b>	<b>1,351</b>	<b>1,340</b>
Costs	2,727	2,375	2,029	1,973	2,061	758	665	776
<b>Business profit before impairment charges</b>	<b>2,336</b>	<b>1,975</b>	<b>2,112</b>	<b>2,415</b>	<b>1,410</b>	<b>583</b>	<b>686</b>	<b>564</b>
Impairment charges for loans and advances	579	210	274	(102)	(141)	102	168	42
<b>Business profit</b>	<b>1,757</b>	<b>1,765</b>	<b>1,838</b>	<b>2,516</b>	<b>1,551</b>	<b>481</b>	<b>518</b>	<b>522</b>
Legacy derivatives	258	(112)	280	1,517	(763)	206	154	485
<b>Profit before tax</b>	<b>2,015</b>	<b>1,653</b>	<b>2,118</b>	<b>4,033</b>	<b>788</b>	<b>687</b>	<b>672</b>	<b>1,006</b>
Tax	385	366	458	901	161	136	135	227
<b>Profit for the period</b>	<b>1,630</b>	<b>1,287</b>	<b>1,660</b>	<b>3,133</b>	<b>627</b>	<b>551</b>	<b>537</b>	<b>780</b>
Minority interest	21	(1)	-	-	-	(1)	8	(3)
<b>SUMMARY BALANCE SHEET</b>	<b>31.12.2020</b>	<b>31.12.2019</b>	<b>31.12.2018</b>	<b>31.12.2017</b>	<b>31.12.2016</b>	<b>31.12.2020</b>	<b>30.09.2020</b>	<b>31.12.2019</b>
<b>Assets</b>								
Cash balances and receivables from credit institutions and central banks	21,469	33,528	17,909	19,991	35,723	21,469	20,810	33,528
Reverse repurchase lending	37,271	48,749	37,427	27,566	30,091	37,271	38,396	48,749
Loans, advances and other receivables at amortised cost	71,146	65,466	60,566	55,783	55,003	71,146	70,530	65,466
Bonds and equities etc	39,822	50,789	49,289	47,453	42,576	39,822	41,191	50,789
Remaining assets	28,481	27,996	21,943	22,793	31,534	28,481	29,266	27,996
<b>Total assets</b>	<b>198,189</b>	<b>226,528</b>	<b>187,135</b>	<b>173,585</b>	<b>194,926</b>	<b>198,189</b>	<b>200,193</b>	<b>226,528</b>
<b>Liabilities and equity</b>								
Payables to credit institutions and central banks	49,121	85,154	54,620	40,218	51,606	49,121	56,284	85,154
Repo deposits	2,674	3,331	5,745	8,214	6,619	2,674	1,088	3,331
Deposits and other payables	88,269	85,549	77,119	76,501	66,263	88,269	85,808	85,549
Bonds in issue at amortised cost	5,400	3,780	5,411	6,473	10,158	5,400	6,181	3,780
Other non-derivative financial liabilities at fair value	10,801	7,133	7,618	13,976	14,729	10,801	9,640	7,133
Remaining liabilities	13,159	14,695	13,236	6,084	26,546	13,159	13,074	14,695
Provisions	683	450	290	241	261	683	586	450
Subordinated debt	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Equity	26,082	24,434	21,095	19,877	16,744	26,082	25,531	24,434
<b>Total liabilities and equity</b>	<b>198,189</b>	<b>226,528</b>	<b>187,135</b>	<b>173,585</b>	<b>194,926</b>	<b>198,189</b>	<b>200,193</b>	<b>226,528</b>
<b>FINANCIAL RATIOS<sup>1</sup></b>								
Profit for the period as % of average equity	6.4	5.7	8.1	16.8	3.9	8.6	8.4	13.0
Costs as % of income	53.9	54.6	49.0	45.0	59.4	56.5	49.2	57.9
Total provisions for loan impairment and guarantees	3,024	2,538	2,896	2,347	2,611	3,265	3,167	2,538
Impairment charges for the period, %	0.41	0.14	0.30	-0.10	-0.10	0.07	0.10	0.04
Total capital ratio, %	22.7	20.8	21.5	22.3	16.6	22.7	21.5	20.8
Tier 1 capital ratio, %	20.5	18.9	19.4	20.1	14.8	20.5	19.4	18.9
Common Equity Tier 1 capital ratio, %	20.5	18.9	19.4	20.1	14.8	20.5	19.4	18.9
Average number of staff, full-time equivalent	979	900	837	822	800	1,029	972	1,007

<sup>1</sup> "Net income relating to customer benefits programmes" has been specified under "Alternative performance measures" on page 19.  
For definitions of financial ratios, see page 114.

## FINANCIAL REVIEW

	<b>Business profit for 2020</b>	<b>Profit for 2020</b>	<b>Income in 2020</b>
	<b>DKK 1,757 million</b>	<b>DKK 2,015 million</b>	<b>DKK 5,063 million</b>
	Business profit	Profit before tax	Income

	<b>Return on equity</b>	<b>Cost:income ratio</b>	<b>Impairment charges, %</b>
	<b>6.4%</b>	<b>53.9%</b>	<b>0.41%</b>
	Profit for the year as % of average equity	Costs as % of income	Impairment charges for the year divided by loans, advances and guarantees

### PERFORMANCE HIGHLIGHTS IN 2020

The underlying business remained robust and upward trending as demonstrated by increased lending of 9% to DKK 71,146 million (end-2019: DKK 65,466 million). Further, the strong underlying business growth was reflected in increased net interest, net fee and wealth management income relative to 2019. Recent years' inflow of customers continued in 2020 owing to our strong product and service offers.

However, Nykredit Bank's business profit of DKK 1,757 million (2019: DKK 1,765 million) was also impacted by the covid-19 situation, as loan impairment charges increased. Profit before tax was DKK 2,015 million (2019: DKK 1,653 million).

Whereas lending grew in 2020, substantial negative value adjustments in financial markets due to the covid-19 pandemic impacted the development in assets under management in 2020. Assets under management decreased significantly in Q2 and Q3/2020 but ended the year up on 2019. Assets under management grew by DKK 35.9 billion to DKK 371.7 billion at end-2020.

Thanks to satisfactory growth in business activities and customers as well as the prospect of lower-than-expected impairment charges and higher swap and investment portfolio income, we raised our guidance for business profit and profit before tax for 2020 from DKK 1.4-1.8 billion to DKK 1.7-2.0 billion on 15 October. Our initial guidance for business profit and profit before tax for 2020 of between DKK 1.9 billion and DKK 2.4 billion was suspended on 23 March 2020. In the H1 Interim Report for 2020, guidance was reintroduced for business profit and profit before tax for 2020 of between DKK 1.4 billion and DKK 1.8 billion. Our revised guidance from October was matched, and results are considered satisfactory.

Our full-service personal banking customers who have consolidated all of their finances with Nykredit were offered a MineMål account as part of the MineMål benefits programme aimed at helping customers achieve their goals and dreams as homeowners. Under this programme, customers have received a cash bonus of DKK 250 each quarter as well as an interest rate discount of 0.15% on the outstanding debt on homeowner loans with Nykredit Bank.

As from 2021 new mutual benefits will be offered to our customers in lieu of the MineMål benefits programme. We are introducing new discounts (KundeRabat and OpsparingsRabat) and continue to offer our customers an interest rate discount on their home bank loans with Nykredit Bank – now renamed BoligRabat. The customer discount (KundeRabat) is granted to customers depending on the amount of

business they have with Nykredit. The discount will be valid for up to three years and may be used, for example, towards loan refinancing. The new customer benefits programmes will offer the same financial benefits as the MineMål benefits programme.

We remain dedicated to promoting sustainable solutions and having a sustainable product range. To this end, as part of our business banking solutions, we have this year launched green construction loans, green machinery financing and financing of solar panel parks, and we have set up our Sustainable Solutions entity, with a team of specialists, advising businesses about the green transition and how to finance it. Similarly, for our personal customers, we have launched an energy calculator, green home loans, green car loans and green home check-ups. For our personal customers we have launched a number of green products to finance cars and homes. A green product range is a key element of Nykredit's ambitions for a greener Denmark. The new products (green home loans (Grønt BoligLån), green car loans (Grønt Billån) and green home check-ups (Grønt BoligTjek) are offered to ensure that deciding to buy an electric car or making low-energy home improvements does not hinge on financing costs.

Nykredit Bank has also launched a number of initiatives to help Danish families and businesses in the challenging situation prevailing in Denmark and other countries because of the covid-19 pandemic. We offer a special credit facility, payment holidays on car loans, consumption loans and bank home loans as well as no-fee overdrafts. We also offered to pay out our personal customers' frozen holiday pay by way of an interest- and fee-free overdraft equal to the amount of holiday pay due to the customer in October, and we offer our business customers payroll finance as well as payment holidays on banking and leasing products. We have also established a corona hotline, which business customers may consult by telephone or online for advice on and information about the government aid initiatives.

Digital value propositions are a top priority in tandem with Nykredit's focus on having a nation-wide physical presence. In concert with other partners, such as fintech companies, we are working to expand the digital value propositions, making it easier to bank with Nykredit and to free up more hours for our advisers to service customers.

For this purpose, together with Dinero, we have launched a new digital concept for entrepreneurs, business owners and smaller business customers, providing access to a basic, inexpensive business account in less than 15 minutes. The solution will initially be tested on selected users of the accounting software. But the aim is to be able to scale all or part of the digital onboarding.

Similarly, we have launched Young Money, a new concept for children and teenagers aiming to make saving up and payments fun for young people and life with pocket money easier for their parents. Young Money is for children and teenagers aged 7-17 and includes a personal account, payment card and mobile app.

### Strategy for Banking and Wealth Management

The main ambition of the Banking strategy is to provide our customers with financial security – personal and business customers alike. To realise our ambition, Banking must deliver on a five-track strategy; Being customers' preferred bank, sustainable solutions, digitisation and simplicity, quality and integrity as well as people who will and can, and are ready to take the leap. Together the five strategy tracks are based on the Banking organisation's strengths and Nykredit's Group strategy "Winning the Double 2.0".

Being a financial mutual, we have a special obligation to put the needs of our clients first and particularly to act responsibly in relation to the society we are part of. Wealth Management pursues a shared strategic ambition to be Denmark's responsible wealth manager. Wealth Management must build long-term value for its clients and business partners, and the society we are part of. Our strategy consists of seven tracks; Corporate responsibility, being customers' preferred bank, digital customer experiences, strategic partnerships, alternatives, data as well as scale.

### Awards

Nykredit Invest won all three main categories at the annual Morningstar Fund Awards. The investment fund Nykredit Invest was awarded best manager of equities and bonds as well as balanced funds. For the third year running, Nykredit Invest won one or more main categories at the Morningstar Fund Awards.

The fund Sparinvest INDEX Europa Growth KL also won Morningstar's category European Equities. Nykredit Invest and Sparinvest were nominated in 7 out of 8 of Morningstar's categories.

After three years in the market, the investment fund, Bæredygtige Aktier, was rated 5 stars by Morningstar. The fund has generated a good return and pursued effective risk management strategies.

### Covid-19 response

In addition to the initiatives taken by Nykredit Bank to support its customers during coronavirus pandemic, we operate under a precautionary principle, and we abide by all government guidelines. Nykredit keeps its guidelines for meetings and access to locations aligned with the authorities' recommendations and rules on assembly. Nykredit's customer centres have also been closed in periods during the year. We still recommend that most meetings be held online or by telephone.

### Income

Total income was DKK 5,063 million in 2020 (2019: DKK 4,350 million). Net interest income increased by DKK 192 million to DKK 1,711 million (2019: DKK 1,520 million) and net fee income decreased by DKK 17 million to a total of DKK 521 million (2019: DKK 538 million). Growth in bank lending contributed to increasing net interest income and net fee income. In addition, negative deposit rates to personal customers also had a positive effect on net interest income.

Wealth management income came to DKK 1,950 million (2019: DKK 1,610 million), primarily driven by income from Sparinvest recognised as from September 2019.

Net interest from capitalisation, which includes interest on subordinated debt etc, totalled an expense of DKK 29 million (2019: an expense of DKK 28 million).

Trading, investment portfolio and other income, including value adjustments of swaps currently offered, fell by DKK 85 million to DKK 634 million (2019: DKK 720 million), reflected by the current covid-19 situation and negatively impacted by the turmoil in financial markets, which affected trading, investment portfolio and other income. Financial markets largely rebounded after the losses recorded in Q1.

### Costs

Costs were DKK 2,727 million (2019: DKK 2,375 million). The Group still maintains a strong focus on building organisational efficiency, while investing significant resources in compliance, the implementation of new regulatory requirements and extending the partnership with BEC. Further, the inclusion of Sparinvest impacted the cost level negatively.

The average number of full-time equivalent staff totalled 979 (2019: 900). The increase can primarily be ascribed to the number of Sparinvest staff joining Nykredit.

### Impairment charges for loans and advances and provisions for guarantees etc

Impairment charges for loans and advances were affected by the covid-19 pandemic and amounted to 0.41% (2019: 0.14%). Impairment charges and provisions came to DKK 579 million (2019: DKK 210 million). The conducive economic climate in early Q1 before the covid-19 outbreak continues to be reflected in low write-offs and low individual impairment provisions for homeowners and businesses alike. Individual and model-based impairment provisions thus amounted to a net reversal of DKK 90 million in Q4.

At end-2020 DKK 553 million was, however, provided for expected loan losses as a consequence of covid-19. The provisions are based on stress tests and portfolio calculations. Losses incurred directly as a consequence of the covid-19 pandemic remain low due to the financial strength and liquidity of our customers as well as the effect of government relief packages and expanded access to credit in the financial sector. But the risk of higher losses remains significant, if the pandemic continues to stretch on, adversely impacting the economy.

Nykredit's macroeconomic forecasts in connection with loan impairments related to covid-19 have been incorporated into the impairment models and in the model-based impairment provisions.

### *Expectations for macroeconomic models*

Nykredit Bank's impairment models are based on forward-looking macroeconomic scenarios. The scenarios must reflect uncertainties relating to the economy as well as both improved and deteriorating outlooks. In 2020 the scenarios were updated to reflect the expected negative economic impact of the pandemic. The base scenario must reflect the economic environment, including the effect of covid-19 relief packages, taking into account the economic and general effects of coronavirus flare-ups and increased lockdown measures in Q4/2020. The base scenario carries a 55% weighting. The scenario implies expected GDP growth of 3.4% and house price rises of 2% in 2021, but against the background of significant GDP decline in 2020. The adverse scenario was included in the models with a weighting of 35%. This scenario implies expected GDP growth of 1.0% and house price declines of 3% in 2021. The improved scenario carries a 10% weighting and is based on the macroeconomic conditions observed at the date of this Annual Report. This scenario uses realised levels of interest rates, GDP, house prices and unemployment.

Nykredit's main scenario assumes that GDP will return to the pre-covid-19 level in 2022 due to the effects of the relief packages. Net unemployment, however, is not expected to normalise within this time horizon.

### **Legacy derivatives**

This item includes value adjustment of a number of derivative products which Nykredit no longer offers to customers. These value adjustments are not included in business profit.

Legacy derivatives were a gain of DKK 258 million (2019: a charge of DKK 112 million). The change was mainly driven by reduced management judgement provisions and the fact that the average time-to-maturity of the portfolio has been reduced by one year.

The portfolio of legacy derivatives had a total market value of DKK 7.4 billion (end-2019: DKK 6.6 billion). The portfolio was written down to DKK 5.6 billion (end-2019: DKK 4.5 billion).

### **Tax**

Tax calculated on profit for the year was DKK 385 million (2019: DKK 366 million).

### **Balance sheet**

The balance sheet stood at DKK 198.2 billion (end-2019: DKK 226.5 billion).

Receivables from credit institutions and cash balances etc decreased to DKK 21.5 billion (end-2019: DKK 33.5 billion), and reverse repurchase lending decreased by DKK 11.5 billion to DKK 37.3 billion (end-2019: DKK 48.7 billion).

Lending at amortised cost (excluding reverse repurchase lending) rose by DKK 5.7 billion relative to end-2019 to DKK 71.1 billion at end-2020 (end-2019: DKK 65.5 billion).

In recent years, Nykredit Bank has transferred a number of secured homeowner loans to Totalkredit, which has reduced the Bank's balance sheet. At end-2020 these loans amounted to DKK 6.7 billion

(end-2019: DKK 6.8 billion). Loan balances including secured homeowner loans totalled DKK 77.8 billion (end-2019: DKK 72.3 billion).

Bond and equity portfolios totalled DKK 39.8 billion (end-2019: DKK 50.8 billion). 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. The same applies to balances with credit institutions.

Remaining assets were DKK 28.5 billion (end-2019: DKK 28.0 billion). At end-2020 DKK 22.0 billion was attributable to positive market values of derivatives (end-2019: DKK 21.0 billion). The positive market values related to the Bank's customer activities in derivatives and positions for hedging own risk. The Bank's interest rate risk is widely hedged through offsetting interest rate swaps.

Payables to credit institutions and central banks decreased to DKK 49.1 billion (end-2019: DKK 85.2 billion), while repo deposits fell by DKK 0.7 billion to DKK 2.7 billion (end-2019: DKK 3.3 billion).

Deposits and other payables (excluding repo deposits) went up by DKK 2.7 billion to DKK 88.3 billion (end-2019: DKK 85.5 billion).

Bonds in issue totalled DKK 5.4 billion (end-2019: DKK 3.8 billion). Nykredit Bank receives funding from its Parent Nykredit Realkredit by way of long-term intercompany loans. Nykredit Realkredit funds such loans through the issuance of debt instruments.

Other non-derivative financial liabilities at fair value, which include negative bond portfolios, for which the Bank has a repurchase obligation, came to DKK 10.8 billion (end-2019: DKK 7.1 billion).

Remaining payables and provisions amounted to DKK 13.8 billion (end-2019: DKK 15.1 billion). The item mainly consisted of interest and commission payable and negative market values of derivative financial instruments. The negative market values of derivative financial instruments were DKK 11.3 billion (end-2019: DKK 12.2 billion).

## **RESULTS FOR Q4/2020 RELATIVE TO Q3/2020**

Profit before tax was DKK 687 million (Q3/2020: DKK 672 million), corresponding to an increase of DKK 14 million. Business profit came to DKK 481 million in Q4/2020 (Q3/2020: DKK 518 million).

Income went down by DKK 10 million to DKK 1,341 million (Q3/2020: DKK 1,351 million). This was primarily driven by reduced income from trading, investment portfolio and other income.

Costs amounted to DKK 758 million (Q3/2020: DKK 665 million). The increase was primarily related to higher costs allocated to investments in compliance-related areas.

Impairment charges for loans and advances decreased DKK 66 million and amounted to DKK 102 million (Q3/2020: DKK 168 million).



Impairment charges for loans and advances were impacted by the uncertainty about the duration and severity of the covid-19 pandemic. The negative impact, however, was lower in Q4 compared with Q3.

Legacy derivatives saw a positive value adjustment of DKK 206 million in Q4/2020 (Q3/2020: a gain of DKK 154 million), primarily generated by tightened credit and funding spreads and improved ratings of some customers.

## RESULTS RELATIVE TO OUTLOOK

As announced in the Annual Report for 2019 Nykredit Bank's expectations for 2020 were a business profit and profit before tax of between DKK 1.9 billion and DKK 2.4 billion.

The expectations for business profit and profit before tax for 2020 were adjusted twice during the year. On 15 October we raised our guidance for business profit and profit before tax for 2020 from DKK 1.4-1.8 billion to DKK 1.7-2.0 billion. Business profit for the year of DKK 1.8 billion was satisfactory and in the middle of the range, and profit before tax of DKK 2.0 billion was at the top of the range.

Profit before tax for 2020 was within the range of our initial expectations, but business profit was below our initial expectations as a consequence of the negative covid-19 impact on trading, investment portfolio and other income. Investment portfolio suffered large losses in Q1, most of which, however, were regained in subsequent quarters. Nonetheless, investment portfolio income did not meet our expectations. Moreover, impairment charges for loans and advances increased significantly due to covid-19.

## OUTLOOK AND GUIDANCE FOR 2021

Nykredit Bank expect a business profit and profit before tax of between DKK 1.7 billion and DKK 2.2 billion for 2021.

The full-year earnings guidance for 2021 is based on the following assumptions:

- Nykredit expects total income at the same level as in 2020 due to higher net interest income owing to growth in bank lending and a positive effect related to negative deposit rates, higher wealth management income, but lower income relating to active swaps and customer benefits programmes
- We expect slightly increasing costs as a result of investments in digitisation as well as higher compliance-related costs compared with 2020
- Impairment charges for loans and advances are expected to be lower than in 2020, which was affected by provisions for loan impairments related to covid-19.

The most important uncertainty factors affecting our 2021 guidance are the covid-19 impacts on legacy derivatives as well as impairment charges for loans and advances.

## UNCERTAINTY AS TO RECOGNITION AND MEASUREMENT

Measurement of certain assets and liabilities is based on accounting estimates made by Management.

The areas in which assumptions and estimates significant to the financial statements have been made include provisions for loan and receivable impairment and unlisted financial instruments see note 1, accounting policies, to which reference is made.

In 2020 the impacts of covid-19 led to significant volatility in fixed income markets and increased complexity in determining the market value of interest rate swaps in particular. Market conditions have normalised since Q1/2020, but valuations are still subject to significant uncertainty, but at a more moderate level than at end-March 2020.

The covid-19 pandemic has resulted in increased impairments partly based stress tests and portfolio calculations following the uncertainty about the effect on the domestic and global economy. The Group has still not seen a material rise in write-offs, but the pandemic is expected to have a significant effect on future impairments.

Furthermore, as a consequence of the global lockdown of borders and workplaces in Q1/2020 and at the beginning of Q2/2020 followed by a gradual reopening and renewed lockdown from end-2020, as well as the upward unemployment trends and the uncertainty about the effect of the covid-19 vaccine, the determination of impairment provisions for loans and advances is subject to increased uncertainty. The main reason for this is the difficulty in predicting the duration and severity of the crisis and the resulting impact on customers' finances.

## EVENTS SINCE THE BALANCE SHEET DATE

### Nykredit has entered into an agreement to sell its Depositary Services unit

Nykredit has entered into an agreement with Bank of New York Mellon to divest Nykredit's Depositary Services unit and activities. As part of the agreement, the unit's nine staff members will transfer to Bank of New York Mellon. The agreement is subject to regulatory approvals, which are anticipated at end-October 2021.

No further events have occurred in the period up to the presentation of the Annual Report for 2020 which materially affect the Nykredit Bank Group's financial position.

# CAPITAL

## EQUITY AND OWN FUNDS

### Equity

Equity carried for accounting purposes totalled DKK 26.1 billion at end-2020 (end-2019: DKK 24.4 billion). Equity is identical in Nykredit Bank A/S and the Nykredit Bank Group, as the same recognition and measurement principles are applied.

DKK million		
Nykredit Bank Group		
Capital and capital adequacy	31.12.2020	31.12.2019
Credit risk	94,005	99,211
Market risk	12,884	11,319
Operational risk	10,052	8,143
<b>Total risk exposure amount</b>	<b>116,941</b>	<b>118,672</b>
Equity, year-end	26,082	24,434
Minority interest not included	(96)	(57)
Prudent valuation adjustment	(18)	(30)
Intangible assets and deferred tax assets	(1,932)	(1,868)
Deduction for difference between IRB losses and impairments	(18)	(41)
Other regulatory deductions	49	35
<b>CET1 capital</b>	<b>24,068</b>	<b>22,473</b>
Other regulatory deductions	9	7
<b>Tier 1 capital</b>	<b>24,077</b>	<b>22,480</b>
Tier 2 capital	2,000	2,000
Tier 2 regulatory adjustments	524	307
Transitional adjustment of Tier 2 capital	6	4
<b>Own funds</b>	<b>26,606</b>	<b>24,791</b>
CET1 capital ratio, %	20.5	18.9
Tier 1 capital ratio, %	20.5	18.9
Total capital ratio, %	22.7	20.8

DKK million		
Nykredit Bank Group		
Required own funds and internal capital adequacy requirement	31.12.2020	31.12.2019
Credit risk (including CVA)	7,520	7,937
Market risk	1,031	905
Operational risk	804	651
<b>Total Pillar I</b>	<b>9,355</b>	<b>9,494</b>
Slightly weaker economic climate etc.	1,859	994
Other risks	1,735	3,014
<b>Total Pillar II</b>	<b>3,594</b>	<b>4,008</b>
<b>Total required own funds</b>	<b>12,949</b>	<b>13,502</b>
Internal capital adequacy requirement (Pillar I and Pillar II), %	11.1	11.4

### Capital

At end-2020 Nykredit Bank's own funds totalled DKK 26.6 billion (end-2019: DKK 24.8 billion). 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. The Bank's CET1 capital amounted to DKK 24.1 billion (end-2019: DKK 22.5 billion).

The risk exposure amount (REA) totalled DKK 116.9 billion (end-2019: DKK 118.7 billion).

At end-2020 the total capital ratio was 22.7% and the CET 1 capital ratio 20.5% (end-2019: 20.8% and 18.9%, respectively).

The determination of required own funds takes into account the business objectives by allocating capital for all relevant risks. Nykredit Bank's required own funds totalled DKK 12.9 billion (end-2019: DKK 13.5 billion). 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 11.1% (end-2019: 11.4%).

## CREDIT RATINGS

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

### S&P Global Ratings

S&P has assigned Nykredit Realkredit and Nykredit Bank long-term and short-term Issuer Credit Ratings of A+/A-1 with a stable outlook and long-term and short-term Resolution Counterparty Ratings of AA-/A-1+.

### Fitch Ratings

Nykredit Realkredit and Nykredit Bank each have long-term and short-term Issuer Credit Ratings of A/F1 with Fitch Ratings and long-term and short-term senior unsecured preferred debt ratings of A+/F1.

On 19 June 2020 Fitch changed the outlook on the Issuer Credit Rating from negative to stable. The previously negative outlook, announced by Fitch on 31 March 2020, mirrors the overall financial economic uncertainty revolving around the covid-19 pandemic. The stable outlook reflects Fitch's view that Nykredit has sufficient headroom to resist downside scenarios, particularly thanks to our strong capital position.

### Listing of ratings

A table listing Nykredit's credit ratings with S&P and Fitch Ratings is available at [nykredit.com/rating](https://nykredit.com/rating).



## SUPERVISORY DIAMOND FOR BANKS

The Supervisory Diamond sets out benchmark limits for five key ratios that indicate when a bank is operating at an elevated risk. Nykredit Bank recorded lending growth of 8.7%, 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. Nykredit complied with all Supervisory Diamond benchmark limits as at 31 December 2020.

The Bank's property exposure was 12.6% (end-2019: 10.2%).

<b>Nykredit Bank A/S</b>		
<b>Supervisory Diamond</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
Large exposures (limit value <175%)	132.3%	109.9%
Lending growth (limit value <20%)	8.7%	8.1%
Property exposure (limit value <25%)	12.6%	10.2%
Funding ratio (limit value <1.0)	0.60	0.57
Liquidity benchmark (limit value >100%)	150.7%	194.9%

## ESG ratings

The mounting general awareness of climate and environmental sustainability as well as governance is also present among investors and issuers. ESG (Environmental, Social and Governance) ratings are a tool used by investors and other stakeholders to assess a company's position relative to sustainability, corporate responsibility and governance.

Nykredit focuses its efforts in part on the ESG rating agencies, MSCI and Sustainalytics, which consider all ESG factors, and in part on the CDP (formerly Carbon Disclosure Project), which reflects environmental impact. Nykredit finds that these agencies are currently the most used among our investors. The agencies have published unsolicited ratings of Nykredit based on publicly available information.

In November 2020 MSCI upgraded Nykredit's ESG ratings by one notch from BBB to A, and in December 2020 the CDP upgraded Nykredit's rating by one notch from B to A-. Nykredit's ESG ratings from Sustainalytics of 16.5 remained unchanged in 2020.

<b>ESG rating agency</b>	<b>Nykredit's ratings</b>	<b>Scale<sup>1</sup></b>
MSCI	A	AAA to CCC
Sustainalytics	16.5	0 to 100
CDP	A-	A to D-

<sup>1</sup> Highest to lowest rating (the lower the score, the better rating).

# IMPAIRMENT AND LENDING

## Total provisions

Total provisions increased to DKK 3,265 million at 31 December 2020 (end-2019: DKK 2,675 million).

In addition, value adjustment of interest rate swaps of DKK 2.5 billion was recorded, of which credit value adjustments amounted to DKK 2.1 billion, comprising DKK 1.8 billion relating to legacy derivatives and DKK 0.3 billion relating to other items.

Provisions for guarantees amounted to DKK 241 million (end-2019: DKK 137 million).

Relative to total loans, advances and guarantees, provisions amounted to 2.0% (end-2019: 1.7%).

## Earnings impact

Impairment charges for loans and advances came to DKK 579 million in 2020 (2019: DKK 210 million). Of total impairment charges, impairment charges for loans and advances etc represented DKK 631 million (end-2019: DKK 246 million), while recoveries on loans and advances previously written off were DKK 52 million (end-2019: DKK 36 million).

DKK million

Nykredit Bank Group		
Provisions for loan impairment and guarantees	31.12.2020	31.12.2019
Impairment provisions, beginning of year	2,538	2,779
Impairment provisions and reversals	486	(241)
<b>Impairment provisions, year-end</b>	<b>3,024</b>	<b>2,538</b>
- of which impairment provisions for loans and advances etc	3,012	2,526
- of which impairment provisions for loans and advances to banks	12	12
<b>Provisions for guarantees and loan commitments</b>		
Provisions, beginning of year	137	117
Provisions, year-end	241	137
<b>Total provisions</b>	<b>3,265</b>	<b>2,675</b>
<b>Earnings impact</b>		
New impairment provisions and write-offs for the year, net	527	226
Recoveries on loans and advances previously written off	52	36
<b>Total</b>	<b>475</b>	<b>190</b>
Provisions for guarantees and loan commitments	104	20
<b>Total earnings impact</b>	<b>579</b>	<b>210</b>



## Loans, advances and guarantees by sector

The carrying amount of Group loans, advances and guarantees was DKK 138.1 billion (end-2019: DKK 150.2 billion).

This figure comprised a decline in reverse repurchase lending of DKK 11.5 billion, a rise in other loans and advances of DKK 5.7 billion and a decline in guarantees of DKK 6.2 billion. Reverse repurchase lending totalled DKK 37.3 billion (end-2019: DKK 48.7 billion).

Finance and insurance remained the largest single sector exposure at DKK 43.2 billion (end-2019: DKK 54.7 billion). The exposure widely comprised reverse repurchase lending with bonds serving as security.

Finance and insurance accounted for 31.3% (end-2019: 36.4%) and personal customers 19.5% (end-2019: 22.5%).

At end-2020, loan impairment provisions for the real estate sector totalled DKK 0.6 billion (end-2019: DKK 0.5 billion), or 3.6% of total loans and advances to the sector (end-2019: 3.3%).

## Nykredit Bank Group

### Credit exposures in terms of bank lending, reverse repurchase lending and guarantees by sector<sup>1</sup>

DKK million

	31.12.2020			31.12.2019		
	Lending, year-end	Total impairment provisions	Earnings impact	Lending, year-end	Total impairment provisions	Earnings impact
<b>Public sector</b>	<b>866</b>	<b>4</b>	<b>3</b>	<b>765</b>	<b>1</b>	<b>(1)</b>
Agriculture, hunting, forestry and fishing	3,431	184	30	4,197	164	27
Manufacturing, mining and quarrying	9,759	415	134	8,921	285	3
Energy supply	7,096	40	16	2,857	30	6
Construction	2,631	198	8	3,723	198	37
Trade	8,788	453	111	7,831	335	63
Transport, accommodation and food service activities	7,193	183	101	5,780	99	22
Information and communication	3,262	106	5	3,434	102	48
Finance and insurance	43,211	144	33	54,702	122	2
Real estate	16,566	595	123	14,266	472	20
Other	8,426	355	54	9,941	266	5
<b>Total business customers</b>	<b>110,363</b>	<b>2,673</b>	<b>615</b>	<b>115,651</b>	<b>2,072</b>	<b>233</b>
<b>Personal customers</b>	<b>26,914</b>	<b>576</b>	<b>(39)</b>	<b>33,773</b>	<b>589</b>	<b>(22)</b>
<b>Total</b>	<b>138,143</b>	<b>3,254</b>	<b>579</b>	<b>150,188</b>	<b>2,663</b>	<b>210</b>
- of which provisions for losses under guarantees		241	105		137	20
Impairment provisions for credit institutions		12	(1)		12	0
- of which intercompany guarantees	20,639			29,358		
<b>Total</b>		<b>3,265</b>	<b>579</b>		<b>2,675</b>	<b>210</b>

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

# ORGANISATION AND MANAGEMENT

## ORGANISATION AND RESPONSIBILITIES

The Board of Directors of Nykredit Bank is responsible for limiting and monitoring Nykredit Bank's risks as well as approving the delegation of responsibilities and overall instructions. The Board of Directors has laid down guidelines and specific limits for the types of risk the Company may assume. These risk limits have been delegated within the organisation.

Nykredit Bank is subject to the Nykredit Group's coordinated risk management, and the Chief Risk Officer of Nykredit Realkredit A/S has been appointed Chief Risk Officer of Nykredit Bank A/S by the Board of Directors of Nykredit Bank. Nykredit has appointed a number of non-Board committees, which are to perform specific tasks within selected fields.

### Board Committees

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

Nykredit Bank A/S has not appointed similar committees, but the Board Committees appointed by Nykredit Realkredit A/S handle matters of relevance to the Group, including Nykredit Bank A/S.

#### *Board Audit Committee*

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

The Board Audit Committee consists of Jørgen Høholt, former Banking Executive, (Chairman), Per W. Hallgren, CEO, and Vibeke Krag, former CEO, who are all members of the Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S elected by the General Meeting.

The Board Audit Committee held 7 meetings in 2020.

#### *Board Risk Committee*

The function of the Board Risk Committee 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. The Board Risk Committee assists the Board of Directors in overseeing that the risk appetite defined by the Board of Directors is implemented correctly in the organisation.

The Board Risk Committee consists of Per W. Hallgren, CEO (Chairman), Michael Demsitz, CEO, Jørgen Høholt, former Banking Executive and Hans-Ole Jochumsen, former Vice Chairman, who are all members of the Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S elected by the General Meeting.

The Board Risk Committee held 7 meetings in 2020.

#### *Board Nomination Committee*

The Board Nomination Committee is principally tasked with making recommendations to the Board of Directors of Nykredit Realkredit A/S on the nomination of candidates for its Board of Directors and Executive Board.

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

The Board Nomination Committee held 4 meetings in 2020.

#### *Board Remuneration Committee*

The principal tasks of the Board Remuneration Committee are to qualify proposals for remuneration prior to consideration by the Board of Directors of Nykredit Realkredit A/S 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.

The Board Remuneration Committee consists of Merete Eldrup, former CEO (Chairman), Nina Smith, Professor, and Per W. Hallgren, CEO, who are all members of the Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S elected by the General Meeting, and of Olav Bredgaard Brusen, Deputy Chairman of NYKREDS, who is staff-elected member of the Board of Directors of both companies.

The Board Remuneration Committee held 3 meetings in 2020.

Details on bonuses to risk takers, remuneration policy and practices are available at [nykredit.com/remuneration](https://nykredit.com/remuneration).

### *Non-Board committees*

The Executive Boards of Nykredit Realkredit A/S and Nykredit Bank A/S have set up five non-Board committees, which perform specific tasks within selected fields. Each committee must report to the Executive Board, and the individual members may at any time request the Executive Board to decide on a case.

The Credits Committee is charged with ensuring adequate credit risk management and approving and/or deciding credit applications and loan impairments as well as overseeing the management of risks in the Nykredit Group's credits area. The Committee manages the Group's loan portfolio and submits recommendations on credit policies 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 Board 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 Group Risk Committee is charged with overseeing the Nykredit Group'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 and Nykredit Leasing 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 A/S, 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 Products Committee's overarching objective is to ensure that the Nykredit Group's products meet applicable business and regulatory requirements. The Committee must ensure that any launch of new or changes to existing products and services, involving material risks for the Group, the individual companies, counterparties or customers, are in alignment with the business models of the individual companies and comply with the current product policy and the Executive Boards' guidelines for development and approval of new products and services. Further, the Committee must regularly 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.

## **CORPORATE RESPONSIBILITY**

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

For additional information on Nykredit's corporate responsibility, please refer to our Corporate Responsibility Report 2020 at [nykredit.com/CRrapport2020](https://nykredit.com/CRrapport2020), which includes:

1. Communication on Progress to the UN Global Compact, which we signed in 2008.
2. Report on the UN Principles for Responsible Banking launched and signed by us in 2019.
3. Report on corporate responsibility in accordance with section 135b of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.
4. Report on the gender composition of management in accordance with section 135a of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

Nykredit has endorsed the UN Principles for Responsible Banking (PRB), which are a set of global guiding principles for responsible banking. Banks worldwide agree to respect the principles when developing strategies as well as in their day-to-day operations. Banks which endorse the PRB are also obliged to report and set goals for their impact on society in a number of key areas. The endorsement aligns with Nykredit's pledge to society and the customer-ownership structure as well as our sustainability commitment.

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

## **CORPORATE GOVERNANCE**

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

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

## **REMUNERATION**

### **Material risk takers**

At end-2020 the Nykredit Bank Group had identified a total of 194 material risk takers in addition to the members of the Bank's Executive Board and Board of Directors, who are risk takers exclusively by virtue of their directorships and executive positions. Of the 194 material risk takers, 4 are Managing Directors of financial subsidiaries and 190 are other material risk takers. Of the 190 other material risk takers, 36 are on the payroll of Nykredit Bank, 43 are on the payroll of the Bank's subsidiaries, and 111 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 2020 bonus provisions in respect of the Bank's Executive Board and other risk takers amounted to DKK 42 million (2019: DKK 48 million). The 2020 bonus provisions corresponded to 37% of their fixed salaries.

The total remuneration of risk-takers subject to variable remuneration appears from note 13.

Details on bonuses to risk takers, remuneration policy and practices are available at [nykredit.com/remuneration](https://nykredit.com/remuneration).

### *Bonus programmes*

A general bonus programme applies to Nykredit's 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 an executive 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 Markets Trading, Asset Management, Investments 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 2020 bonus provisions in respect of these staff members (excluding risk takers) amounted to DKK 50 million (2019: DKK 55 million). The 2020 bonus provisions corresponded to 43% 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 2020 bonus provisions in respect of these staff members (excluding risk takers) amounted to DKK 26 million (2019: DKK 23 million). The 2020 bonus provisions corresponded to 26% of their fixed salaries.

Bonus programmes under which the variable remuneration component may reach up to 25% of the base salary apply to other members of management and a small number of the members of staff in high-level positions or tasked with special projects.

The 2020 bonus provisions in respect of these staff members (excluding risk takers) amounted to DKK 1 million (2019: DKK 1 million). The bonus provisions for 2020 corresponded to 4% of the Group's total fixed salary.

A number of staff members employed with the Group following the integration of Sparinvest are covered by an incentive scheme previously

applied by Sparinvest. For 2020 provisions for the scheme amounted to DKK 11 million (2019: DKK 8 million).

The bonus programmes do not apply to other management or staff members, but they may receive individual one-off awards. For 2020 provisions of DKK 3 million had been made for one-off awards (2019: DKK 2 million). The 2020 provisions for one-off awards corresponded to 1% of the relevant group's fixed salaries.

Total provisions for bonuses and one-off awards for 2020 came to DKK 126 million (2019: DKK 130 million). The total provisions for bonuses and one-off awards for 2020 corresponded to 16% of total fixed salaries.

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

Nykredit's internal controls and risk management relating to the financial reporting process have been designed to efficiently manage and minimise the risk of errors and omissions in connection with financial reporting.

### **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 Bank 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 material business units, management support functions and the Executive Board.

Group Finance & Investments, which includes the finance functions of Nykredit A/S, Nykredit Realkredit A/S, Totalkredit A/S, Nykredit Bank A/S, Nykredit Portefølje Administration A/S, Sparinvest SE and LR Realkredit, 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 & Investments is also responsible for the day-to-day internal reporting in the Treasury and Markets areas.

Group Finance & Investments prepares monthly internal reports and performs budget control, which includes accounting for the monthly, quarterly and annual results. Further, Group Finance & Investments is responsible for the Group's external annual and interim financial reporting.



The finance units of other subsidiaries, including Nykredit Leasing A/S and Nykredit Mægler, 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 are responsible for their own reporting. Financial data and Management's comments on financial and business results are reported monthly to Group Finance & Investments.

### **Control environment**

Business procedures have been laid down and controls implemented for all material areas and high-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 Group Executive Board is responsible for risk delineation, management and monitoring.

In addition to this, the Board Audit Committee oversees the effectiveness of Nykredit's internal control systems, financial reporting, internal audit and risk management.

### **Risk assessment**

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

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

### **Controls**

The purpose of 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 high-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 Nykredit Group level. The controls comprise manual and physical controls as well as general IT controls and automatic controls in the IT systems applied.

In connection with the preparation of financial statements, a number of fixed procedures and internal controls are performed. These procedures and controls include fixed analysis and reconciliation routines and compliance with fixed 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.

### **Communication and information**

The Board of Directors has adopted an overall communications 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 communications policy is reviewed once a year by the Board of Directors and was last revised in October 2020.

Nykredit's Boards of Directors and Executive Boards regularly receive internal and external financial reporting. Internal reporting includes analyses of important issues with respect to Nykredit's business areas and subsidiaries etc.

For further information on the Nykredit Group's risk and capital management, please refer to the publication Risk and Capital Management 2020, available at [nykredit.com/riskandcapitalmanagement](https://nykredit.com/riskandcapitalmanagement).

# COMPANY DETAILS

## COMPANY DETAILS

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

Tel: +45 44 55 18 00  
CVR no: 10 51 96 08  
Financial year: 1 January – 31 December  
Municipality of registered office: Copenhagen  
Website: [nykredit.com](https://nykredit.com)

### Date of approval of Financial Statements

These Financial Statements were approved on 11 February 2021.

### External auditors

Deloitte Chartered Accountant Company  
Weidekampsgade 6  
DK-2300 Copenhagen S

### Annual General Meeting

The Annual General Meeting of the Company will be held on  
24 March 2021.

## BOARD OF DIRECTORS

Michael Rasmussen, Chairman  
Anders Jensen, Deputy Chairman  
Tonny Thierry Andersen  
David Hellemann  
Allan Kristiansen\*  
Susanne Møller Nielsen\*

\* Elected by the staff of Nykredit Bank

## EXECUTIVE BOARD

Henrik Rasmussen  
Dan Sørensen

See page 121-122 for directorships and executive positions of the members of the Board of Directors and the Executive Board.

### Nykredit Bank

#### ESEF data

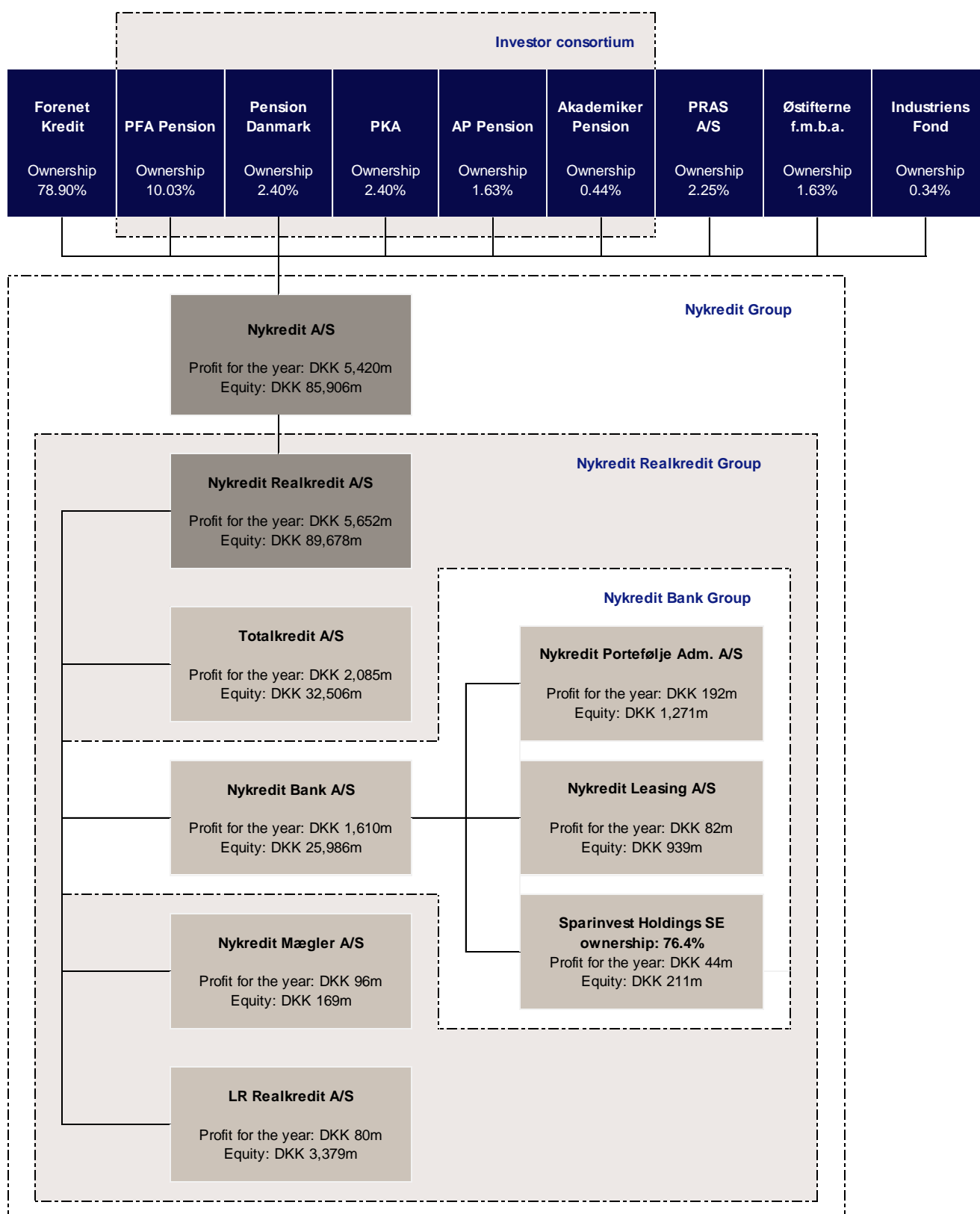
Domicile of entity	Denmark
Description of nature of entity's operations and principal activities	Bank
Country of incorporation	Denmark
Principal place of business	Denmark
Legal form of entity	A/S
Name of reporting entity or other names of identification	Nykredit Bank A/S
Name of parent	Nykredit Realkredit A/S
Name of ultimate parent of group	Forenet Kredit f.m.b.a.
Address of entity's registered office	Kalvebod Brygge 1-3 DK-1780 Copenhagen V

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

- Annual Report 2020
- Corporate Responsibility Report 2020
- Risk and Capital Management 2020

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

## GROUP CHART



# 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, through its ownership of Nykredit 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 profit 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.

## *Income statement*

Nykredit Bank A/S recorded a profit of DKK 1,610 million in 2020 (2019: DKK 1,288 million).

Income increased by DKK 835 million to DKK 4,265 million in 2020 (2019: DKK 3,431 million).

Net interest and fee income rose by DKK 73 million to DKK 2,820 million (2019: DKK 2,747 million), while value adjustments and other operating income saw a total increase of DKK 762 million to DKK 1,445 million (2019: DKK 683 million).

Costs rose to DKK 2,178 million (2019: DKK 1,966 million). Please refer to the previous section "Costs" of this Annual Report.

Impairment charges for loans and advances were a charge of DKK 538 million (2019: DKK 183 million).

Profit from equity investments in associates and Group enterprises came to a gain of DKK 343 million (2019: DKK 289 million). Of this amount, Nykredit Portefølje Administration contributed DKK 192 million, Nykredit Leasing DKK 82 million and Sparinvest SE DKK 113 million.

## *Principal balance sheet items*

The balance sheet total increased to DKK 197.6 billion at end-2020 (end-2019: DKK 225.9 billion).

Cash balances and receivables from credit institutions etc increased to DKK 21.3 billion (end-2019: DKK 33.4 billion).

Loans and advances at amortised cost amounted to DKK 107.0 billion (end-2019: DKK 112.8 billion).

Bonds and equities amounted to DKK 38.5 billion (end-2019: DKK 49.8 billion). As for the entire Group, the size of the portfolios reflects the Bank's capital 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 49.1 billion (end-2019: DKK 85.2 billion).

Deposits and other payables came to DKK 91.1 billion (end-2019: DKK 89.1 billion).

## *Equity*

Equity increased by profit for the year of DKK 1.6 billion to DKK 26.0 billion (end-2019: DKK 24.4 billion).

## *Total capital ratio, %*

The total capital ratio declined to 19.5% (end-2019: 19.8%).

## *Dividend*

It will be recommended for approval by the Annual General Meeting that no dividend be distributed for 2020.

## ALTERNATIVE PERFORMANCE MEASURES

In the opinion of Management, the Management Commentary should be based on the internal management and business division reporting, which also forms part of Nykredit's financial governance. This will provide readers of the financial reports with information that is relevant to their assessment of Nykredit's financial performance.

The income statement format of the financial highlights on page 3 and the business areas (note 3) reflect the internal management reporting.

In certain respects, the presentation of the financial highlights differs from the format of the Financial Statements prepared under the International Financial Reporting Standards (IFRS). No correcting entries have been made, which means that the profit for the year is the same in the financial highlights and in the IFRS-based Financial Statements. The reclassification in note 4 shows the reconciliation between the presentation in the financial highlights table of the Management Commentary and the presentation in the Consolidated Financial Statements prepared according to the IFRS and includes:

"Net interest income" comprising interest income from bank lending and deposits. The corresponding item in the income statement (page 25) includes all interest.

"Net fee income" comprising income from bank lending, service fees, provision of guarantees and leasing business etc.

"Wealth management income" comprising asset management and administration fees etc. This item pertains to business with customers conducted through the Group's entities Nykredit Markets, Nykredit Asset Management, Nykredit Portefølje Administration A/S and Sparinvest 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" comprising income from swaps and derivatives transactions currently offered, Nykredit Markets activities, repo deposits and lending, debt capital markets activities as well as other income and expenses not allocated to the business divisions.

"Net income relating to customer benefits programmes" comprising discounts etc such as MineMål paid to the customers. The amount includes contributions received.

### Supplementary financial ratios etc

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 % pa of average equity.* Average equity is calculated on the basis of the value at the beginning of the year and at the end of all quarters of the year.

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

*Impairment charges for the year, %.* Impairment charges are calculated based on impairment charges for loans and advances relative to loans and advances.

# MANAGEMENT STATEMENT AND AUDIT REPORTS

## STATEMENT BY THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD

The Board of Directors and the Executive Board have today reviewed and approved the Annual Report 2020 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 2020 and of the results of the Group's and the Parent's operations and the Group's cash flows for the financial year 2020.

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.

### *ESEF-compliant financial reports*

In our opinion, the Annual Report of Nykredit Bank A/S for the financial year 1 January to 31 December 2020 with the file name NYRB-2020-12-31 is prepared, in all material respects, in compliance with the ESEF Regulation.

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

Copenhagen, 11 February 2021

### Executive Board

Henrik Rasmussen

Dan Sørensen

### Board of Directors

Michael Rasmussen  
Chairman

Anders Jensen  
Deputy Chairman

Tonny Thierry Andersen

David Hellemann

Allan Kristiansen \*

Susanne Møller Nielsen\*

\* Staff-elected member



## 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 2020, 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 for 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 additional 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 2020, and of its financial performance and cash flow for the financial year 1 January to 31 December 2020 in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds.

Also, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2020 and of its financial performance for the financial year 1 January to 31 December 2020 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the 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 27 years up to and including the financial year 2020.

### 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 2020. 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 108,417 million at 31 December 2020 (DKK 114,215 million at 31 December 2019), and impairment charges therefore for the period amount to DKK 579 million in 2020 (DKK 210 million in 2019) in the consolidated financial statements.</p> <p>We consider the measurement of impairment charges a key audit matter as the determination of expected losses is based on management judgement and subject to significant uncertainty. Due to the significance of such management judgement and the loan volumes of the Group and the Parent, auditing impairment charges for loans and advances is a key audit matter.</p> <p>The principles for determining expected credit losses are described in the Summary of significant accounting policies. Management has described the management of credit risks and the review for impairment in more detail in notes 15, 16 and 46 to the consolidated financial statements.</p> <p>In 2020, recognising the effects of covid-19 has required particular focus in terms of both management judgements and management add-ons in models.</p> <p>The areas of loans and advances involving the highest level of management judgement, thus requiring greater audit attention, are:</p> <ul style="list-style-type: none"> <li>■ Identification of credit-impaired exposures</li> <li>■ Parameters and management judgements in the calculation model used to determine Stage 1 and Stage 2 expected losses</li> <li>■ Valuation of collateral and future cash flows, including management judgement involved in determining Stage 3 expected losses</li> <li>■ The assessment of the effects of covid-19 and other events that were not already considered by the models in terms of management judgements incorporated in the models and management add-ons in the models.</li> </ul>	<p>Based on our risk assessment, 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>Our audit procedures included testing relevant controls regarding:</p> <ul style="list-style-type: none"> <li>■ Current assessment of credit risk</li> <li>■ Assessment and validation of input and assumptions applied in calculating Stage 1 and Stage 2 impairment charges</li> <li>■ Determining management judgements in the model and Stage 3.</li> </ul> <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"> <li>■ Reviewing, on a sample basis, exposures to ensure timely identification of credit-impaired loans and advances</li> <li>■ Challenging the parameters and significant assumptions applied in the calculation models and reviewing the staging methodology and the data used</li> <li>■ Challenging the procedures and methodologies applied for the areas involving the highest level of management judgement by using our industry knowledge and experience</li> <li>■ Challenging management judgements in the calculation model used with special focus on management consistency and bias, including documentation of the adequacy of management judgements</li> <li>■ Reviewing, on a sample basis, credit-impaired loans and advances, including checking for adequate impairment charges.</li> <li>■ Challenging management judgements incorporated in the models and management add-ons in the models in relation to the effects of covid-19 and other events that had not already been considered by the models.</li> </ul>

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 20,673 million (DKK 20,400 million at 31 December 2019) for positive and DKK 10,019 million (DKK 11,604 million at 31 December 2019) for negative fair values at 31 December 2020.</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 41 and 46 to the consolidated financial statements.</p> <p>The areas involving the highest level of judgements and complexity, thus requiring greater audit attention, are:</p> <ul style="list-style-type: none"> <li>■ Assessment of customers' ability to pay</li> <li>■ Practice for methodologies applied in the valuation of swaps.</li> </ul>	<p>Our audit comprised a review of relevant business procedures, test of key controls and analysis of valuations.</p> <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"> <li>■ Assessing the model applied to calculate the risk of customers' non-payment by using our industry knowledge and experience</li> <li>■ Assessing the changes in the assumptions against sector trends and historical observations</li> <li>■ Performing a risk-based test of valuation of swaps with customers.</li> </ul>

### Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the 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 or 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 additional requirements under the Danish Financial Business Act, and for the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of 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, disclosing, as applicable, matters related to going concern and 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 con-

sidered 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 preparing the consolidated financial statements and the parent financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events and 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 contents 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.

### **Report on compliance with the ESEF Regulation**

As part of our audit of the consolidated financial statements and parent financial statements of Nykredit Bank A/S we performed procedures to express an opinion on whether the annual report of Nykredit Bank A/S for the financial year 1 January to 31 December 2020 with the file name NYRB-2020-12-31 is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the consolidated financial statements.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes:

- The preparing of the annual report in XHTML format;
- The selection and application of appropriate iXBRL tags, including extensions to the ESEF taxonomy and the anchoring thereof to elements in the taxonomy, for financial information required to be tagged using judgement where necessary;
- Ensuring consistency between iXBRL tagged data and the consolidated financial statements presented in human readable format; and
- For such internal control as Management determines necessary to enable the preparation of an annual report that is compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained, and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the consolidated financial statements;

- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited consolidated financial statements.

In our opinion, the annual report of Nykredit Bank A/S for the financial year 1 January to 31 December 2020 with the file name NYRB-2020-12-31 is prepared, in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 11 February 2021

### **Deloitte**

Chartered Accountant Company  
Business Registration No 33 96 35 56

Henrik Wellejus  
State-Authorised  
Public Accountant  
Identification No 24807

Bjørn Würtz Rosendal  
State-Authorised  
Public Accountant  
Identification No 40039

# STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

		DKK million			
Nykredit Bank A/S				Nykredit Bank Group	
2019	2020		Note	2020	2019
<b>INCOME STATEMENTS</b>					
1,762	1,842	Interest income based on the effective interest method	7	2,016	1,932
(147)	(257)	Other interest income	7	(257)	(147)
(203)	(198)	Negative interest, income	7 a	(198)	(203)
(321)	(346)	Positive interest expenses	7 a	(346)	(321)
365	360	Interest expenses	8	359	358
<b>1,368</b>	<b>1,373</b>	<b>Net interest income</b>		<b>1,547</b>	<b>1,545</b>
7	5	Dividend on equities etc	9	5	7
1,705	1,794	Fee and commission income	10	2,843	2,405
332	351	Fee and commission expenses	11	556	439
<b>2,747</b>	<b>2,820</b>	<b>Net interest and fee income</b>		<b>3,839</b>	<b>3,518</b>
672	1,137	Value adjustments	12	1,139	670
11	308	Other operating income		336	44
1,946	2,141	Staff and administrative expenses	13	2,655	2,338
-	-	Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	14	34	13
20	37	Other operating expenses		38	24
183	538	Impairment charges for loans, advances and receivables etc	15, 16	579	210
289	343	Profit from investments in associates and Group enterprises	17	7	6
<b>1,570</b>	<b>1,892</b>	<b>Profit before tax</b>		<b>2,015</b>	<b>1,653</b>
282	283	Tax	18	385	366
<b>1,288</b>	<b>1,610</b>	<b>Profit for the year</b>		<b>1,630</b>	<b>1,288</b>
<b>Proposal for the distribution of profit</b>					
289	343	Statutory reserves		-	-
-	-	Minority interests calculated		21	(1)
999	1,267	Retained earnings		1,610	1,288
<b>COMPREHENSIVE INCOME</b>					
<b>1,288</b>	<b>1,610</b>	<b>Profit for the year</b>		<b>1,630</b>	<b>1,288</b>
<b>Other comprehensive income</b>					
<b>1,288</b>	<b>1,610</b>	<b>Comprehensive income for the year</b>		<b>1,630</b>	<b>1,288</b>
<b>Distribution of comprehensive income</b>					
1,288	1,610	Nykredit Bank		1,610	1,288
-	-	Minority interests calculated		21	(1)
<b>1,288</b>	<b>1,610</b>	<b>Comprehensive income for the year</b>		<b>1,630</b>	<b>1,288</b>

## BALANCE SHEETS

		DKK million			
Nykredit Bank A/S		Nykredit Bank Group			
2019	2020	Note	2020	2019	
<b>ASSETS</b>					
7,110	16,001	Cash balances and demand deposits with central banks	19	16,001	7,110
26,270	5,337	Receivables from credit institutions and central banks	20	5,468	26,418
112,839	106,966	Loans, advances and other receivables at amortised cost	21	108,417	114,215
43,308	38,508	Bonds at fair value	22	39,680	44,317
6,344	0	Bonds at amortised cost	23	-	6,344
118	130	Equities etc	24	142	128
15	14	Investments in associates	25	14	15
2,284	2,501	Investments in Group enterprises	25	-	0
1,699	1,770	Intangible assets	26	1,932	1,867
<b>LAND AND BUILDINGS</b>					
-	-	Leased properties	27	19	23
-	-	<b>Total leased properties</b>		<b>19</b>	<b>23</b>
-	-	Property and plant		-	1
-	-	Equipment	27	2	5
0	-	Current tax assets	34	19	1
111	116	Deferred tax assets	35	116	111
25,726	26,169	Other assets	29	26,274	25,839
62	101	Prepayments		106	134
<b>225,886</b>	<b>197,611</b>	<b>Total assets</b>		<b>198,189</b>	<b>226,528</b>



# BALANCE SHEETS

		DKK million			
Nykredit Bank A/S		Nykredit Bank Group			
2019	2020	Note	2020	2019	
<b>LIABILITIES AND EQUITY</b>					
85,154	49,121	Payables to credit institutions and central banks	30	49,121	85,154
89,057	91,065	Deposits and other payables	31	90,943	88,881
3,780	5,400	Bonds in issue at amortised cost	32	5,400	3,780
7,174	10,991	Other non-derivative financial liabilities at fair value	33	10,801	7,133
46	18	Current tax liabilities	34	14	71
14,101	12,570	Other liabilities	36	13,130	14,611
9	8	Deferred income		14	13
<b>199,321</b>	<b>169,172</b>	<b>Total payables</b>		<b>169,424</b>	<b>199,644</b>
<b>Provisions</b>					
-	-	Provisions for deferred tax	35	212	166
137	241	Provisions for losses under guarantees	37	241	137
52	211	Other provisions	37	230	148
<b>189</b>	<b>453</b>	<b>Total provisions</b>		<b>683</b>	<b>450</b>
<b>2,000</b>	<b>2,000</b>	<b>Subordinated debt</b>	38	<b>2,000</b>	<b>2,000</b>
<b>Equity</b>					
10,045	10,045	Share capital		10,045	10,045
<b>Other reserves</b>					
1,464	1,807	- statutory reserves		-	-
12,868	14,134	- retained earnings		15,941	14,332
<b>24,377</b>	<b>25,986</b>	<b>Shareholder of Nykredit Bank A/S</b>		<b>25,986</b>	<b>24,377</b>
-	-	Minority interests		96	57
<b>24,377</b>	<b>25,986</b>	<b>Total equity</b>		<b>26,082</b>	<b>24,434</b>
<b>225,886</b>	<b>197,611</b>	<b>Total liabilities and equity</b>		<b>198,189</b>	<b>226,528</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
36,073	29,725	Contingent liabilities	39	29,726	35,974
12,522	10,488	Other commitments		10,670	12,745
<b>48,595</b>	<b>40,214</b>	<b>Total</b>		<b>40,396</b>	<b>48,719</b>

# STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Bank Group

	Share capital <sup>1</sup>	Retained earnings	Nykredit Bank Group's equity	Minority interests	Total equity
<b>2020</b>					
<b>Equity, 1 January</b>	<b>10,045</b>	<b>14,332</b>	<b>24,377</b>	<b>57</b>	<b>24,434</b>
Profit for the year	-	1,610	1,610	21	1,630
<b>Total comprehensive income</b>	<b>-</b>	<b>1,610</b>	<b>1,610</b>	<b>21</b>	<b>1,630</b>
Subsequent adjustment of purchase price allocation	-	-	-	34	34
Distribution dividend and other regulations	-	-	-	(16)	(16)
<b>Total changes in equity</b>	<b>-</b>	<b>1,610</b>	<b>1,610</b>	<b>39</b>	<b>1,648</b>
<b>Equity, 31 December</b>	<b>10,045</b>	<b>15,942</b>	<b>25,987</b>	<b>96</b>	<b>26,082</b>
<b>2019</b>					
<b>Equity, 1 January</b>	<b>8,045</b>	<b>13,050</b>	<b>21,095</b>	<b>-</b>	<b>21,095</b>
Profit for the year	-	1,288	1,288	(1)	1,288
<b>Total comprehensive income</b>	<b>-</b>	<b>1,288</b>	<b>1,288</b>	<b>(1)</b>	<b>1,288</b>
Premium paid on acquisition of shares in subsidiary	-	(6)	(6)	-	(6)
Addition of purchased subsidiary	-	-	-	166	166
Distributed dividend	-	-	-	(108)	(108)
Capital increase	2,000	-	2,000	-	2,000
<b>Total changes in equity</b>	<b>2,000</b>	<b>1,282</b>	<b>3,282</b>	<b>57</b>	<b>3,339</b>
<b>Equity, 31 December</b>	<b>10,045</b>	<b>14,332</b>	<b>24,377</b>	<b>57</b>	<b>24,434</b>

<sup>1</sup> The share capital breaks down into 19 shares in multiples of DKK 1 million. 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 the association 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 f.m.b.a. may be obtained from the association.

# STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Bank A/S

	Share capital <sup>1</sup>	Statutory reserves	Retained earnings	Total equity
<b>2020</b>				
<b>Equity, 1 January</b>	<b>10,045</b>	<b>1,464</b>	<b>12,868</b>	<b>24,377</b>
Profit for the year	-	343	1,267	1,610
<b>Total comprehensive income</b>	<b>-</b>	<b>343</b>	<b>1,267</b>	<b>1,610</b>
<b>Total changes in equity</b>	<b>-</b>	<b>343</b>	<b>1,267</b>	<b>1,610</b>
<b>Equity, 31 December</b>	<b>10,045</b>	<b>1,807</b>	<b>14,135</b>	<b>25,986</b>
<b>2019</b>				
<b>Equity, 1 January</b>	<b>8,045</b>	<b>1,181</b>	<b>11,869</b>	<b>21,095</b>
Profit for the year	-	289	999	1,288
<b>Total comprehensive income</b>	<b>-</b>	<b>289</b>	<b>999</b>	<b>1,288</b>
Premium paid on acquisition of shares in subsidiary	-	(6)	-	(6)
Capital increase	2,000	-	-	2,000
<b>Total changes in equity</b>	<b>2,000</b>	<b>283</b>	<b>999</b>	<b>3,282</b>
<b>Equity, 31 December</b>	<b>10,045</b>	<b>1,464</b>	<b>12,868</b>	<b>24,377</b>

# CASH FLOW STATEMENT

DKK million

Nykredit Bank Group	2020	2019
<b>PROFIT FOR THE YEAR</b>	<b>1,630</b>	<b>1,288</b>
<b>Adjustments</b>		
Interest income, net	(1,547)	(1,545)
Amortisation and impairment charges for intangible assets	34	13
Other non-cash changes	32	68
Impairment charges for loans, advances and receivables etc	632	246
Tax on profit for the year	385	366
<b>Total</b>	<b>1,165</b>	<b>435</b>
<b>Change in operating capital</b>		
Loans, advances and other receivables	5,496	(16,296)
Deposits and other payables	1,800	4,931
Payables to credit institutions and central banks	(36,296)	30,518
Bonds	11,236	(697)
Equities etc	(13)	99
Other operating capital	1,931	(2,994)
<b>Total</b>	<b>(15,846)</b>	<b>15,561</b>
Interest income received	1,655	1,561
Interest expenses paid	(142)	(118)
Corporation tax paid, net	(453)	(318)
<b>Cash flows from the above operating activities</b>	<b>(13,621)</b>	<b>17,121</b>
<b>Cash flows from investing activities</b>		
Intangible assets	(93)	(1,864)
Property, plant and equipment	4	(42)
<b>Total</b>	<b>(89)</b>	<b>(1,906)</b>
<b>Cash flows from financing activities</b>		
Issuance of subordinated debt	-	2,000
Bonds in issue	1,532	(1,691)
Distributed dividend	(16)	-
<b>Total</b>	<b>1,516</b>	<b>309</b>
<b>Total cash flows for the year</b>	<b>(12,194)</b>	<b>15,524</b>
<b>Cash and cash equivalents, beginning of year:</b>	<b>33,528</b>	<b>17,909</b>
Foreign currency translation adjustment of cash	135	95
Total cash flows for the year	(12,194)	15,524
<b>Cash and cash equivalents, year-end</b>	<b>21,469</b>	<b>33,528</b>
<b>Cash and cash equivalents, year-end:</b>		
Cash balances and demand deposits with central banks	16,001	7,110
Receivables from credit institutions and central banks	5,468	26,418
<b>Total</b>	<b>21,469</b>	<b>33,528</b>

# NOTES

Nykredit Bank Group

1. Accounting policies	32	35. Provisions for deferred tax/deferred tax assets	81
1. a European Single Electronic Format	43	36. Other liabilities	82
2. Capital and capital adequacy	44	37. Provisions	82
3. Business areas	46	38. Subordinated debt	83
4. Reconciliation of internal and regulatory income statement	48	39. Off balance sheet items	83
5. Income	49	40. Related party transactions and balances	84
6. Net interest income etc and value adjustments	50	41. Fair value disclosures	86
7. Interest income	51	42. Offsetting	91
8. Interest expenses	52	43. Derivative financial instruments	92
9. Dividend on equities etc	53	44. Unsettled spot transactions	94
10. Fee and commission income	53	45. Repo transactions and reverse repurchase lending	95
11. Fee and commission expenses	53	46. Risk management	96
12. Value adjustments	53	47. Hedge accounting	108
13. Staff and administrative expenses	53	47. Hedge accounting (continued)	110
14. Depreciation, amortisation and impairment charges for tangible and intangible assets	57	48. Classification of financial assets and liabilities	111
15. Impairment charges for loans, advances and receivables etc (group)	58	49. Acquisition Of group enterprise and intangible assets	112
16. Impairment charges for loans, advances and receivables etc (parent)	66	50. Other information	113
17. Profit from investments in associates and group enterprises	71	51. Financial ratios, definitions	114
18. Tax	71	52. Five-year financial highlights	115
19. Cash balances and demand deposits with central banks	72	53. Group structure	119
20. Receivables from credit institutions and central banks	72		
21. Loans, advances and other receivables at amortised cost	73		
22. Bonds at fair value	74		
23. Bonds at amortised cost	75		
24. Equities etc	75		
25. Investments in associates and group enterprises	75		
26. Intangible assets	76		
27. Land and property	77		
28. Assets in temporary possession	79		
29. Other assets	79		
30. Payables to credit institutions and central banks	80		
31. Deposits and other payables	80		
32. Bonds in issue at amortised cost	80		
33. Other non-derivative financial liabilities at fair value	81		
34. Current tax assets and liabilities	81		

## 1. ACCOUNTING POLICIES

### GENERAL

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The Consolidated Financial Statements have furthermore been 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 Danish kroner (DKK), unless otherwise specified. The totals stated are calculated on the basis of actual figures prior to rounding. Due to the rounding-off to the nearest whole million Danish kroner, the sum of individual figures and the stated totals may differ slightly.

### SPECIAL CIRCUMSTANCES IN 2020

#### Covid-19

The covid-19 pandemic has impacted the Group's activities and consequently its financial reporting in a number of ways in 2020. The most significant impact on these Financial Statements derived from increased impairments based on stress tests etc given the uncertainty surrounding the covid-19 pandemic. This will be further specified in the Management Commentary as well as in "Significant accounting estimates" under accounting policies (page 33).

#### Sparinvest

Relative to the information provided in the Financial Statements for 2019, changes regarding intangible assets and deferred tax were implemented in 2020. The changes described in detail in note 49 did not affect profit for the year nor comprehensive income.

### CHANGE IN ACCOUNTING POLICIES, NEW AND AMENDED STANDARDS AND INTERPRETATIONS

#### *Amendments to IAS 39, IFRS 9 and IFRS 7 "Interest Rate Benchmark Reform" implemented as at 1 January 2020*

The amendments are aimed at mitigating the potential risks of "Hedge accounting" in the transition period until the new reference rates have been fully phased in. The amendments, which are described in detail in note 47, have increased our disclosure obligation but have not impacted profit for the year, comprehensive income, balance sheet or equity for 2020 and are expected to have a relatively insignificant impact on the Financial Statements once the new interest rate benchmark has been implemented.

#### *Amendments to IAS 1 and IAS 8 "Definition of Material" implemented as at 1 January 2020*

The amendments clarify when information is material in relation to the decision-making of users of financial statements. The amendments have not impacted the financial reporting.

#### *Amendments to IFRS 3 "Business combinations" implemented as at 1 January 2020*

The amendment is to further determine whether a transaction implies the acquisition of an asset or a group of assets that does not constitute a business. The amendment does not affect profit for the year, comprehensive income, balance sheet or equity.

#### *Amendment to IFRS 16 "Leases" implemented as at 1 June 2020*

The amendment concerns the accounting treatment of the lessee's covid-19-related lease payment holidays. The amendment will take effect on 1 January 2021 but has been implemented already in 2020. The amendment has not impacted the Financial Statements.

#### **Other general comments on accounting policies**

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.

Apart from the above, the Group's accounting policies are otherwise unchanged compared with the Annual Report for 2019.

### 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 2020:

IFRS 17 "Insurance Contracts" (approved for use in the EU, effective from 1 January 2021).

In addition, a number of minor amendments, including "Interest Rate Benchmark Reform" in phase 2 (IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16) as well as IFRS 3, IFRS 16 and IAS 37 and annual improvements 2018-2020 have not yet taken effect or are pending EU approval.

The above is not expected to significantly impact Nykredit's financial reporting.



## SIGNIFICANT ACCOUNTING ESTIMATES AND ASSESSMENTS

### Significant assessments

As part of determining the accounting policies, Management makes a number of assessments that may affect the Financial Statements. Significant assessments include:

Assessment of the time of recognition and derecognition of financial instruments and assessment of the business models which form the basis for classification of financial assets, including whether the contractual cash flows of a financial asset represent solely payments of principal and interest.

### Significant accounting estimates

The preparation of the Financial Statements involves the use of qualified accounting estimates. These estimates and assessments are made by Management in accordance with accounting policies and 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

Value adjustment of financial assets and liabilities measured at fair value is based on officially listed prices. For financial instruments for which no listed prices in an active market or observable data are available, the valuation implies the use of significant estimates and assessments in connection with the choice of credit spread, maturity and extrapolation etc of each instrument.

The covid-19 pandemic led to significant volatility in fixed income markets particularly in Q1 and therefore also increased complexity in determining the market value of especially interest rate swaps. Market conditions normalised somewhat in the subsequent quarters of 2020, and the uncertainty at end-2020 was more or less at a normalised level.

Note 41 specifies the methods applied to determine the carrying amounts and the specific uncertainties related to the fair value measurement of financial instruments.

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. The valuation of unlisted derivative financial instruments changes continuously, and the Bank monitors market practice closely 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. Market practice for the valuation of unlisted derivatives moreover includes increasing use of market inputs in the valuation, including Credit

Valuation Adjustment (CVA). For further details, please refer to note 41. The fair value of unlisted derivative financial instruments was 11,1% of the Group's assets at end-2020 (9.3% at end-2019).

Measured on the basis of level 2 or level 3 inputs of the fair value hierarchy, the fair value of financial assets and liabilities was 26,7% and 0,1%, respectively, of the Group's balance sheet total at end-2020 for financial assets (20.3% and 0.5% at end-2019), and 9,2% and 0,0%, respectively, for financial liabilities (7.9% and 0.0% at end-2019).

The fair value of financial instruments for which no listed prices in an active market are available accounted for 26,8% of the Group's assets at end-2020 (20,7% at end-2019).

### Measurement of loans and advances etc – impairments

#### Covid-19 – special circumstances

The covid-19 pandemic has impacted both the Company's operations and use of accounting estimates in 2020, and there is still substantial uncertainty about the impact of the covid-19 pandemic. The Nykredit Bank Group has still not seen any significant rise in write-offs, but the pandemic is expected to have a material impact on future individual impairment provisions.

As a result of the pandemic, the authorities, including the EBA, ESMA and the Danish FSA, have issued guidelines on eg how lending on more lenient terms and/or temporary breach of loan terms exclusively as a consequence of the pandemic under certain circumstances can be treated within the scope of the IFRS and the Danish Executive Order on Financial Reports without immediately resulting in a significant deterioration of the creditworthiness of the customer and an increased impairment need. According to the guidelines, financial statements must still give a true and fair view, and impairments must reflect the expected credit losses, but the guidelines also allow for impairment provisions related to such credit facilities etc to be made on more lenient terms. In the assessment of expected credit losses, the current situation and the economic outlook must be taken into consideration. The economic outlook is reflected in the classification into stages by weighting together macroeconomic scenario stresses based on probabilities of default.

Loan impairments related to covid-19 are comprised of different components based on the model adjustments below:

- a. stress simulations have been performed for the personal customer segment and the following business sectors: manufacturing, accommodation and food service, retail, arts, entertainment and recreation activities, transport, construction, and sale and repair of motor vehicles, some professionals as well as business rental.
- b. the property values of stage 3 customers have been stressed to simulate a reduction in collateral values and the impact on impairment levels.
- c. the macroeconomic scenarios have been updated to allow for the covid-19 impact, including mitigating relief packages. The probability of an adverse scenario has increased. The uncertainty about the pandemic makes it difficult to estimate a risk scenario – therefore Nykredit applies ICAAP scenarios to model the stressed scenario. This specifically involves a scenario with increasing interest rates.

Model-based impairments must still be determined using the most likely scenario and an adverse or improved scenario. Due to the economic outlook resulting from covid-19, the macroeconomic scenarios used for the determination of impairments have been changed to reflect the current situation. The amendments are described in detail in "Stage 1 and stage 2 impairments" on page 35.

Nykredit Bank has offered our customers a number of solutions to cushion the impact of covid-19. The solutions include wider access to temporary overdrafts and payment holidays. For accounting purposes, these solutions reflect special loan options and not lending granted on relaxed terms. Accordingly, no additional impairment provisions have been made for such credit facilities, where they were offered to creditworthy (high-rated) customers in accordance with the new guidelines. For credit facilities etc provided to low-rated customers, impairment provisions have been made in line with usual practice. Nykredit closely monitors the development in losses on customers who have been granted special covid-19 loans, regularly assessing whether the impairments reflect such development.

At end-2020 Nykredit Bank had made loan impairment provisions of DKK 553 million as a consequence of covid-19. The provisions are based on stress tests and portfolio calculations. Covid-19-induced write-offs are low. This situation is monitored by Nykredit's scenario expert team, which regularly assesses the need for calculation updates based on input concerning relief packages, support schemes and global economic trends.

Covid-19-induced impairments are based on increased probability of loss and default on credit facilities and customers at stage 1, 2 and 3. Add to this the effect of reduced collateral values.

### **Impairment – in general**

Credit risk reflects the risk of loss resulting from the Bank's counterparties defaulting on their obligations. The determination of credit risk relates to loans and advances without (stage 1) or with significant increase (stage 2) in credit risk and impaired loans and advances (stage 3).

In addition to balances with credit institutions as well as loans, advances and provisions, impairment calculations also include provisions for guarantees and unutilised credit commitments.

The determination of impairment of loans and advances etc involves significant estimates and assessments, including determining whether a significant increase in credit risk has occurred since initial recognition. 12-month expected credit losses are initially recognised for loans and advances measured at amortised cost. A non-significant increase will subsequently imply higher 12-month expected credit losses, while a significant increase in the credit risk or impairment of a loan will imply calculation of expected credit losses corresponding to lifetime expected credit losses.

Add to this that the loss determination also depends on the value of collateral security received and expected payments from customers and dividend in liquidation from estates in bankruptcy, where measurement is subject to a number of estimates. Similarly, the determination of the period in which the cash flows are received involves significant estimates.

In a number of instances, the model-based impairment provisions, primarily in stages 1 and 2, 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. This estimate is made by managers and staff with in-depth knowledge of the credits area. .

The underlying reasons, for example changes in agricultural settlement prices due to changed economic trends and/or changed export potential as well as financial and legal conditions in the real estate sector, may affect credit risk beyond the result derived on the basis of model-based impairments. The estimates are adjusted and evaluated on a regular basis.

### **RECOGNITION, CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS**

Financial instruments, including loans, advances and receivables, bonds in issue and other debt as well as derivative financial instruments represent more than 95% of the Group's assets as well as liabilities (95% at end-2019).

#### **Recognition of financial instruments**

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 at the time of recognition. 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 related to the origination of financial assets or liabilities.

#### **Classification and measurement of financial instruments**

Valuation principles and classification of financial instruments are described below as well as in note 41.

#### **Financial assets are classified as follows:**

- The asset is held to collect cash flows from payments of principal and interest (hold to collect business model). Measured at amortised cost after initial recognition.
- The asset is held to collect cash flows from payments of principal and interest and sell 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. The Group had no financial instruments in this category in 2019 and 2020.

- Other financial assets are measured at fair value through profit or loss. These include assets managed on a fair value basis or held in the trading book, or assets which have contractual cash flows that are not solely payments of principal and interest on the amount outstanding, including derivative financial instruments. It is also possible to measure financial assets at fair value with value adjustment through profit or loss, when such measurement significantly reduces or eliminates an accounting mismatch that would otherwise have occurred on measurement of assets and liabilities or recognition of losses and gains on different bases.

For the first two categories, it is a condition that the objective of the business model is to hold assets to collect contractual cash flows representing payments of principal and interest etc combined with limited sales activity.

If this is not the objective of the business model, the financial assets will be placed in a category, which is subject to fair value adjustment through profit or loss. Financial assets, which, if measured at amortised cost would result in a measurement mismatch, are also recognised in this category.

The Group's financial assets and business models are continuously reviewed to ensure correct classification thereof. The review includes an assessment of whether collecting cash flows is a significant element of holding the assets, including whether the cash flows represent solely payments of principal and interest.

This assessment is based on the assumption that ordinary rights to prepay loans and/or extend loan terms fulfil the condition that the cash flows are based on collection of interest and principal payments. Some product types are subject to daily interest rate adjustment, but with an interest rate fixing based on a longer time horizon. However, this is not assessed to significantly postpone the time value of the money in the currently low interest rate environment.

Generally, financial liabilities are measured at amortised cost after initial recognition. 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, and when measurement at fair value reduces or eliminates an accounting mismatch.

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

Receivables from and payables to credit institutions and central banks, the Group's bank lending, part of the bond portfolio, 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, bonds and receivables as well as liabilities are measured at fair value on initial recognition inclusive or exclusive of the inherent transaction costs, and subsequently at amortised cost. For loans, advances and receivables etc, amortised cost equals cost less principal payments, impairment provisions for losses and other accounting adjustments, including amortisation of 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 amortised cost of the asset is added to or deducted from the fair value of the hedged interest rate risk.

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

## ***Financial assets and liabilities measured at fair value through profit or loss***

A financial asset or a financial liability is attributable to this category

- if the asset is not held within a business model whose objective is to hold assets to collect cash flows representing payments of principal and interest and which has limited sales activity
- if measurement of the asset or liability at amortised cost would result in a measurement mismatch.

Equity and bond portfolios are generally measured at fair value through profit or loss. The business model behind the bond 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. A part of the Group's bond portfolio is measured at amortised cost.

Derivative financial instruments (derivatives), which are assets or liabilities, are measured at fair value through profit or loss. In Nykredit Bank, hedging interest rate risk (hedge accounting) is still made according to the IAS 39 rules, in part as IFRS 9 does not yet comprise provisions on macro hedging.

Positive and negative fair values of derivative financial instruments are recognised in "Other assets" or "Other liabilities".

Please also see note 41.

Realised and unrealised gains and losses arising from changes in the fair value are recognised in "Value adjustments" through profit or loss for the period in which they arose. Value adjustment of mortgage loans attributable to credit risk is recognised in "Impairment charges for loans, advances and receivables etc" together with other impairment charges for loans and advances and provisions for guarantees.

## ***Impairment charges for loans, advances and receivables***

Impairments corresponding to expected credit losses are placed in stages, which reflect the changes in credit risk since initial recognition.

- Stage 1 covers loans and advances etc without significant increase in credit risk since initial recognition. For this category, impairment provisions at initial recognition are made corresponding to the expected credit losses over a period of 12 months for lending at amortised cost. If there is an insignificant change in credit risk, the impairment provisions will be adjusted but kept in stage 1.
- Stage 2 covers loans and advances etc 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.

Impairment calculations are based on continuous development of existing methods and models for impairment, taking into account forward-looking information and scenarios.

The definition of default is dictated by a customer's financial position and payment behaviour. An exposure is considered to be in default when a customer is in arrears with a significant amount at the time when a third reminder is sent, which will occur sooner than the rule of assumption of 90 days under the accounting rules. Exposures for which individual impairment provisions have been made or a direct loss has been incurred are also considered in default.

In expected credit loss calculations, the time-to-maturity corresponds at a maximum to the contractual maturity, as adjustments are made for expected prepayments, as required. Nevertheless, for credit-impaired financial assets, the determination of expected losses should be based on contractual maturity.

Group Credits is responsible for these processes and calculations. In addition, the Group's Capital, Risk and Finance units also participate as stakeholders co-ordinating and performing the determination and presentation of impairment for accounting purposes. The procedures and calculations are widely based on the Group's risk models.

## Stage 1 and stage 2 impairments

Model-based impairment in stages 1 and 2 is based on transformations of PD and LGD values to short term (12 months) or long term (remaining life 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 appropriate loss ratios.

A key element of the determination of impairment is establishing when a financial asset should be transferred from stage 1 to stage 2. The following principles apply:

- For assets/facilities with 12-month PD <1% at the time of granting: Increased PD for expected time-to-maturity of the financial asset of 100% and an increase in 12-month PD of 0.5 percentage points
- For assets/facilities with 12-month PD >1% at the time of granting: Increased PD for expected time-to-maturity of the financial asset of 100% or an increase in 12-month PD of 2.0 percentage points
- The Group considers that a significant increase in credit risk has occurred no later than when an asset is more than 30 days past due, unless special circumstances apply.

In stages 1 and 2, impairments are based on a number of potential outcomes (scenarios) of a customer's financial situation. In addition to past experience, the models should reflect current conditions and future outlook at the balance sheet date. The inclusion of scenarios must be probability-weighted and unbiased.

The choice of macroeconomic scenarios is significant to total impairments which are very sensitive to choice of scenarios and probability-weights.

Generally, three scenarios apply:

- main scenario reflecting Nykredit's best estimate (base scenario)
- adverse scenario reflecting higher expected credit losses than the main scenario
- improved scenario with lower expected credit losses than the main scenario to cover an appropriate potential loss outcome based on Nykredit's best estimate.

Nykredit has updated the scenarios in 2020. The base scenario was updated to reflect the economic environment, including the effect of covid-19 relief packages, taking into account the societal and economic effects of coronavirus flare-ups and increased lockdown measures. The base scenario carries a 55% weighting. The scenario implies expected GDP growth of 3.4% (2020: -3.8%) and house price rises of 2% in 2021. The adverse scenario was included in the models with a weighting of 35%. The scenario implies expected GDP growth of 1.0% and house price declines of 3% in 2021. The improved base scenario carries a 10% weighting and is based on the macroeconomic conditions observed at the date of this Annual Report. This scenario uses realised levels of interest rates, GDP, house prices and unemployment.

The adverse macroeconomic scenario is aligned with the assumptions of eg interest rates and property prices also used to determine the internal capital adequacy requirement.

There is still substantial uncertainty about the impact of the pandemic despite the relief packages from the Danish government and banks.

## Stage 3 impairment

Nykredit Bank makes continuous individual reviews and performs risk assessments of significant loans, advances and receivables to determine whether these are impaired.

Stage 3 includes loans and advances etc where observations indicate that the asset is impaired. Most often, this is where

- borrowers are experiencing considerable financial difficulties owing to eg changes in income, capital and wealth, leading to the assumption that the customers are unable to fulfil their obligations
- borrowers fail to meet their payment obligations or default on an obligation
- there is an increased probability of the borrowers' bankruptcy, or borrowers are offered more lenient contractual terms (for example, interest rate and loan term) due to deterioration in the borrowers' financial circumstances.

Relative to large stage 3 exposures, credit officers perform an individual assessment of scenarios as well as changes to credit losses etc. Relative to small stage 3 exposures, the credit loss is determined using a portfolio model according to the same principles as are used in an individual assessment.

Furthermore, model-based impairment is subject to management judgement.

## Differences between stages due to credit improvements

When the criteria for migration between stages due to increased credit risk or credit impairment are no longer present, impairment provisions will be reversed to the initial stages.

From stage 2 to stage 1 this could happen if the change in PD and/or arrears fails to meet the criteria described above.

The same applies to impairment provisions in stage 3, which will be transferred to stage 2 if the conditions for credit impairment no longer apply.

## **Provisions in general**

Provisions for loan impairment and receivables are taken to an allowance account and deducted from the relevant asset items. Similarly, provisions for guarantees and unutilised credit commitments are made under liabilities and equity.

Provisions for expected credit losses equal the difference between the present value of the contractual payments and an amount, which, based on eg scenario assessments and the time value of money, constitutes the expected cash flows.

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 etc".

Where events subsequently occur showing a partial or complete impairment reduction, impairment provisions are reversed accordingly.

The Group amortises/depreciates a financial asset when reliable information indicates that the debtor is in serious financial difficulty and collection seems unrealistic. Financial assets amortised/depreciated may still be subject to the enforcement activities of the Group's collection procedures, taking into consideration any legal advice. Any collection is recognised in profit or loss. Personal liability claims are pursued in collaboration with an external business partner.

## **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 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**

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. Please also refer to note 47 on "Hedge accounting".

### **Offsetting**

Financial assets and liabilities are offset and presented as a net amount 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. Impairments are offset against the relevant assets (loans, advances and receivables etc as well as bonds).

### **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.

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

The Consolidated Financial Statements are prepared on the basis of the financial statements of the individual enterprises by combining items of a uniform nature. The financial statements applied for the consolidation are prepared in accordance with the Group's accounting policies. The financial statements of partly owned subsidiaries are fully consolidated, and minority interests' share of the Group's profit or loss and equity is stated as separate items in the income statement and under Group equity, respectively. 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.

### **Segment information and presentation of financial highlights**

Segment information is provided for business areas, and income and assets relating to foreign activities are specified. Apart from activities related to Sparinvest SE, Luxembourg, Nykredit Bank has no significant activities outside Denmark.

The income statement format of the financial highlights on page 3 and the business areas in note 3 reflect the internal management reporting presented to and evaluated by Management of the Nykredit Realkredit Group. Management does not perform separate assessments of the banking part of the business areas. The reclassification in note 4 shows the reconciliation between the presentation in the financial highlights table of the Management Commentary and the presentation in the Consolidated Financial Statements prepared according to the IFRS and includes:

"Net interest income" comprising interest income from bank lending and deposits. The corresponding item in the income statement (page 24) includes all interest.

"Net fee income" comprising income from bank lending, service fees, provision of guarantees and leasing business etc.

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

"Net interest from capitalisation" comprising the risk-free interest attributable to equity and net interest from subordinated debt etc. Net interest is composed of the interest expenses related to debt, adjusted for the internal liquidity interest. "Trading, investment portfolio and other income" comprising income from swaps and derivatives transactions currently offered, Nykredit Markets activities, repo deposits and lending, debt capital markets activities as well as other income and expenses not allocated to the business areas.

"Net income relating to customer benefits programmes" comprising bonuses paid to the customers. The amount includes contributions received. The change is aimed at presenting the earnings of the individual business areas excluding the impact of the customer benefits programmes while also presenting the impact on income of the programmes in a separate item. In the financial highlights and the presentation of business areas (note 3) the change reclassifies net income from "Net interest income" to "Net income relating to customer benefits programmes". The change will not impact total income or total results. The income statement and balance sheet on pages 25-27 have not been impacted by the change.

Business areas are defined on the basis of differences in customer segments and services. Items not allocated to the business areas are included in Group Items.

Segment information is provided exclusively at Group level.

## Currency

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

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction date. Exchange gains and

losses arising on the settlement of these transactions are recognised in "Value adjustments" through profit or loss.

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 "Value adjustments" through profit or loss.

Currency translation differences arising on translation of non-monetary assets and liabilities are recognised in the income statement together with other fair value adjustment of the relevant items.

The financial statements of foreign entities are translated into Danish kroner at the exchange rates prevailing on the balance sheet date with respect to balance sheet items and at average exchange rates with respect to income statement items.

## Repo transactions and reverse repurchase lending

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

The amount received is recognised under payables in "Payables to credit institutions and central banks" or "Deposits and other payables".

Payment paid for securities acquired as part of reverse repurchase lending is recognised in "Receivables from credit institutions and central banks" or "Loans, advances and other receivables at amortised cost".

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

Repo deposits from and reverse repurchase lending to customers and credit institutions are recognised and measured at amortised cost, and the return is recognised as interest income and interest expenses in the income statement.



## Leases

Leases where Nykredit is the lessor are classified as finance leases when all material risk and returns associated with the title to an asset have been transferred to the lessee.

Receivables from the lessee under finance leases are included in "Loans, advances and other receivables at amortised cost". On initial recognition, receivables under finance leases are measured at an amount equal to the net investment in the lease. Lease payments receivable are recognised in "Interest income" calculated as a return on the lease receivable or as principal of the lease receivable, respectively.

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

Leases where the Group is the lessee include primarily leases (owner-occupied properties), which are recognised in the balance sheet as right-of-use assets (leasehold premises) as well as liabilities arising from those leases. The asset is depreciated over the course of its useful life, and the lease liability will be reduced by the principal amount, which is determined as the lease payments less the interest portion of the lease liability.

The lease term used to determine the rental obligation corresponds to the period in which the Group as lessee has the right to, and expects to, use the underlying assets. The assessment is made at portfolio basis with a rental period of 7 years on average for leases which have not been terminated. For leases which have been terminated or are expected to be terminated, the period reflects the remaining lease term.

The present value of the liability has been calculated using a discount rate equal to a risk-free swap rate and a Nykredit-specific credit risk charge which matches the loan term.

The calculated interest on the liability is included in the income statement in "Interest expenses", while depreciation/amortisation is included in "Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets". The value of the leased asset is recognised in "Land and buildings", while the liability is included in the liability item "Other liabilities".

## Business combinations

On acquisition of new enterprises where control is obtained over the acquired enterprise, the purchase method is applied. The profit and balance sheet of the acquired enterprise will be recognised in the financial statements as from the date of acquisition.

The balance sheet of the acquired enterprise is recognised at fair value as from the date of acquisition. The difference between the fair value of the net assets acquired and the purchase sum is as far as possible recognised as separable intangible assets, for example customer relations etc, while the remaining value is considered as goodwill.

Please refer to note 49 and 26.

## INCOME STATEMENT

### Interest income and expenses etc

Interest comprises interest due and accrued up to the balance sheet date.

Interest income comprises interest and interest-like income, including interest-like commission received, and other income that forms an integral part of the effective interest of the underlying instruments. The item also includes interest payable or deductible relating to voluntary payment of tax on account and paid tax as well as index premiums on assets, forward premiums 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 loans and advances measured at amortised cost for which stage 3 impairment is made is included in "Interest income" at an amount reflecting the effective interest from 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 all interest-like expenses including adjustment over the life of financial liabilities measured at amortised cost and where the cost differs from the redemption price.

### Negative interest

Negative interest income is recognised in "negative Interest income", and negative interest expenses are recognised in "negative Interest expenses". Negative interest is specified in a note.

### Dividend

Dividend from equity investments is recognised as income in the income statement in the period 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 under leasing activities as well as gain on the sale of non-current assets.

### 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.

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.

Based on the balance sheet liability method, deferred tax on all temporary differences between the carrying amounts and the tax base of an asset or liability is recognised.

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

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

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

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

## 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 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 recognised at cost on initial recognition in the balance sheet and subsequently at cost less accumulated impairments. Goodwill is not amortised.

Goodwill is tested for impairment once a year and is written down to the recoverable amount through profit or loss, if this is lower than the carrying amount. The recoverable amount is calculated as the present value of the future net cash flows expected from the cash-generating units to which the goodwill relates. Identification of cash-generating units is based on the management structure and the way the units are managed financially.

Goodwill impairment is reported in the income statement and is not reversed.

Impairment testing and the assumptions used for testing are described in note 26.

#### Other intangible assets

Customer relationships etc 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 7 years.



## Land and buildings including leased properties

### *Owner-occupied properties*

Owner-occupied properties where the Group acts as lessee, are described under "Leases".

### **Equipment**

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

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

- Computer equipment and machinery etc up to five years
- Fixtures, equipment and cars up to five years
- Leasehold improvements; maximum term of the lease is 15 years.

The assets' residual values and useful lives are reviewed 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 etc" 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.

## 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 etc*

Provisions for losses under guarantees and unutilised credit commitments etc are recognised applying the same principles as are used for impairment charges for loans, advances and receivables. Reference is made to the preceding paragraph.

### **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 measured at fair value is attached to bonds in issue, the bonds that are hedged by means of the derivative financial instrument will be subject to regular value adjustment. This way, the value adjustment of the hedged instrument and the hedging derivative financial instrument is made symmetrically.

### **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 is subject to Nykredit's compliance with the capital requirements applying to the Company and the Group.

### Proposed dividend

Dividend expected to be distributed for the year is carried as a separate item in equity. Proposed dividend is recognised as a liability at the time of adoption at the Annual General Meeting (time of declaration).

### Minority interests

Minority interests comprise the share of a subsidiary's equity owned by other parties than the Group companies.

## 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. (the Danish Executive Order on Financial Reports).

In all material respects, these rules comply with the International Financial Reporting Standards (IFRS) and the Group's accounting policies as described above.

### Amendments to the Danish Executive Order on Financial Reports

Relative to the "Accounting policies" in the Financial Statements for 2019, no amendments to the Danish Executive order on Financial Reports have been adopted in 2020 which affect our accounting policies.

### Investments in Group enterprises etc

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. Any positive difference between the total cost of investments in Group enterprises and the fair value of the net assets at the time of acquisition is recognised as goodwill in "Intangible assets" in the balance sheet.

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

## 1. A EUROPEAN SINGLE ELECTRONIC FORMAT

EU Regulation 2019/815 on the European Single Electronic Format (ESEF Regulation) requires companies preparing IFRS financial statements and being issuers of listed securities to make public financial reports for 2020 approved by the board of directors in the ESEF format. However, due to the covid-19 pandemic, the authorities in 2020 permitted companies to delay the application of ESEF requirements until 2022 (annual report for 2021). Nykredit Bank has chosen to publish its annual report for 2020 in the ESEF format.

Implementation of the new format has not given rise to material changes to the Group's annual report and does not affect the Group's accounting policies, see note 1. The ESEF format is a technical format enabling users of financial statements to read financial statements using a browser in Extensible Hypertext Markup Language (XHTML) and to digitally extract information from the financial statements in eXtensible Business Reporting Language (XBRL). In the Financial Statements for 2020, the following items of the Consolidated Financial Statements have iXBRL tags reflecting the ESEF taxonomy for 2019, issued by the European Securities and Markets Authority (ESMA):

- Items in income statement and other comprehensive income
- Items in balance sheet
- Statement of changes in equity
- Cash flow statement

The notes of the financial statements will not be tagged until 2022 (the Annual Report for 2021) pursuant to current regulations.

The mark-up is made initially based on an assessment of each item's alignment with the ESMA taxonomy, which observes the IASB's IFRS taxonomy, followed by mark-ups relative to the element in the taxonomy most relevant to the presentation and assessment of the individual items.

The requirement to mark up information applies only to items on a consolidated basis and therefore items at Parent level are not marked up.

The Financial Statements are published with the following file name: NYRB-2020-12-31.

# NOTES

			DKK million	
Nykredit Bank A/S			Nykredit Bank Group	
2019	2020		2020	2019
<b>2. CAPITAL AND CAPITAL ADEQUACY</b>				
<b>24,377</b>	<b>25,986</b>	<b>Equity</b>	<b>26,082</b>	<b>24,434</b>
-	-	Minority interests not included	(96)	(57)
(30)	(18)	Prudent valuation adjustment	(18)	(30)
(1,700)	(1,770)	Intangible assets excluding deferred tax liabilities	(1,932)	(1,868)
(41)	(18)	Provisions for expected credit losses in accordance with IRB approach	(18)	(41)
-	-	Other regulatory adjustments	49	35
<b>(1,771)</b>	<b>(1,805)</b>	<b>Common Equity Tier 1 regulatory deductions</b>	<b>(2,015)</b>	<b>(1,961)</b>
<b>22,605</b>	<b>24,181</b>	<b>Common Equity Tier 1 capital</b>	<b>24,068</b>	<b>22,473</b>
-	-	Minority interests	9	7
-	-	<b>Total Additional Tier 1 capital after regulatory deductions</b>	<b>9</b>	<b>7</b>
<b>22,605</b>	<b>24,181</b>	<b>Tier 1 capital</b>	<b>24,077</b>	<b>22,480</b>
2,000	2,000	Tier 2 capital	2,000	2,000
307	565	Tier 2 regulatory adjustments	524	307
-	-	Minority interests	6	4
<b>24,913</b>	<b>26,746</b>	<b>Own funds</b>	<b>26,606</b>	<b>24,791</b>
107,120	102,909	Credit risk	94,005	99,211
11,227	12,760	Market risk	12,884	11,319
7,180	7,919	Operational risk	10,052	8,143
<b>125,527</b>	<b>123,587</b>	<b>Total risk exposure amount</b>	<b>116,941</b>	<b>118,672</b>
<b>Financial ratios</b>				
18.0	19.5	Common Equity Tier 1 capital ratio, %	20.5	18.9
18.0	19.5	Tier 1 capital ratio, %	20.5	18.9
19.8	21.6	Total capital ratio, %	22.7	20.8

Capital and capital adequacy have been determined in accordance with Capital Requirements Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) and Regulation (EU) No 876/2019 amending Regulation (EU) No 575/2013 of 20 May 2019 (CRR2).

Nykredit has been designated as a systemically important financial institution (SIFI) by the Danish authorities. As a result, a special SIFI CET1 capital buffer requirement of 2% applies to Nykredit Bank. To this should be added the permanent buffer requirement of 2.5% in Denmark which must also be met with Common Equity Tier 1 capital. The countercyclical buffer is currently 0%.

## 2. CAPITAL AND CAPITAL ADEQUACY (CONTINUED)

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.

### 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 as well as in the continuous capital planning.

The stress test calculations include the macroeconomic factors of greatest importance historically to the customers.

The most important macroeconomic factors identified are:

- Property prices
- Interest rates
- Unemployment
- GDP growth

Nykredit Bank operates with three scenarios of the economic development: A baseline scenario, a weaker economic climate and a severe recession.

In a weaker economic climate, the capital requirement for credit risk builds on correlations between the macroeconomic factors, the Probability of Default (PD) and Loss Given 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: Weaker economic climate

The stress scenario is designed to illustrate a slightly weaker economic climate relative to the baseline scenario. The capital charge reflects how much the capital requirement would increase if this scenario occurred. The results are included in the determination of the internal capital adequacy requirement.

The capital charge for a weaker economic climate came to DKK 980 million at end-2020.

### Stress scenario: Severe recession

A central element of Nykredit's capital policy is to have sufficient own funds, also in the long term and in a severe recession. Nykredit continually calculates the impact of severe recession combined with declining and falling interest rates. The stress scenario reflects an unusual, but not unlikely, situation. The calculations are factored into the current assessments of capital targets going forward.

# NOTES

DKK million

Nykredit Bank Group

## 3. BUSINESS AREAS

The business areas reflect Nykredit's organisation and internal reporting. Banking includes: Retail, which serves personal customers and SMEs (small and medium-sized enterprises). It also includes Corporates & Institutions, comprising activities with corporate and institutional clients, securities trading and derivatives trading. Wealth Management comprises wealth and asset management activities. Please refer to the Management Commentary. In Q2/2020 changes were made to the business areas Business Banking and Corporates & Institutions. Comparative figures have been restated accordingly.

The presentation is based on the segments used for the internal management reporting.

	Personal Banking	Business Banking	Total Retail	Corporates & Institutions	Total Banking	Wealth Management	Group Items	Total
<b>Results</b>								
<b>2020</b>								
<b>Results by business area</b>								
Net interest income	370	667	1,037	564	1,601	92	17	1,711
Net fee income	133	157	290	254	544	11	(34)	521
Wealth management income	397	136	534	131	665	1,261	24	1,950
Net interest from capitalisation	(16)	(42)	(58)	(54)	(112)	(7)	90	(29)
Net income relating to customer benefits programmes <sup>1</sup>	-	-	-	-	-	-	276	276
Trading, investment portfolio and other income	122	69	191	427	618	74	(58)	634
<b>Income</b>	<b>1,006</b>	<b>987</b>	<b>1,993</b>	<b>1,322</b>	<b>3,316</b>	<b>1,432</b>	<b>315</b>	<b>5,063</b>
Costs	833	403	1,235	560	1,795	877	55	2,727
<b>Business profit before impairment charges</b>	<b>173</b>	<b>585</b>	<b>758</b>	<b>763</b>	<b>1,520</b>	<b>555</b>	<b>260</b>	<b>2,336</b>
Impairment charges for loans and advances	(45)	496	452	73	525	62	(8)	579
<b>Business profit</b>	<b>218</b>	<b>88</b>	<b>306</b>	<b>689</b>	<b>995</b>	<b>493</b>	<b>269</b>	<b>1,757</b>
Legacy derivatives	(3)	53	50	207	258	0	-	258
<b>Profit (loss) before tax</b>	<b>215</b>	<b>141</b>	<b>356</b>	<b>896</b>	<b>1,253</b>	<b>493</b>	<b>269</b>	<b>2,015</b>
Of which transactions between the business areas	385	146	531	(341)	190	(346)	156	-
Average allocated business capital	2,566	6,150	8,716	8,045	16,761	988	1,076	18,825
Business profit as % of average business capital	8.5	1.4	3.5	8.6	5.9	49.9		9.3
<b>BALANCE SHEET</b>								
<b>Assets</b>								
Reverse repurchase lending at amortised cost	-	-	-	-	-	-	37,271	37,271
Loans and advances at amortised cost	11,287	23,779	35,066	32,355	67,420	3,561	164	71,146
<b>Assets by business area</b>	<b>11,287</b>	<b>23,779</b>	<b>35,066</b>	<b>32,355</b>	<b>67,420</b>	<b>3,561</b>	<b>37,436</b>	<b>108,417</b>
Unallocated assets								89,772
<b>Total assets</b>								<b>198,189</b>
<b>Liabilities and equity</b>								
Repo deposits at amortised cost	-	-	-	-	-	-	2,674	2,674
Deposits and other payables at amortised cost	38,938	24,645	63,582	8,843	72,425	14,649	1,195	88,269
<b>Liabilities by business area</b>	<b>38,938</b>	<b>24,645</b>	<b>63,582</b>	<b>8,843</b>	<b>72,425</b>	<b>14,649</b>	<b>3,869</b>	<b>90,943</b>
Unallocated liabilities								81,164
Equity								26,082
<b>Total liabilities and equity</b>								<b>198,189</b>

<sup>1</sup> The item comprises contributions and discounts relating to Nykredit's benefits programmes, see "Alternative performance measures".

## Geographical markets

International income came to DKK 267 million (2019: DKK 74 million). The international. The international income comprises from investment activities in Sparinvest Holdings SE in Luxembourg.

# NOTES

DKK million

## Nykredit Bank Group

### 3. BUSINESS AREAS (CONTINUED)

	Personal Banking	Business Banking	Total Retail	Corporates & Institutions	Total Banking	Wealth Management	Group Items	Total
<b>Results</b>								
<b>2019</b>								
<b>Results by business area</b>								
Net interest income	344	622	966	488	1,454	50	15	1,520
Net fee income	155	163	318	228	546	19	(27)	538
Wealth management income	346	143	490	124	614	984	12	1,610
Net interest from capitalisation	(20)	(49)	(68)	(56)	(124)	(8)	104	(28)
Net income relating to customer benefits programmes <sup>1</sup>	-	-	-	-	-	-	(9)	(9)
Trading, investment portfolio and other income	85	139	225	425	650	61	8	720
<b>Income</b>	<b>911</b>	<b>1,019</b>	<b>1,930</b>	<b>1,210</b>	<b>3,140</b>	<b>1,106</b>	<b>104</b>	<b>4,350</b>
Costs	760	400	1,160	468	1,628	642	105	2,375
<b>Business profit (loss) before impairment charges</b>	<b>150</b>	<b>620</b>	<b>770</b>	<b>741</b>	<b>1,511</b>	<b>464</b>	<b>(1)</b>	<b>1,975</b>
Impairment charges for loans and advances	15	194	209	(4)	205	0	5	210
<b>Business profit (loss)</b>	<b>136</b>	<b>426</b>	<b>561</b>	<b>745</b>	<b>1,306</b>	<b>464</b>	<b>(6)</b>	<b>1,765</b>
Legacy derivatives	(1)	(92)	(92)	(21)	(113)	0	-	(112)
<b>Profit (loss) before tax</b>	<b>135</b>	<b>334</b>	<b>469</b>	<b>725</b>	<b>1,194</b>	<b>465</b>	<b>(6)</b>	<b>1,653</b>
Of which transactions between the business areas	319	66	384	(298)	86	(416)	330	0
Average allocated business capital	2,697	6,660	9,357	7,494	16,851	975	1,162	18,988
Business profit (loss) as % of average business capital	5.0	6.4	6.0	9.9	7.8	47.6	-	9.3

### BALANCE SHEET

#### Assets

Reverse repurchase lending at amortised cost	-	-	-	-	-	-	48,749	48,749
Loans and advances at amortised cost	11,686	23,938	35,623	25,794	61,418	3,943	106	65,466
<b>Assets by business area</b>	<b>11,686</b>	<b>23,938</b>	<b>35,623</b>	<b>25,794</b>	<b>61,418</b>	<b>3,943</b>	<b>48,854</b>	<b>114,215</b>
Unallocated assets								112,313
<b>Total assets</b>								<b>226,528</b>

#### Liabilities and equity

Repo deposits at amortised cost	-	-	-	-	-	-	3,331	3,331
Deposits and other payables at amortised cost	35,379	21,059	56,438	9,495	65,933	16,121	3,496	85,549
<b>Liabilities by business area</b>	<b>35,379</b>	<b>21,059</b>	<b>56,438</b>	<b>9,495</b>	<b>65,933</b>	<b>16,121</b>	<b>6,827</b>	<b>88,881</b>
Unallocated liabilities								113,213
Equity								24,434
<b>Total liabilities and equity</b>								<b>226,528</b>

<sup>1</sup> The item comprises contributions and discounts relating to Nykredit's benefits programmes, see "Alternative performance measures".

4. RECONCILIATION OF INTERNAL AND REGULATORY INCOME STATEMENT	2020			2019		
	Earnings presentation in Management Commentary	Reclassification	Income statement	Earnings presentation in Management Commentary	Reclassification	Income statement
Net interest income	1,711	(164)	1,547	1,520	25	1,545
Dividend on equities etc		5	5		7	7
Fee and commission income, net	521	1,766	2,287	538	1,429	1,967
<b>Net interest and fee income</b>	<b>1,607</b>	<b>3,839</b>		<b>1,461</b>	<b>3,518</b>	
Wealth management income	1,950	(1,950)	-	1,610	(1,610)	-
Net interest from capitalisation	(29)	29	-	(28)	28	-
Net interest from capitalisation	276	(276)	-	(9)	9	-
Trading, investment portfolio and other income	634	(634)	-	720	(720)	-
Value adjustments		1,139	1,139		670	670
Other operating income		336	336		44	44
<b>Total income</b>	<b>5,063</b>			<b>4,350</b>		
Costs	2,727	-	2,727	2,375	-	2,375
<b>Business profit before impairment charges</b>	<b>2,336</b>			<b>1,975</b>		
Impairment charges for loans and advances etc	579	-	579	210	-	210
Profit from investments in associates		7	7		6	6
<b>Business profit</b>	<b>1,757</b>			<b>1,765</b>		
Legacy derivatives	258	(258)	-	(112)	112	-
<b>Profit before tax</b>	<b>2,015</b>	<b>-</b>	<b>2,015</b>	<b>1,653</b>	<b>-</b>	<b>1,653</b>

Note 4 combines the earnings presentation in the Management Commentary (internal presentation), including the presentation of the financial highlights and the 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 corresponds 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 etc" corresponds to the presentation in the income statement.

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



# NOTES

DKK million

Nykredit Bank Group

2020 2019

## 5. INCOME

### Revenue from contracts with customers (IFRS 15) by business area

Total Retail	435	447
Corporates & Institutions	376	312
<b>Total Banking</b>	<b>810</b>	<b>759</b>
Wealth Management	1,965	1,568
Group Items	68	78
<b>Total</b>	<b>2,843</b>	<b>2,405</b>

The allocation of fees to business divisions shows the business divisions where fees are included on initial recognition. These fees, together with other income, are subsequently reallocated on a net basis to the business divisions serving the customers, see note 3.

Nykredit's revenue primarily consists of net income recognised in items governed by the accounting standards IFRS 9 "Financial Instruments" and IFRS 16 "Leases". Fees and transaction costs that are integral to the effective interest rate of an instrument are covered by IFRS 9. The same applies to fees relating to financial instruments measured at fair value.

Revenue recognised according to IFRS 15 partly includes fees from guarantees and other commitments (off-balance sheet items) as well as net revenue from Nykredit Markets, Asset Management and custody transactions, where revenue is recognised pursuant to the contractual provisions of the underlying agreements or price lists. Generally, business activities do not imply contract assets or liabilities for accounting purposes.

Revenue comprised by IFRS 15 mainly relates to:

- Fees in connection with deposits, lending and guarantee activities, consisting of fixed fees and/or determined as a percentage of the amount borrowed or the guarantee amount. Lending activities comprise eg mortgage lending. Fees are recognised at the time of the transaction or at fixed payment dates.
- Custody fees are based on a percentage of the size of the individual custody account balance and/or fixed fees. Fees are recognised at fixed payment dates in accordance with contractual provisions or price lists.
- Revenue from Nykredit Markets activities comprises trading in financial instruments and is recognised simultaneously with the transaction. Revenue in connection with eg Capital Markets transactions is recognised at the time of delivery of the service and when Nykredit's obligation has been settled.
- Revenue from wealth management activities comprises Nykredit's business within asset and wealth management, including private banking and pension activities. Revenue is recognised as the services are performed and delivered to the customers. Revenue is determined as a percentage of assets under management and administration or in the form of transaction fees.

Revenue from specific custody and asset management activities is determined based on the price movements of the underlying contracts, and therefore earnings cannot be finally calculated until at a specified, agreed date, but not later than at the end of the financial year.

Recognition of revenue is not impacted by special conditions which may significantly impact the size thereof or cash flows. Nykredit has no IFRS 15 obligations in the form of buybacks or guarantees etc.

Nykredit Bank Group

## 6. NET INTEREST INCOME ETC AND VALUE ADJUSTMENTS

2020	Interest income	Interest expenses	Net interest income	Dividend on equities	Net value adjustments	Total
<b>Financial portfolios at amortised cost</b>						
Receivables from and payables to credit institutions and central banks	3	43	(40)	-	-	(40)
Lending and deposits	1,988	(121)	2,109	-	(1)	2,109
Repo transactions and reverse repurchase lending	(172)	(73)	(99)	-	-	(99)
Bonds in issue at amortised cost	-	15	(15)	-	-	(15)
Subordinated debt	-	41	(41)	-	-	(41)
Other financial instruments	3	108	(105)	-	-	(105)
<b>Total</b>	<b>1,823</b>	<b>13</b>	<b>1,810</b>	<b>-</b>	<b>(1)</b>	<b>1,809</b>
<b>Financial portfolios at fair value and financial instruments at fair value</b>						
Bonds	81	-	81	-	20	101
Equities etc	-	-	-	5	43	47
Derivative financial instruments etc	(343)	-	(343)	-	885	542
<b>Total</b>	<b>(262)</b>	<b>-</b>	<b>(262)</b>	<b>5</b>	<b>947</b>	<b>690</b>
Foreign currency translation adjustment					192	192
<b>Net interest income etc and value adjustments</b>	<b>1,560</b>	<b>13</b>	<b>1,547</b>	<b>5</b>	<b>1,139</b>	<b>2,691</b>
<b>2019</b>						
<b>Financial portfolios at amortised cost</b>						
Receivables from and payables to credit institutions and central banks	33	(37)	70	-	-	70
Lending and deposits	1,872	(51)	1,922	-	5	1,928
Repo transactions and reverse repurchase lending	(164)	(36)	(128)	-	-	(128)
Bonds in issue at amortised cost	-	22	(22)	-	-	(22)
Subordinated debt	-	38	(38)	-	-	(38)
Other financial instruments	1	101	(100)	-	-	(100)
<b>Total</b>	<b>1,742</b>	<b>37</b>	<b>1,705</b>	<b>-</b>	<b>5</b>	<b>1,710</b>
<b>Financial portfolios at fair value and financial instruments at fair value</b>						
Bonds	99	-	99	-	55	154
Equities etc	-	-	-	7	71	78
Derivative financial instruments etc	(259)	-	(259)	-	435	176
<b>Total</b>	<b>(160)</b>	<b>-</b>	<b>(160)</b>	<b>7</b>	<b>561</b>	<b>408</b>
Foreign currency translation adjustment					103	103
<b>Net interest income etc and value adjustments</b>	<b>1,582</b>	<b>37</b>	<b>1,545</b>	<b>7</b>	<b>670</b>	<b>2,221</b>

# NOTES

		DKK million	
Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>7. INTEREST INCOME</b>			
54	24	23	54
1,720	1,821	1,995	1,890
100	82	81	99
(259)	(343)	(343)	(259)
Of which			
77	65	65	77
(336)	(408)	(408)	(336)
0	-	-	0
(0)	-	-	(0)
(1)	2	3	1
<b>1,615</b>	<b>1,585</b>	<b>1,758</b>	<b>1,785</b>
<b>Total</b>			
<b>Of which interest income from reverse repurchase lending entered as:</b>			
17	0	0	17
-	6	6	-
<b>Of total interest income:</b>			
1,761	1,842	2,016	1,932
42	41	41	42
33	29	74	80
-	-	143	143
Interest income accrued on bank loans and advances for which stage 3 impairment is made totalled DKK 41 million (2019: DKK 42 million). Nykredit Bank A/S generally does not charge interest on stage 3 impaired loans. Interest income attributable to the impaired part of loans after the first time of impairment is offset against subsequent impairment.			

# NOTES

		DKK million	
Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>7. INTEREST INCOME (CONTINUED)</b>			
<b>7 a. Negative interest</b>			
<b>Interest income</b>			
(38)	(39)	(39)	(38)
(165)	(159)	(159)	(165)
<b>(203)</b>	<b>(198)</b>	<b>(198)</b>	<b>(203)</b>
<b>Of which interest income from reverse repurchase lending entered as:</b>			
(17)	(19)	(19)	(17)
(164)	(159)	(159)	(164)
<b>Interest expenses</b>			
(160)	(138)	(138)	(160)
(161)	(208)	(208)	(161)
<b>(321)</b>	<b>(346)</b>	<b>(346)</b>	<b>(321)</b>
<b>Of which interest expenses from repo deposits entered as:</b>			
(47)	(47)	(47)	(47)
(36)	(26)	(26)	(36)
<b>8. INTEREST EXPENSES</b>			
122	134	134	123
82	64	61	74
22	15	15	22
38	41	41	38
100	106	108	101
<b>365</b>	<b>360</b>	<b>359</b>	<b>358</b>
<b>Of which interest expenses from repo transactions entered as:</b>			
-	-	-	-
<b>Bonds in issue</b>			
5	5	5	5
<b>Of total interest expenses:</b>			
44	14	13	37

# NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>9. DIVIDEND ON EQUITIES ETC</b>			
7	5	5	7
<b>7</b>	<b>5</b>	<b>5</b>	<b>7</b>
<b>10. FEE AND COMMISSION INCOME</b>			
966	1,017	1,074	1,005
157	135	135	157
15	19	39	34
84	84	84	84
485	539	1,511	1,126
<b>1,705</b>	<b>1,794</b>	<b>2,843</b>	<b>2,405</b>
<b>Of which:</b>			
166	177	266	202
803	802	1,851	1,503
<b>11. FEE AND COMMISSION EXPENSES</b>			
332	351	556	439
<b>332</b>	<b>351</b>	<b>556</b>	<b>439</b>
<b>Of which:</b>			
66	67	152	94
63	62	245	142
<b>12. VALUE ADJUSTMENTS</b>			
5	(1)	(1)	5
58	18	20	55
70	42	43	71
103	192	192	103
435	885	946	384
-	-	(60)	52
<b>672</b>	<b>1,137</b>	<b>1,139</b>	<b>670</b>
(908)	255	255	(908)
58	350	350	58
<b>Of which value adjustment relating to fair value hedging for accounting purposes:</b>			
(1)	2	2	(1)
<b>13. STAFF AND ADMINISTRATIVE EXPENSES</b>			
7	7	7	7
784	794	1,081	1,040
1,156	1,339	1,566	1,291
<b>1,946</b>	<b>2,141</b>	<b>2,655</b>	<b>2,338</b>

Nykredit Bank Group

## 13. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

## Remuneration of Board of Directors:

2020

	Susanne Møller Nielsen	Allan Kristiansen <sup>1</sup>	Total
<b>Fees paid to the Board of Directors</b>			
Fees	60	60	120
<b>Total</b>	<b>60</b>	<b>60</b>	<b>120</b>

<sup>1</sup> In addition, Allan Kristiansen has received a fee as staff-elected member of the Board of Directors of Nykredit Realkredit A/S of DKK 138 thousand and Nykredit A/S of DKK 286 thousand.

2019

	Flemming Ellegaard <sup>1</sup>	Susanne Møller Nielsen <sup>2</sup>	Allan Kristiansen <sup>3</sup>	Total
<b>Fees paid to the Board of Directors</b>				
Fees	45	15	60	120
<b>Total</b>	<b>45</b>	<b>15</b>	<b>60</b>	<b>120</b>

<sup>1</sup> Flemming Ellegaard resigned from the Board of Directors on 25 September 2019.

<sup>2</sup> Susanne Møller Nielsen joined the Board of Directors on 25 September 2019.

<sup>3</sup> In addition, Allan Kristiansen has received a fee as staff-elected member of the Board of Directors of Nykredit Realkredit A/S of DKK 135 thousand and Nykredit A/S of DKK 279 thousand.

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

					DKK '000
2020					
Remuneration	Michael Rasmussen	Anders Jensen	David Hellemann	Tonny Thierry Andersen	Total
Contractual remuneration (salary and pension contribution) <sup>1</sup>	17,027	10,023	10,023	10,023	47,096
Various benefits <sup>2</sup>	20	24	13	8	64

<sup>1</sup> Members of the Executive Board receive contractual remuneration comprising a fixed salary, pension contributions and a company car. In addition to his contractual remuneration, Michael Rasmussen received a retention fee of DKK 2,825 thousand in 2020.

<sup>2</sup> In addition to the ordinary salary the members of the Executive Board may receive various benefits.

Members of the Executive Board receive fixed salaries covering all directorships and executive positions in Nykredit A/S as well as Group enterprises and associates. Retention agreements have previously been concluded with Michael Rasmussen, Anders Jensen and David Helleman, see the table below. Agreements with Anders Jensen and David Helleman lapsed in 2020.

In 2020 the members of the Executive Board received a contractual remuneration raise. At the same time, termination notices on the part of the members of the Executive Board were extended from 6 to 12 months, and the agreements pertaining to retention fees were amended to the effect that no retention fee or bonus may be earned for 2020 or going forward.

# NOTES

Nykredit Bank Group

## 13. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

Retention and termination benefits	Michael Rasmussen	Anders Jensen	David Hellemann	Tonny Thierry Andersen
Retention terms <sup>1 2</sup>	1 year's salary excl pensions	8 mths' salary excl pensions	8 mths' salary excl pensions	
Termination benefit	17 mths	6 mths	6 mths	6 mths
Notice of termination by the member of the Executive Board	12 mths	12 mths	12 mths	12 mths
Notice of termination by Nykredit	12 mths	12 mths	12 mths	12 mths

<sup>1</sup> Nykredit A/S has entered into a retention agreement with Michael Rasmussen, Group Chief Executive. At 31 December 2019, the retention payment earned was DKK 11.3 million, payable over a 5-year period with the first payment in 2020. A retention payment of DKK 0 million for Michael Rasmussen (2019: DKK 5.1 million) was charged to the income statement in 2020.

<sup>2</sup> Nykredit Realkredit A/S has entered into retention agreements with each of Group Managing Directors Anders Jensen and David Hellemann. The retention payments, which equal eight months' salary excluding pension contributions, are payable on 1 January 2021 if Anders Jensen or David Hellemann have not resigned their positions or are not in breach of their contractual duties on the payment date. Provisions are made for the retention payment during the vesting period. No provisions were made for retention fee for Anders Jensen and David Hellemann in 2020 (2019: DKK 2.1 million and DKK 2.1 million), as the agreement on retention fees has been amended, see above.

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

DKK '000

Nykredit Bank Group

2019

Remuneration	Michael Rasmussen	Kim Duus <sup>4</sup>	Søren Holm <sup>4</sup>	Anders Jensen	David Hellemann	Tonny Thierry Andersen <sup>3</sup>	Total
Contractual remuneration (salary and pension contribution) <sup>1</sup>	13,915	3,263	3,263	8,213	8,213	5,704	42,571
Various benefits <sup>2</sup>	18	6	6	22	10	4	67

<sup>1</sup> Members of the Executive Board receive contractual remuneration comprising a fixed salary, pension contributions and a company car.

<sup>2</sup> In addition to the ordinary salary the members of the Executive Board may receive various benefits.

<sup>3</sup> Tonny Thierry Andersen joined the Executive Board on 1 June 2019.

<sup>4</sup> Kim Duus and Søren Holm resigned from the Executive Board at 30 June 2019.

Kim Duus and Søren Holm left their positions at end-June 2019. From the effective date of termination, they will receive 60% of their fixed salaries for five years as from 1 July 2019, as agreed under their contracts.

# NOTES

		DKK million	
Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>13. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)</b>			
<b>Executive Board</b>			
7	7	7	7
<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Of which:</b>			
1	1	1	1
<b>Remuneration of Executive Board:</b>			
<b>Fixed and variable remuneration recognised in the income statement for the financial year:</b>			
DKK '000	DKK '000	DKK '000	DKK '000
<b>Henrik Rasmussen</b>			
2,951	3,370	3,370	2,951
750	650	650	750
<b>3,701</b>	<b>4,020</b>	<b>4,020</b>	<b>3,701</b>
<b>Dan Sørensen</b>			
2,550	2,796	2,796	2,550
530	490	490	530
<b>3,080</b>	<b>3,286</b>	<b>3,286</b>	<b>3,080</b>
<b>6,781</b>	<b>7,306</b>	<b>7,306</b>	<b>6,781</b>
<b>Earned in the financial year</b>			
Furthermore, a retention payment disbursed by Nykredit A/S has been agreed. For Henrik Rasmussen, this amount represented DKK 125 thousand and for Dan Sørensen DKK 88 thousand (2019: DKK 250 thousand and DKK 175 thousand).			
<b>Various benefits<sup>1</sup></b>			
136	136	136	136
7	7	7	7
DKK million	DKK million	DKK million	DKK million
0	0	0	0
0	0	0	0
0	0	0	0
<b>Loans, charges or guarantees issued or created in respect of the members of:</b>			
<b>Executive Board</b>			
<b>Board of Directors</b>			
<b>Related parties of the Bank's Executive Board or Board of Directors</b>			
<b>Deposits from the members of:</b>			
2	1	1	2
19	14	14	19
3	3	3	3

<sup>1</sup> In addition to the ordinary salary the members of the Executive Board may receive various benefits. The Executive Board may also choose to acquire a company car as part of Nykredit's company car scheme.

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 2.0-12.5% (2019: 2.75-12.5%), and the deposit rate was around 0.0% (2019: 0.0%). Members of the Executive Board receive salaries covering all directorships and executive positions in the Nykredit Bank Group. No changes were made to the composition of the Executive Board in 2020.

## Variable remuneration

The Bank's Executive Board participates in Nykredit's general bonus schemes for executives. The programme is discretionary, which means that executives are not guaranteed a bonus. Provisions of DKK 1,140 thousand were made for bonuses in 2020. Adjustment relating to previous years was DKK 0 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	
2019	2020	2020	2019
<b>13. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)</b>			
<b>Staff expenses</b>			
615	642	Salaries	867 830
59	55	Pensions (defined contribution plans)	81 75
107	94	Payroll tax	127 131
3	3	Social security expenses	6 5
<b>784</b>	<b>794</b>	<b>Total</b>	<b>1,082 1,040</b>
Payroll tax also includes payroll tax relating to the Executive Board.			
<b>Of which remuneration of staff members whose activities have a significant influence on the Bank's risk profile (material risk takers):</b>			
57	55	Base salaries	113 93
39	21	Variable remuneration	42 48
<b>97</b>	<b>76</b>	<b>Total</b>	<b>155 142</b>
679	678	Average number of staff for the financial year, full-time equivalent	979 900
Staff whose activities significantly affect Nykredit Bank A/S's and the Nykredit Bank Group's risk profile comprise, in addition to the Executive Board, 194 staff members. 36 are on the payroll of Nykredit Bank, 47 are on the payroll of the Bank's subsidiaries, and 111 are on the payroll of Nykredit Realkredit A/S. The latter staff group performs Group-wide tasks, settled through intercompany agreements.			
These staff members are subject to special salary programmes. A maximum of 60% of the variable remuneration is paid out when awarded, but the payout of at least 40% is deferred over the following four years.			
Details of Nykredit's remuneration policy appear from page 13 of the Management Commentary under Remuneration and at nykredit.com.			
<b>Fees to auditor appointed by the General Meeting</b>			
4	3	Deloitte	5 7
<b>Total fees include:</b>			
2	2	Statutory audit of the Financial Statements	4 3
1	0	Other assurance engagements	1 1
-	-	Tax advice	0 0
1	0	Other services	1 3
<b>4</b>	<b>3</b>	<b>Total fees</b>	<b>5 7</b>
Fees for non-auditing services provided by Deloitte Chartered Accountant Company to the group includes fees for other advisory regarding the annual report, compliance and tax.			
<b>14. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES FOR TANGIBLE AND INTANGIBLE ASSETS</b>			
-	-	Property, plant and equipment	6 2
-	-	Intangible assets	28 11
-	-	<b>Total</b>	<b>34 13</b>

## 15. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP)

### 15 a. Impairment charges for loans, advances and receivables etc

	Loans and advances at amortised cost	Loans and advances at amortised cost	Credit institutions and other	Credit institutions and other	Guarantees etc <sup>1</sup>	Guarantees etc <sup>1</sup>	Total	Total
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Total impairment provisions</b>								
<b>Beginning of year</b>	<b>2,526</b>	<b>2,767</b>	<b>12</b>	<b>12</b>	<b>137</b>	<b>117</b>	<b>2,675</b>	<b>2,896</b>
New impairment provisions as a result of additions and change in credit risk	1,482	936	0	0	174	86	1,657	1,023
Releases as a result of redemptions and change in credit risk	964	799	1	0	70	67	1,035	866
Impairment provisions written off	82	434	-	-	-	0	82	434
Interest on impaired facilities	51	56	-	-	-	0	51	56
<b>Total impairment provisions, year-end</b>	<b>3,012</b>	<b>2,526</b>	<b>12</b>	<b>12</b>	<b>241</b>	<b>137</b>	<b>3,265</b>	<b>2,675</b>
<b>Earnings impact</b>								
Change in impairment provisions for loans and advances (stages 1-3)	518	137	(0)	(0)	104	20	622	157
Write-offs for the year, not previously written down for impairment	22	115	-	-	-	-	22	115
Recoveries on claims previously written off	52	36	-	-	-	-	52	36
<b>Total</b>	<b>488</b>	<b>217</b>	<b>(0)</b>	<b>(0)</b>	<b>104</b>	<b>20</b>	<b>592</b>	<b>236</b>
Value adjustment of assets in temporary possession	-	-	-	-	-	-	-	-
Value adjustment of claims previously written off	(13)	(26)	-	-	-	-	(13)	(26)
<b>Total earnings impact</b>	<b>475</b>	<b>191</b>	<b>(0)</b>	<b>(0)</b>	<b>104</b>	<b>20</b>	<b>579</b>	<b>210</b>

<sup>1</sup> "Guarantees etc" comprises off-balance sheet items in the form of guarantees and other commitments, including loan commitments.

The contractual amounts outstanding on financial assets written off during the year ended 31 December 2020 and still sought to be recovered is DKK 72 million (2019: DKK 180 million).

Of total impairment provisions for bank lending determined under IFRS 9, 6% or DKK 0.1 billion was attributable to customers who have gone bankrupt, are undergoing bankruptcy proceedings or compulsory dissolution, or who are deceased.

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 also taken into consideration.

# NOTES

DKK million

Nykredit Bank Group

## 15. IMPARMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)

15 b. Total impairment provisions by stage 2020	Loans, advances and receivables at amortised cost			Guarantees			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
<b>Total, 1 January 2020</b>	<b>409</b>	<b>199</b>	<b>1,930</b>	<b>52</b>	<b>38</b>	<b>46</b>	<b>2,675</b>
Transfer to stage 1	124	(86)	(38)	12	(12)	(0)	-
Transfer to stage 2	(46)	211	(164)	(4)	9	(5)	-
Transfer to stage 3	(11)	(22)	33	(1)	(5)	5	-
Impairment provisions for new loans and advances (additions)	30	58	121	12	12	5	239
Additions as a result of change in credit risk	205	412	656	32	75	37	1,418
Releases as a result of change in credit risk	270	188	507	35	14	21	1,035
Previously written down for impairment, now written off	0	0	82	-	-	-	82
Interest on impaired facilities	-	-	51	-	-	-	51
<b>Total impairment provisions, year-end</b>	<b>440</b>	<b>584</b>	<b>2,001</b>	<b>70</b>	<b>104</b>	<b>67</b>	<b>3,266</b>
<b>Total</b>		<b>3,024</b>			<b>241</b>		<b>3,265</b>
<b>Impairment provisions, year-end, are moreover attributable to:</b>							
Credit institutions	12	-	-				12
<b>Earnings impact for 2020</b>	<b>(35)</b>	<b>282</b>	<b>270</b>	<b>10</b>	<b>73</b>	<b>21</b>	<b>622</b>

2019	Loans, advances and receivables at amortised cost			Guarantees			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
<b>Total, 1 January 2019</b>	<b>317</b>	<b>187</b>	<b>2,274</b>	<b>36</b>	<b>29</b>	<b>53</b>	<b>2,896</b>
Transfer to stage 1	110	(53)	(56)	17	(6)	(11)	-
Transfer to stage 2	(12)	133	(121)	(5)	9	(5)	-
Transfer to stage 3	(3)	(20)	22	(0)	(1)	2	-
Impairment provisions for new loans and advances (additions)	61	8	37	8	6	6	127
Additions as a result of change in credit risk	156	108	565	23	19	23	895
Releases as a result of change in credit risk	221	165	414	27	18	22	866
Previously written down for impairment, now written off	0	0	434	-	-	0	434
Interest on impaired facilities	-	-	56	-	-	-	56
<b>Total impairment provisions, year-end</b>	<b>409</b>	<b>199</b>	<b>1,930</b>	<b>52</b>	<b>38</b>	<b>46</b>	<b>2,675</b>
<b>Total impairment provisions, year-end</b>		<b>2,538</b>			<b>137</b>		<b>2,675</b>
<b>Impairment provisions, year-end, are moreover attributable to:</b>							
Credit institutions	12	-	-				12
<b>Earnings impact for 2019</b>	<b>(3)</b>	<b>(48)</b>	<b>188</b>	<b>5</b>	<b>8</b>	<b>7</b>	<b>157</b>

The principles of impairment are described in detail in the accounting policies (note 1) of the Annual Report for 2020.

Stage 1 covers loans and advances etc without significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the expected credit losses over a period of 12 months for loans and advances etc at amortised cost.

Stage 2 covers loans and advances etc 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 maturity.

Stage 3 covers loans and advances etc that are credit impaired, and which have been subject to individual provisioning on the specific assumption that the customers will default on their loans.

## 15. IMPARMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)

### 15 c. Distribution of provisions for loan impairment and guarantees etc, year-end 2020

	Stage 1	Stage 2	Stage 3	Total
<b>Loans and advances at amortised cost excluding credit institutions etc, gross</b>				
Loans and advances at amortised cost etc, gross	96,628	12,201	2,600	111,429
Total impairment provisions, year-end	428	584	2,001	3,012
<b>Loans and advances, carrying amount</b>	<b>96,200</b>	<b>11,618</b>	<b>599</b>	<b>108,417</b>
<b>Guarantees and loan commitments</b>				
Guarantees etc	53,996	3,275	231	57,502
Total impairment provisions, year-end	70	104	67	241
<b>Guarantees and loan commitments, carrying amount</b>	<b>53,926</b>	<b>3,171</b>	<b>164</b>	<b>57,261</b>

2019	Stage 1	Stage 2	Stage 3	Total
<b>Loans and advances at amortised cost excluding credit institutions etc, gross</b>				
Loans and advances at amortised cost etc, gross	109,607	4,574	2,560	116,741
Total impairment provisions, year-end	396	199	1,930	2,526
<b>Loans and advances, carrying amount</b>	<b>109,210</b>	<b>4,374</b>	<b>630</b>	<b>114,215</b>
<b>Guarantees and loan commitments</b>				
Guarantees etc	59,379	1,094	241	60,714
Total impairment provisions, year-end	52	38	46	137
<b>Guarantees and loan commitments, carrying amount</b>	<b>59,327</b>	<b>1,056</b>	<b>195</b>	<b>60,577</b>

## 15. IMPARMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)

### 15 d. Loans at amortised cost excluding credit institutions by stage, gross

2020	Stage 1	Stage 2	Stage 3	Total
<b>Gross lending as at 1 January 2020</b>	<b>109,607</b>	<b>4,574</b>	<b>2,560</b>	<b>116,741</b>
Transfer to stage 1	1,659	(1,567)	(92)	-
Transfer to stage 2	(8,820)	8,955	(135)	-
Transfer to stage 3	(342)	(265)	607	-
Other movements <sup>1</sup>	(5,476)	505	(341)	(5,311)
<b>Total, 31 December 2020</b>	<b>96,628</b>	<b>12,201</b>	<b>2,600</b>	<b>111,429</b>
Impairment charges/provisions, total	428	584	2,001	3,012
<b>Carrying amount</b>	<b>96,200</b>	<b>11,618</b>	<b>599</b>	<b>108,417</b>
<b>2019</b>				
	Stage 1	Stage 2	Stage 3	Total
<b>Gross lending as at 1 January 2019</b>	<b>93,750</b>	<b>4,001</b>	<b>3,009</b>	<b>100,760</b>
Transfer to stage 1	1,112	(1,003)	(109)	-
Transfer to stage 2	(2,223)	2,293	(71)	-
Transfer to stage 3	(296)	(329)	625	-
Other movements <sup>1</sup>	17,264	(388)	(895)	15,981
<b>Total, 31 December 2019</b>	<b>109,607</b>	<b>4,574</b>	<b>2,560</b>	<b>116,741</b>
Impairment charges/provisions, total	396	199	1,930	2,526
<b>Carrying amount</b>	<b>109,210</b>	<b>4,374</b>	<b>630</b>	<b>114,215</b>

<sup>1</sup> "Other movements" consists of new loans and advances as well as loans and advances redeemed in the period.

## 15. IMPARMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)

### 15 e. Guarantees, gross, by stage

2020	Stage 1	Stage 2	Stage 3	Total
<b>Gross guarantees as at 1 January 2020</b>	<b>34,776</b>	<b>1,094</b>	<b>241</b>	<b>36,111</b>
Transfer to stage 1	374	(371)	(3)	-
Transfer to stage 2	(1,622)	1,636	(14)	-
Transfer to stage 3	(58)	(68)	126	-
Other movements <sup>1</sup>	(7,010)	984	(118)	(6,145)
<b>Total, 31 December 2020</b>	<b>26,460</b>	<b>3,275</b>	<b>231</b>	<b>29,966</b>
Impairment charges/provisions, total	70	104	67	241
<b>Carrying amount</b>	<b>26,390</b>	<b>3,171</b>	<b>164</b>	<b>29,725</b>
<b>2019</b>				
	Stage 1	Stage 2	Stage 3	Total
<b>Gross guarantees as at 1 January 2019</b>	<b>21,736</b>	<b>679</b>	<b>230</b>	<b>22,644</b>
Transfer to stage 1	304	(265)	(39)	-
Transfer to stage 2	(441)	455	(14)	-
Transfer to stage 3	(77)	(62)	140	-
Other movements <sup>1</sup>	13,255	287	(76)	13,467
<b>Total, 31 December 2019</b>	<b>34,776</b>	<b>1,094</b>	<b>241</b>	<b>36,111</b>
Impairment charges/provisions, total	52	38	46	137
<b>Carrying amount</b>	<b>34,724</b>	<b>1,056</b>	<b>195</b>	<b>35,974</b>

<sup>1</sup> "Other movements" consists of new guarantees as well as guarantees terminated in the period.

## 15. IMPARMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)

### 15 f. Loans, advances and guarantees etc, gross

2020	Loans and advances etc, gross				Loans and advances etc, excluding impairment charges			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances etc	96,628	12,201	2,600	111,429	37,271	-	-	37,271
Balances with credit institutions	4,271	-	-	4,271	1,248	-	-	1,248
Guarantees and loan commitments	53,996	3,275	231	57,502	-	-	-	-
<b>Total, 31 December 2020</b>	<b>154,895</b>	<b>15,477</b>	<b>2,831</b>	<b>173,203</b>	<b>38,520</b>	<b>-</b>	<b>-</b>	<b>38,520</b>

2019	Loans and advances etc, gross				Loans and advances etc, excluding impairment charges			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances etc	109,607	4,574	2,560	116,741	48,749	-	-	48,749
Balances with credit institutions	9,586	-	-	9,586	4,209	-	-	4,209
Guarantees and loan commitments	59,379	1,094	241	60,714	-	-	-	-
<b>Total, 31 December 2019</b>	<b>178,571</b>	<b>5,668</b>	<b>2,801</b>	<b>187,040</b>	<b>52,958</b>	<b>-</b>	<b>-</b>	<b>52,958</b>

## 15. IMPARMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)

### 15 g. Loans and advances by rating categories

2020	Bank loans and advances, gross			Total impairment provisions		
Rating category	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
10	17,381	530	-	69	16	-
9	20,703	1,196	-	67	44	-
8	8,023	1,384	-	54	44	-
7	9,844	2,436	-	76	84	-
6	24,362	2,215	-	50	93	-
5	9,285	1,171	-	59	54	-
4	1,864	1,102	-	30	64	-
3	3,497	609	-	14	34	-
2	1,489	830	-	7	44	-
1	179	518	-	1	68	-
0	-	78	-	-	19	-
Exposures in default	-	132	2,600	-	20	2,001
Total	96,628	12,201	2,600	428	584	2,001

2019	Bank loans and advances, gross			Total impairment provisions		
Rating category	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
10	14,670	44	-	44	1	-
9	25,405	70	-	45	4	-
8	10,773	141	-	51	4	-
7	9,243	131	-	53	4	-
6	30,865	428	-	65	7	-
5	9,663	651	-	49	16	-
4	3,187	673	-	34	19	-
3	2,573	447	-	13	15	-
2	3,061	1,019	-	26	43	-
1	165	804	-	17	62	-
0	-	68	-	-	15	-
Exposures in default	-	98	2,560	-	8	1,930
Total	109,607	4,574	2,560	396	199	1,930



## 15. IMPARMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)

### 15 h. Bank loans, advances and guarantees etc and total impairment provisions by sector

2020	Bank loans, advances and guarantees			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Public sector	867	3	-	4	0	-
Agriculture, hunting, forestry and fishing	3,017	416	182	14	19	151
Manufacturing, mining and quarrying	7,638	1,986	550	47	65	303
Energy supply	6,686	435	14	20	10	10
Construction	2,272	348	209	21	17	160
Trade	7,015	1,954	272	87	102	264
Transport, accommodation and food service activities	5,906	1,375	96	50	51	83
Information and communication	2,731	565	73	17	11	78
Finance and insurance	42,075	1,133	139	19	71	55
Real estate	13,511	3,172	479	86	163	347
Other	6,978	1,535	267	47	83	224
<b>Total business customers</b>	<b>98,698</b>	<b>12,921</b>	<b>2,280</b>	<b>410</b>	<b>592</b>	<b>1,675</b>
Personal customers	24,383	2,556	551	87	96	393
<b>Total</b>	<b>123,081</b>	<b>15,477</b>	<b>2,831</b>	<b>498</b>	<b>688</b>	<b>2,068</b>

2019	Bank loans, advances and guarantees			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Public sector	766	-	-	1	-	-
Agriculture, hunting, forestry and fishing	3,864	335	161	20	14	130
Manufacturing, mining and quarrying	8,039	678	489	47	29	210
Energy supply	2,817	50	20	13	2	15
Construction	3,420	278	223	17	13	168
Trade	7,573	258	335	39	14	282
Transport, accommodation and food service activities	5,534	252	92	23	5	72
Information and communication	3,395	66	75	16	4	82
Finance and insurance	54,202	516	106	39	27	56
Real estate	13,434	810	494	79	37	357
Other	9,319	613	275	43	36	188
<b>Total business customers</b>	<b>112,363</b>	<b>3,856</b>	<b>2,270</b>	<b>335</b>	<b>179</b>	<b>1,559</b>
Personal customers	32,020	1,811	531	114	59	417
<b>Total</b>	<b>144,383</b>	<b>5,668</b>	<b>2,801</b>	<b>449</b>	<b>238</b>	<b>1,976</b>

Nykredit Bank A/S

## 16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (PARENT)

## 16 a. Impairment charges for loans, advances and receivables etc

	Loans and advances at amortised cost	Loans and advances at amortised cost	Credit institutions and other	Credit institutions and other	Guarantees etc <sup>1</sup>	Guarantees etc <sup>1</sup>	Total	Total
	2020	2019	2020	2019	2020	2019	2020	2019
<b>Total impairment provisions</b>								
<b>Beginning of year</b>	<b>2,419</b>	<b>2,670</b>	<b>12</b>	<b>12</b>	<b>137</b>	<b>117</b>	<b>2,567</b>	<b>2,799</b>
New impairment provisions as a result of additions and change in credit risk	1,401	883	0	0	174	86	1,576	970
Releases as a result of redemptions and change in credit risk	925	766	1	0	70	67	996	833
Impairment provisions written off	73	425	-	-	-	0	73	425
Interest on impaired facilities	51	56	-	-	-	0	51	56
<b>Total impairment provisions, year-end</b>	<b>2,873</b>	<b>2,419</b>	<b>12</b>	<b>12</b>	<b>241</b>	<b>137</b>	<b>3,126</b>	<b>2,568</b>
<b>Earnings impact</b>								
Change in impairment provisions for loans and advances (stages 1-3)	477	118	(0)	(0)	104	20	581	137
Write-offs for the year, not previously written down for impairment	16	108	-	-	-	-	16	108
Recoveries on claims previously written off	46	36	-	-	-	-	46	36
<b>Total</b>	<b>447</b>	<b>189</b>	<b>(0)</b>	<b>(0)</b>	<b>104</b>	<b>20</b>	<b>551</b>	<b>209</b>
Value adjustment of assets in temporary possession	-	-	-	-	-	-	-	-
Value adjustment of claims previously written off	(13)	(26)	-	-	-	-	(13)	(26)
<b>Total earnings impact</b>	<b>434</b>	<b>164</b>	<b>(0)</b>	<b>(0)</b>	<b>104</b>	<b>20</b>	<b>538</b>	<b>183</b>

<sup>1</sup> "Guarantees etc" comprises off-balance sheet items in the form of guarantees and other commitments, including loan commitments.

The contractual amount outstanding on financial assets written off during the year ended 31 December 2020 and still sought to be recovered is DKK 72 million (2019: DKK 180 million).

# NOTES

DKK million

Nykredit Bank A/S

## 16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (PARENT) (CONTINUED)

### 16 b. Total impairment provisions by stage

2020	Loans, advances and receivables at amortised cost			Guarantees			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
<b>Total, 1 January 2020</b>	<b>396</b>	<b>193</b>	<b>1,842</b>	<b>52</b>	<b>38</b>	<b>46</b>	<b>2,568</b>
Transfer to stage 1	120	(85)	(35)	12	(12)	(0)	-
Transfer to stage 2	(45)	209	(164)	(4)	9	(5)	-
Transfer to stage 3	(11)	(21)	32	(1)	(5)	5	-
Impairment provisions for new loans and advances (additions)	25	58	79	12	12	5	192
Additions as a result of change in credit risk	204	412	624	32	75	37	1,384
Releases as a result of change in credit risk	262	185	478	35	14	21	996
Previously written down for impairment, now written off	-	-	73	-	-	-	73
Interest on impaired facilities	-	-	51	-	-	-	51
<b>Total impairment provisions</b>	<b>427</b>	<b>582</b>	<b>1,877</b>	<b>70</b>	<b>104</b>	<b>67</b>	<b>3,127</b>
<b>Total impairment provisions, year-end</b>		<b>2,886</b>			<b>241</b>		<b>3,127</b>
<b>Impairment provisions, year-end, are attributable to:</b>							
Credit institutions	12	-	-				12
<b>Earnings impact for 2020</b>	<b>(33)</b>	<b>285</b>	<b>224</b>	<b>10</b>	<b>73</b>	<b>21</b>	<b>581</b>

2019	Loans, advances and receivables at amortised cost			Guarantees			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
<b>Total, 1 January 2019</b>	<b>308</b>	<b>182</b>	<b>2,192</b>	<b>36</b>	<b>29</b>	<b>53</b>	<b>2,799</b>
Transfer to stage 1	108	(53)	(55)	17	(6)	(11)	-
Transfer to stage 2	(12)	130	(117)	(5)	9	(5)	-
Transfer to stage 3	(2)	(20)	22	(0)	(1)	2	-
Impairment provisions for new loans and advances (additions)	56	7	28	8	6	6	111
Additions as a result of change in credit risk	154	106	532	23	19	23	858
Releases as a result of change in credit risk	216	159	391	27	18	22	833
Previously written down for impairment, now written off	-	-	425	-	-	0	425
Interest on impaired facilities	-	-	56	-	-	-	56
<b>Total impairment provisions</b>	<b>396</b>	<b>193</b>	<b>1,842</b>	<b>52</b>	<b>38</b>	<b>46</b>	<b>2,568</b>
<b>Total impairment provisions, year-end</b>		<b>2,432</b>			<b>137</b>		<b>2,568</b>
<b>Impairment provisions, year-end, are attributable to:</b>							
Credit institutions	12	-	-				12
<b>Earnings impact for 2019</b>	<b>(6)</b>	<b>(46)</b>	<b>169</b>	<b>5</b>	<b>8</b>	<b>7</b>	<b>137</b>

The principles of impairment are described in detail in the accounting policies (note 1) of the Annual Report for 2020.

Stage 1 covers loans and advances etc without significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the expected credit losses over a period of 12 months for loans and advances etc at amortised cost.

Stage 2 covers loans and advances etc 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 maturity.

Stage 3 covers loans and advances etc that are credit impaired, and which have been subject to individual provisioning on the specific assumption that the customers will default on their loans.

# NOTES

DKK million

Nykredit Bank A/S

## 16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (PARENT) (CONTINUED)

### 16 c. Distribution of provisions for loan impairment and guarantees etc, year-end 2020

	Stage 1	Stage 2	Stage 3	Total
<b>Loans and advances at amortised cost excluding credit institutions etc, gross</b>				
Loans and advances at amortised cost etc, gross	96,182	11,262	2,397	109,840
Total impairment provisions, year-end	416	582	1,877	2,874
<b>Loans and advances, carrying amount</b>	<b>95,766</b>	<b>10,680</b>	<b>520</b>	<b>106,966</b>
<b>Guarantees and loan commitments</b>				
Guarantees etc	54,003	3,275	231	57,509
Total impairment provisions, year-end	70	104	67	241
<b>Guarantees and loan commitments, carrying amount</b>	<b>53,933</b>	<b>3,171</b>	<b>164</b>	<b>57,268</b>

2019	Stage 1	Stage 2	Stage 3	Total
<b>Loans and advances at amortised cost excluding credit institutions etc, gross</b>				
Loans and advances at amortised cost etc, gross	109,101	3,809	2,360	115,271
Total impairment provisions, year-end	396	193	1,842	2,432
<b>Loans and advances, carrying amount</b>	<b>108,705</b>	<b>3,616</b>	<b>518</b>	<b>112,839</b>
<b>Guarantees and loan commitments</b>				
Guarantees etc	59,057	1,094	241	60,391
Total impairment provisions, year-end	52	38	46	137
<b>Guarantees and loan commitments, carrying amount</b>	<b>59,004</b>	<b>1,056</b>	<b>195</b>	<b>60,255</b>

## 16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (PARENT) (CONTINUED)

### 16 d. Loans at amortised cost excluding credit institutions by stage, gross

2020	Stage 1	Stage 2	Stage 3	Total
<b>Gross lending as at 1 January 2020</b>	<b>109,101</b>	<b>3,809</b>	<b>2,360</b>	<b>115,271</b>
Transfer to stage 1	374	(371)	(3)	-
Transfer to stage 2	(1,622)	1,636	(14)	-
Transfer to stage 3	(58)	(68)	126	-
Other movements <sup>1</sup>	(11,613)	6,254	(72)	(5,431)
<b>Total, 31 December 2020</b>	<b>96,182</b>	<b>11,262</b>	<b>2,397</b>	<b>109,840</b>
Impairment charges/provisions, total	416	582	1,877	2,874
<b>Carrying amount</b>	<b>95,766</b>	<b>10,680</b>	<b>520</b>	<b>106,966</b>
<b>2019</b>				
	Stage 1	Stage 2	Stage 3	Total
<b>Gross lending as at 1 January 2019</b>	<b>93,047</b>	<b>3,023</b>	<b>629</b>	<b>96,699</b>
Transfer to stage 1	953	(904)	(49)	-
Transfer to stage 2	(2,096)	2,152	(57)	-
Transfer to stage 3	(293)	(313)	606	-
Other movements <sup>1</sup>	17,490	(149)	1,231	18,572
<b>Total, 31 December 2019</b>	<b>109,101</b>	<b>3,809</b>	<b>2,360</b>	<b>115,271</b>
Impairment charges/provisions, total	396	193	1,842	2,432
<b>Carrying amount</b>	<b>108,705</b>	<b>3,616</b>	<b>518</b>	<b>112,839</b>

<sup>1</sup> "Other movements" consists of new loans and advances as well as loans and advances redeemed in the period.

## 16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (PARENT) (CONTINUED)

### 16 e. Guarantees, gross, by stage

2020	Stage 1	Stage 2	Stage 3	Alt
<b>Gross guarantees as at 1 January 2020</b>	<b>34,876</b>	<b>1,094</b>	<b>241</b>	<b>36,210</b>
Transfer to stage 1	374	(371)	(3)	-
Transfer to stage 2	(1,622)	1,636	(14)	-
Transfer to stage 3	(58)	(68)	126	-
Other movements <sup>1</sup>	20,434	984	(118)	21,299
<b>Total, 31 December 2020</b>	<b>54,003</b>	<b>3,275</b>	<b>231</b>	<b>57,509</b>
Impairment charges/provisions, total	70	104	67	241
<b>Carrying amount</b>	<b>53,933</b>	<b>3,171</b>	<b>164</b>	<b>57,268</b>
<b>2019</b>				
	Stage 1	Stage 2	Stage 3	Alt
<b>Gross guarantees as at 1 January 2019</b>	<b>21,736</b>	<b>679</b>	<b>230</b>	<b>22,645</b>
Transfer to stage 1	304	(265)	(39)	-
Transfer to stage 2	(441)	455	(14)	-
Transfer to stage 3	(77)	(62)	140	-
Other movements <sup>1</sup>	13,355	287	(76)	13,566
<b>Total, 31 December 2019</b>	<b>34,876</b>	<b>1,094</b>	<b>241</b>	<b>36,210</b>
Impairment charges/provisions, total	52	38	46	137
<b>Carrying amount</b>	<b>34,823</b>	<b>1,056</b>	<b>195</b>	<b>36,074</b>

<sup>1</sup> "Other movements" consists of new guarantees as well as guarantees redeemed in the period.

# NOTES

		DKK million	
Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>17. PROFIT FROM INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES</b>			
6	7	7	6
283	336	0	-
<b>289</b>	<b>343</b>	<b>7</b>	<b>6</b>
<b>18. TAX</b>			
<b>Tax on profit for the year has been calculated as follows:</b>			
263	266	348	334
-	8	29	32
2	21	(23)	2
17	(13)	31	(2)
<b>282</b>	<b>283</b>	<b>385</b>	<b>366</b>
<b>Tax on profit for the year can be specified as follows:</b>			
345	416	443	364
(62)	(74)	-	-
<b>Tax effect of:</b>			
(2)	(68)	(77)	(2)
1	1	11	4
0	8	8	0
<b>282</b>	<b>283</b>	<b>385</b>	<b>366</b>
22.0	22.0	22.0	22.0
4.1	7.1	2.9	-
<b>17.9</b>	<b>14.9</b>	<b>19.1</b>	<b>22.0</b>

# NOTES

DKK million

Nykredit Bank A/S			Nykredit Bank Group	
2019	2020		2020	2019
<b>19. CASH BALANCES AND DEMAND DEPOSITS WITH CENTRAL BANKS</b>				
628	532	Cash balances	532	628
6,482	15,469	Demand deposits with central banks	15,469	6,482
<b>7,110</b>	<b>16,001</b>	<b>Total</b>	<b>16,001</b>	<b>7,110</b>
<b>20. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS</b>				
16,845	1,208	Receivables from central banks	1,208	16,845
5,216	2,880	Receivables from credit institutions	3,011	5,365
4,209	1,248	Reverse repurchase lending to credit institutions	1,248	4,209
<b>26,270</b>	<b>5,337</b>	<b>Total</b>	<b>5,468</b>	<b>26,418</b>
<b>Receivables from credit institutions and central banks by time-to-maturity</b>				
5,292	2,846	On demand	2,977	5,441
20,977	2,491	Up to 3 months	2,491	20,977
<b>26,269</b>	<b>5,337</b>	<b>Total</b>	<b>5,468</b>	<b>26,418</b>



# NOTES

		DKK million	
Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>21. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST</b>			
66,510	72,569	74,158	67,992
48,749	37,271	37,271	48,749
<b>115,259</b>	<b>109,840</b>	<b>111,429</b>	<b>116,741</b>
<b>Adjustment for credit risk</b>			
(2,419)	(2,874)	(3,012)	(2,526)
<b>112,839</b>	<b>106,966</b>	<b>108,417</b>	<b>114,215</b>
<b>By time-to-maturity</b>			
15,105	12,614	6,327	8,989
55,893	50,118	50,118	55,893
11,486	12,617	12,617	11,486
19,599	23,012	30,750	27,090
10,756	8,604	8,604	10,756
<b>112,839</b>	<b>106,966</b>	<b>108,417</b>	<b>114,215</b>
<b>Fixed-rate loans</b>			
569	189	189	569
577	195	195	577
<b>Finance leases</b>			
-	-	5,921	5,915
-	-	<b>5,915</b>	<b>5,521</b>
-	-	2,619	2,850
-	-	2,614	2,456
-	-	<b>5,921</b>	<b>5,915</b>
<b>By time-to-maturity</b>			
-	-	618	625
-	-	1,308	1,321
-	-	3,768	3,774
-	-	226	194
-	-	<b>5,920</b>	<b>5,915</b>
<b>Gross investments in finance leases</b>			
<b>By time-to-maturity</b>			
-	-	1,991	1,998
-	-	3,946	3,947
-	-	506	477
-	-	<b>6,443</b>	<b>6,422</b>
-	-	523	507
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.			
-	-	86	86
Non-guaranteed residual values on expiry of the leases represent DKK 0.			

# NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>21. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (CONTINUED)</b>			
%	%	%	%
<b>Loans, advances and guarantee debtors by sector as %, year-end</b>			
1	1	1	1
<b>Public sector</b>			
<b>Business customers</b>			
2	2	2	3
5	6	7	6
2	5	5	2
2	1	2	2
5	6	6	5
3	4	5	4
2	2	2	2
40	36	31	36
10	12	12	9
6	6	6	7
<b>78</b>	<b>82</b>	<b>81</b>	<b>77</b>
22	18	19	23
<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
The sector distribution is based on the official Danish activity codes.			
<b>22. BONDS AT FAIR VALUE</b>			
38,612	35,221	36,369	39,612
3,393	2,137	2,155	3,401
1,482	1,324	1,331	1,482
<b>43,487</b>	<b>38,681</b>	<b>39,854</b>	<b>44,495</b>
178	174	174	178
<b>43,308</b>	<b>38,508</b>	<b>39,680</b>	<b>44,317</b>
The effect of fair value adjustment is recognised in the income statement.			
1,285	1,082	1,086	1,290
15,518	10,304	10,304	15,518
<b>Maturities based on the nominal maturities of the securities</b>			
9,378	12,456	12,541	9,517
21,879	16,103	17,016	22,693
12,051	9,949	10,123	12,107
<b>43,308</b>	<b>38,508</b>	<b>39,680</b>	<b>44,317</b>

## NOTES

DKK million

Nykredit Bank A/S			Nykredit Bank Group	
2019	2020		2020	2019
		<b>23. BONDS AT AMORTISED COST</b>		
6,344	-	Covered bonds issued by Nykredit Realkredit A/S	-	6,344
<b>6,344</b>	<b>-</b>	<b>Total</b>	<b>-</b>	<b>6,344</b>
3,042	4,967	As collateral for the Danish central bank, Danmarks Nationalbank and foreign clearing centres etc, bonds at fair value and amortised cost have been deposited of a total market value of	4,967	3,042
		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.		
		<b>24. EQUITIES ETC</b>		
118	130	Equities measured at fair value through profit or loss	142	128
<b>118</b>	<b>130</b>	<b>Total</b>	<b>142</b>	<b>128</b>
		<b>Specification of equity portfolios</b>		
66	93	Listed on Nasdaq Copenhagen A/S	98	70
-	-	Listed on other stock exchanges	4	3
52	37	Unlisted equities carried at fair value	40	55
<b>118</b>	<b>130</b>	<b>Total</b>	<b>142</b>	<b>128</b>
		<b>25. INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES</b>		
		<b>Investments in associates</b>		
<b>2</b>	<b>6</b>	<b>Cost, beginning of year</b>	<b>6</b>	<b>2</b>
4	-	Additions	0	4
<b>6</b>	<b>6</b>	<b>Cost, year-end</b>	<b>6</b>	<b>6</b>
<b>5</b>	<b>8</b>	<b>Revaluations and impairment charges, beginning of year</b>	<b>8</b>	<b>5</b>
-	8	Received dividend	8	-
3	7	Profit before tax	7	3
<b>8</b>	<b>7</b>	<b>Revaluations and impairment charges, year-end</b>	<b>7</b>	<b>8</b>
<b>15</b>	<b>14</b>	<b>Balance, year-end</b>	<b>14</b>	<b>15</b>
		<b>Investments in Group enterprises</b>		
<b>425</b>	<b>931</b>	<b>Cost, beginning of year</b>	<b>-</b>	<b>-</b>
-	(57)	Adjustment of opening balance sheet	-	-
506	-	Additions	-	-
-	11	Disposals	-	-
<b>931</b>	<b>863</b>	<b>Cost, year-end</b>	<b>-</b>	<b>-</b>
<b>1,218</b>	<b>1,352</b>	<b>Revaluations and impairment charges, beginning of year</b>	<b>-</b>	<b>-</b>
150	50	Received dividend	-	-
367	432	Profit before tax	-	-
83	95	Tax	-	-
<b>1,352</b>	<b>1,638</b>	<b>Revaluations and impairment charges, year-end</b>	<b>-</b>	<b>-</b>
<b>2,283</b>	<b>2,501</b>	<b>Balance, year-end</b>	<b>-</b>	<b>-</b>
		<b>Subordinated receivables</b>		
546	547	Other enterprises	547	546
<b>546</b>	<b>547</b>	<b>Total</b>	<b>547</b>	<b>546</b>

## NOTES

		DKK million	
Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>25. INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES (CONTINUED)</b>			
<b>Balances with associates and Group enterprises</b>			
<b>Group enterprises</b>			
<b>Asset items</b>			
6,116	6,287	-	-
8	93	-	-
<b>6,124</b>	<b>6,380</b>	<b>-</b>	<b>-</b>
<b>Liability items</b>			
176	122	-	-
7	93	-	-
<b>183</b>	<b>214</b>	<b>-</b>	<b>-</b>
<b>26. INTANGIBLE ASSETS</b>			
<b>26 a. Customer relationships</b>			
<b>35</b>	-	<b>170</b>	<b>35</b>
-	-	-	170
35	-	-	35
-	-	<b>170</b>	<b>170</b>
<b>35</b>	-	<b>8</b>	<b>35</b>
-	-	24	8
35	-	-	35
-	-	<b>32</b>	<b>8</b>
-	-	<b>138</b>	<b>162</b>
<b>26 b. Goodwill</b>			
<b>14</b>	<b>1,699</b>	<b>1,699</b>	<b>14</b>
1,685	70	70	1,685
<b>1,699</b>	<b>1,769</b>	<b>1,769</b>	<b>1,699</b>
<b>1,699</b>	<b>1,769</b>	<b>1,769</b>	<b>1,699</b>
14	14	14	14
1,685	1,755	1,755	1,685
<b>1,699</b>	<b>1,769</b>	<b>1,769</b>	<b>1,699</b>
Acquisition of Amber Fondsmæglerselskab A/S in 2011: Goodwill was allocated to the business area Wholesale.			
Acquisition of Sparinvest Holdings SE in 2019: Goodwill was allocated to the business area Wealth Management. (Nykredit Group level) as the underlying cash flows are principally generated by this business area. Internal financial reporting is made at Nykredit Group level to the Management, which also monitors the value of goodwill.			

Customer relationships relating to the investment in Sparinvest have been determined at DKK 170 million, which is amortised over 7 years. The value relates to the distribution network and administration and asset management activities.

		DKK million	
Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
	<b>26. INTANGIBLE ASSETS (CONTINUED)</b>		
	<b>26. b Goodwill (continued)</b>		
	<b>The impairment test is based on the following assumptions:</b>		
		2020	2019
	Acquired goodwill (Sparinvest)	1,755	1,685
	Required rate of return before tax, %	11	
	Average annual business growth in the budget period, %	6	
	Fixed annual business growth in the terminal period, %	2	
	<p>If average annual growth in the budget period declines by 1.0 percentage point, this will not lead to impairment. Similarly, an increased return requirement of 1 percentage point will not lead to impairment.</p> <p>Goodwill is tested for impairment once a year and is measured at cost less accumulated impairment. If the impairment test indicates a value, which is lower than the carrying amount, goodwill will be written down to the recoverable amount. Goodwill has not been amortised, and an impairment test has provided no evidence of goodwill impairment.</p> <p>The recoverable amount is calculated as the present value of the expected cash flows from the unit to which allocation of goodwill is made.</p> <p>Expected cash flows included in the value calculation and impairment test are based on a 5-year budget period that reflects existing budgets and the short-term earnings outlook as well as a subsequent terminal period where growth rates are kept at approximately 2%. The development in the budget period is based on the development over the past few years and includes expected intake of new customers, increased volumes of existing customers and value increases of existing portfolios. Fees are generally unchanged in the period. Costs have been projected using an expected price index number. The effect thereof has been partly offset by synergies resulting from acquisition. The value of Sparinvest has indefinite useful life which can be maintained for an indefinite period, as Sparinvest is a well-established brand which have existed for decades. The discounting is unchanged with 2019 and still based on a return requirement of 11%, or 8.5% after tax. The determination is based on an analysis of the equity market's return requirements for financial undertakings, and it has subsequently been reduced by about 1 percentage point as most activities are investment management and portfolio administration, which generally have lower risk profiles. This corresponds to the return requirement, which formed the basis for the investment in Sparinvest.</p>		
	<b>26 c. Software</b>		
-	- Cost, beginning of year	9	-
-	- Additions for the year	23	9
-	- <b>Cost, year-end</b>	<b>32</b>	<b>9</b>
-	- Amortisation, beginning of year	3	-
-	- Amortisation for the year	4	3
-	- <b>Amortisation, year-end</b>	<b>7</b>	<b>3</b>
-	- <b>Total software, year-end</b>	<b>25</b>	<b>6</b>
	<b>27. LAND AND PROPERTY</b>		
	<b>27 a. Equipment</b>		
-	- Cost, beginning of year	5	-
-	- Additions	-	6
-	- Disposals	-	1
-	- <b>Cost, year-end</b>	<b>5</b>	<b>5</b>
-	- Depreciation and impairment, beginning of year	-	-
-	- Depreciation for the year	3	1
-	- Reversal of depreciation and impairment	-	1
-	- <b>Depreciation and impairment, year-end</b>	<b>3</b>	<b>-</b>
-	- <b>Total equipment, year-end</b>	<b>2</b>	<b>5</b>
	Equipment is depreciated over 3-5 years and had an average residual depreciation period of 0 years at 31 December 2020 (end-2019: 0 years).		

# NOTES

	DKK million	
	Nykredit Bank Group	
	2020	2019
<b>27. LAND AND PROPERTY (CONTINUED)</b>		
<b>27 b. Leased property</b>		
<b>Cost, beginning of year</b>	24	-
Additions, including improvements	-	24
Disposals	(1)	-
<b>Cost, year-end</b>	<b>23</b>	<b>24</b>
<b>Depreciation and impairment, beginning of year</b>	1	
Depreciation for the year	3	1
<b>Depreciation and impairment, year-end</b>	<b>4</b>	<b>1</b>
<b>Balance, year-end</b>	<b>19</b>	<b>23</b>

	2020		2019	
	Minimum lease pay-ments	Present value of mini-mum lease payments	Minimum lease pay-ments	Present value of mini-mum lease payments
0-1 year	4	4	4	4
1-5 years	15	15	16	15
5-10 years	-	-	4	4
Over 10 years	-	-	-	0
<b>Total</b>	<b>19</b>	<b>19</b>	<b>24</b>	<b>23</b>

Leased assets concern properties from which Nykredit operates (owner-occupied properties). IFRS 16 was implemented in 2019, and additions for the year have mainly been calculated based on the present value of the remaining lease payments, excluding VAT and any services.

The discount rate is based on Nykredit's lending rate, which is determined on the basis of a swap rate with a term matching the remaining lease term plus a Nykredit-specific credit spread. The total interest rate ranges between 0.55% for ultra short-term contracts and 1.11% for long-term contracts. For leases which have been terminated, the determination is based on the period until the end of the lease term, while the remaining portfolio has an average remaining term of about 7 years based on an estimate of the period in which Nykredit expects to occupy the properties.

Liabilities were DKK 19 million at end-2020 (2019: DKK 23 million). Interest relating to lease liabilities was DKK 4 million (2019: DKK 1 million).

# NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>28. ASSETS IN TEMPORARY POSSESSION</b>			
2	-	-	2
-	-	-	-
2	-	-	2
-	-	-	-
<b>29. OTHER ASSETS</b>			
860	761	803	897
21,004	21,968	21,968	21,004
3,863	3,440	3,503	3,938
<b>25,726</b>	<b>26,169</b>	<b>26,274</b>	<b>25,839</b>
<b>Positive market value of derivative financial instruments etc</b>			
<b>By time-to-maturity</b>			
489	1,378	1,378	489
1,547	923	923	1,547
18,968	19,666	19,666	18,968
<b>21,004</b>	<b>21,968</b>	<b>21,968</b>	<b>21,004</b>
"Interest and commission receivable" and "Other" fall due within 1 year.			
<b>Minimum margin</b>			
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.			
350	317	317	350
(33)	(37)	(37)	(33)
<b>317</b>	<b>280</b>	<b>280</b>	<b>317</b>
182	161	161	182

"Assets in temporary possession" comprises 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	
2019	2020	2020	2019
<b>30. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS</b>			
63,511	37,586	37,586	63,511
3,121	3,901	3,901	3,121
18,522	7,634	7,634	18,522
<b>85,154</b>	<b>49,121</b>	<b>49,121</b>	<b>85,154</b>
Of total balances with banks, DKK 15 billion relates to a deposit from the Parent Nykredit Realkredit. The amount is used to meet the Danish FSA's minimum requirement for own funds and eligible liabilities (MREL requirement) of Nykredit Bank A/S at individual level.			
<b>Payables to credit institutions and central banks by time-to-maturity</b>			
18,569	15,763	15,763	18,569
43,083	10,763	10,763	43,083
9,472	6,730	6,730	9,472
14,031	15,865	15,865	14,031
<b>85,154</b>	<b>49,121</b>	<b>49,121</b>	<b>85,154</b>
<b>31. DEPOSITS AND OTHER PAYABLES</b>			
77,324	83,348	83,226	77,148
5	-	-	5
5,087	2,365	2,365	5,087
3,310	2,677	2,677	3,310
3,331	2,674	2,674	3,331
<b>89,057</b>	<b>91,065</b>	<b>90,943</b>	<b>88,881</b>
<b>By time-to-maturity</b>			
77,570	81,068	80,946	77,393
8,678	7,674	7,674	8,678
171	86	86	171
724	628	628	724
1,914	1,610	1,610	1,914
<b>89,057</b>	<b>91,065</b>	<b>90,943</b>	<b>88,881</b>
<b>32. BONDS IN ISSUE AT AMORTISED COST</b>			
3,959	5,574	5,574	3,959
(178)	(174)	(174)	(178)
<b>3,780</b>	<b>5,400</b>	<b>5,400</b>	<b>3,780</b>
<b>By time-to-maturity</b>			
3,260	3,126	3,126	3,260
520	2,274	2,274	520
<b>3,780</b>	<b>5,400</b>	<b>5,400</b>	<b>3,780</b>
<b>Issues</b>			
595	516	516	595
3,185	4,885	4,885	3,185
<b>3,780</b>	<b>5,400</b>	<b>5,400</b>	<b>3,780</b>

\* Listed on Nasdaq Copenhagen or the Luxembourg Stock Exchange.



# NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>33. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE</b>			
7,174	10,991	10,801	7,133
<b>7,174</b>	<b>10,991</b>	<b>10,801</b>	<b>7,133</b>
<b>Other non-derivative financial liabilities by time-to-maturity</b>			
401	210	210	401
2,697	2,678	2,489	2,656
4,077	8,103	8,102	4,077
<b>7,174</b>	<b>10,991</b>	<b>10,801</b>	<b>7,133</b>
<b>34. CURRENT TAX ASSETS AND LIABILITIES</b>			
<b>Current tax</b>			
(17)	46	69	19
-	-	(0)	26
263	266	348	334
(211)	(315)	(453)	(320)
10	21	31	10
<b>46</b>	<b>18</b>	<b>(5)</b>	<b>69</b>
<b>Current tax recognised in the balance sheet</b>			
(0)	-	(19)	(1)
46	18	14	71
<b>46</b>	<b>18</b>	<b>(5)</b>	<b>69</b>
<b>35. PROVISIONS FOR DEFERRED TAX/DEFERRED TAX ASSETS</b>			
<b>Deferred tax</b>			
(127)	(111)	55	24
18	8	29	32
(2)	(13)	(23)	1
-	-	-	(2)
<b>(111)</b>	<b>(116)</b>	<b>60</b>	<b>55</b>
<b>Deferred tax recognised in the balance sheet</b>			
(111)	(116)	(116)	(111)
-	-	212	166
<b>(111)</b>	<b>(116)</b>	<b>96</b>	<b>55</b>
<b>Deferred tax relates to:</b>			
(42)	(52)	172	185
(1)	(0)	-	(1)
(1)	(0)	30	(1)
(1)	(1)	4	(1)
-	-	(45)	(62)
5	2	2	5
(70)	(64)	(67)	(71)
<b>(111)</b>	<b>(116)</b>	<b>96</b>	<b>55</b>

# NOTES

		DKK million	
Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>36. OTHER LIABILITIES</b>			
712	584	Interest and commission payable	585 713
12,165	11,348	Negative market value of derivative financial instruments etc	11,348 12,165
1,223	638	Other	1,197 1,733
<b>14,101</b>	<b>12,570</b>	<b>Total</b>	<b>13,130 14,611</b>
<b>Negative market value of derivative financial instruments etc</b>			
<b>By time-to-maturity</b>			
483	1,350	Up to 1 year	1,350 483
825	517	Over 1 year and up to 5 years	517 825
10,858	9,481	Over 5 years	9,481 10,858
<b>12,165</b>	<b>11,348</b>	<b>Total</b>	<b>11,348 12,165</b>
"Interest and commission payable" and "Other" fall due within one year.			
<b>37. PROVISIONS</b>			
<b>Provisions for losses under guarantees</b>			
<b>117</b>	<b>137</b>	<b>Balance, beginning of year</b>	<b>137 117</b>
86	174	Additions	174 86
67	70	Reversal of unutilised amounts	70 67
<b>137</b>	<b>241</b>	<b>Balance, year-end</b>	<b>241 137</b>
<b>Other provisions</b>			
<b>22</b>	<b>89</b>	<b>Balance, beginning of year</b>	<b>148 22</b>
97	122	Additions	95 157
2	-	Reversal of unutilised amounts	- 2
29	-	Disposals	13 29
<b>89</b>	<b>211</b>	<b>Balance, year-end</b>	<b>230 148</b>
<b>Total provisions for losses under guarantees and other provisions</b>			
<b>139</b>	<b>226</b>	<b>Balance, beginning of year</b>	<b>284 139</b>
184	297	Additions	270 243
69	70	Reversal of unutilised amounts	70 69
29	-	Disposals	13 29
<b>225</b>	<b>453</b>	<b>Balance, year-end</b>	<b>471 284</b>

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

Nykredit Bank A/S			DKK million	
2019	2020		2020	2019
		<b>38. SUBORDINATED DEBT</b>		
		Subordinated debt consists of financial liabilities in the form of subordinate loan capital and Additional Tier 2 capital 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
<b>2,000</b>	<b>2,000</b>	<b>Total subordinated debt</b>	<b>2,000</b>	<b>2,000</b>
2,000	2,000	Subordinated debt that may be included in own funds	2,000	2,000
		<b>39. OFF BALANCE SHEET ITEMS</b>		
		Guarantees and warranties provided, irrevocable credit commitments and similar obligations not recognised in the balance sheets are presented below.		
36,073	29,725	Contingent liabilities	29,726	35,974
12,522	10,488	Other commitments	10,670	12,745
<b>48,595</b>	<b>40,214</b>	<b>Total</b>	<b>40,396</b>	<b>48,719</b>
		<b>39 a. Contingent liabilities</b>		
22,859	13,234	Financial guarantees	13,234	22,859
6,885	7,652	Registration and refinancing guarantees	7,652	6,885
6,329	8,839	Other contingent liabilities	8,840	6,230
<b>36,073</b>	<b>29,725</b>	<b>Total</b>	<b>29,726</b>	<b>35,974</b>
		"Other contingent liabilities" chiefly comprises purchase price and payment guarantees.		
		<b>Contingent liabilities by remaining terms</b>		
23,312	16,675	Up to 1 year	16,675	23,313
5,293	3,454	Over 1 year and up to 5 years	3,454	5,293
7,468	9,596	Over 5 years	9,596	7,368
<b>36,073</b>	<b>29,725</b>	<b>Total</b>	<b>29,726</b>	<b>35,974</b>
		The breakdown by remaining terms 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.		
		<b>39 b. Other commitments</b>		
12,510	10,478	Irrevocable credit commitments	10,478	12,510
12	10	Other	192	235
<b>12,522</b>	<b>10,488</b>	<b>Total</b>	<b>10,670</b>	<b>12,745</b>
		"Other" under "Other commitments" comprises obligations to and charges in favour of securities depositaries, investment commitments to private equity funds.		

Moreover, the Nykredit Bank Group had credit commitments of a term of less than 1 year totalling DKK 27.3 billion as at 31 December 2020.

## 39. OFF-BALANCE SHEET ITEMS (CONTINUED)

### 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)

Bankernes EDB Central (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.

## 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 2020 and 2019.

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.

Moreover, Nykredit Realkredit A/S has granted loans of DKK 2.0 billion to Nykredit Bank in the form of Tier 2 capital and in 2019 contributed another DKK 2.0 billion to Nykredit Bank in the form of Tier 1.

#### 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 etc. 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 2019 and 2020 Nykredit Bank transferred secured homeowner loans to Totalkredit A/S.

# NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>40. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)</b>			
<b>40 A. TRANSACTIONS WITH THE PARENT, NYKREDIT REALKREDIT A/S, AND ITS GROUP ENTERPRISES AND ASSOCIATES</b>			
<b>Income statement</b>			
147	100	Interest income	100 147
(9)	(9)	Negative interest, income	(9) (9)
(122)	(91)	Negative interest, expenses	(91) (122)
38	49	Interest expenses	49 38
454	351	Fee and commission income	351 454
5	2	Fee and commission expenses	2 5
-	300	Other operating income	300 -
103	31	Value adjustments	31 103
570	735	Costs	810 663
<b>Asset items</b>			
44	44	Receivables from credit institutions and central banks	44 44
12,013	6,251	Bonds at fair value	6,816 12,631
307	321	Other assets	321 307
<b>Liability items</b>			
68,919	36,138	Payables to credit institutions and central banks	36,138 68,919
-	-	Deposits and other payables	- -
30	11	Other liabilities	11 30
2,000	2,000	Subordinated debt	2,000 2,000
<b>40 b. Transactions with other Group enterprises</b>			
<b>Income statement</b>			
19	16	Interest income	- -
1	1	Interest expenses	- -
13	4	Fee and commission income	- -
3	-	Fee and commission expenses	- -
18	40	Staff and administrative expenses	- -
<b>Asset items</b>			
6,116	6,287	Loans, advances and other receivables at amortised cost	- -
8	56	Other assets	- -
<b>Liability items</b>			
176	122	Deposits and other payables	- -
48	283	Other liabilities	- -

## 41. FAIR VALUE DISCLOSURES

### Valuation principles

Financial instruments are measured at fair value or amortised cost in the balance sheet. The tables in notes 41 a. and 41 b. show the fair values of all instruments compared with the carrying amounts at which the instruments are recognised in the balance sheet.

### Financial instruments measured at fair value

The Group's fair value assets and liabilities are generally 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 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 41 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 marketplace.

Bonds at fair value are recognised at listed prices if external prices have been updated within the past two 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 inputs.

### 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 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. Unlisted derivatives generally belong to this category.

Bonds not traded in the past two 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 impairment 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 entailing increased CVA are included in the value adjustment.

Furthermore, a Funding Valuation Adjustment (FVA) for the valuation of derivatives is used. FVA allows for Nykredit's future funding costs incurred by derivatives transactions where clients have not provided sufficient collateral. Nykredit has used a funding curve for this calculation, which is assessed on the basis of objective prices of Danish SIFI banks' traded bonds. This calculation is made on the basis of a discount curve method.

FVA may involve both a funding benefit and a funding cost, 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 amounted to DKK 496 million at 31 December 2020 against DKK 527 million at end-2019.

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 etc. The minimum margin is amortised at the valuation of derivatives over their times-to-maturity. At 31 December 2020, the non-amortised minimum margin amounted to DKK 119 million against DKK 135 million at end-2019. With regard to liquidity and credit risk, DKK 161 million for end-2020 and DKK 182 million for 2019 have been included above in the net adjustment of FVA and CVA. 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 etc 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 lowest rating categories have been adjusted for increased credit risk based on additional CVA. The adjustment uses for instance the statistical data applied by Nykredit Bank to calculate expected credit losses on loans and advances at amortised cost. Interest rate swaps which have been fair value adjusted to DKK 0 (after deduction for collateral) due to the creditworthiness of the counterparty are also included in the category "Unobservable inputs".

Following value adjustment, the fair value came to DKK 37 million at 31 December 2020. Credit value adjustments came to DKK 1,843 million at 31 December 2020 (2019: DKK 2,301 million).

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 79 million.

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 2020, the proportion was thus 0.2% compared with 1.6% at end-2019. The proportion of financial liabilities was 0.0% against 0.0% at end-2019.

Valuation, notably of instruments classified as unobservable inputs, is subject to some uncertainty. Of total assets and liabilities, DKK 0,1 billion (2019: DKK 1.1 billion) 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 13.5 million at 31 December 2020 (0.05% of equity at 31 December 2020). The earnings impact for 2019 was estimated at DKK 108 million (0.44% of equity at 31 December 2019).

## 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 2020 and 2019, 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 mainly result from bonds that are reclassified either due to traded volume or the number of days between last transaction and the time of determination. In 2020 financial assets of DKK 2.8 billion were transferred from Listed prices to Observable inputs and DKK 2.4 billion from Observable inputs to Listed prices. Financial liabilities of DKK 0.4 billion were transferred from Listed prices to Observable inputs and DKK 0.0 billion 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 2020, the amount was DKK 1.1 billion against DKK 1.3 billion at end-2019.

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

# NOTES

DKK million

Nykredit Bank Group

## 41. FAIR VALUE DISCLOSURES (CONTINUED)

### 41 a. Fair value disclosures of assets and liabilities recognised at amortised cost

41 a. Fair value disclosures of assets and liabilities recognised at amortised cost				Fair value calculated on the basis of		
2020	Carrying amount	Fair value	Balance	Listed prices	Observable inputs	Unobservable inputs
<b>Assets</b>						
Loans, advances and other receivables at amortised cost	108,417	108,593	176	-	-	108,593
Bonds at amortised cost	-	-	-	-	-	-
<b>Total</b>	<b>108,417</b>	<b>108,593</b>	<b>176</b>	<b>-</b>	<b>-</b>	<b>108,593</b>
<b>Liabilities</b>						
Bonds in issue at amortised cost	5,400	5,408	(8)	-	5,408	-
<b>Total</b>	<b>5,400</b>	<b>5,408</b>	<b>(8)</b>	<b>-</b>	<b>5,408</b>	<b>-</b>
Transfer from assets			176			
<b>Total balance</b>			<b>168</b>			
<b>2019</b>						
<b>Assets</b>						
Loans, advances and other receivables at amortised cost	114,215	114,406	191	-	-	114,406
Bonds at amortised cost	6,344	6,352	8	-	6,352	-
<b>Total</b>	<b>120,559</b>	<b>120,758</b>	<b>199</b>	<b>-</b>	<b>6,352</b>	<b>114,406</b>
<b>Liabilities</b>						
Bonds in issue at amortised cost	3,780	3,801	(21)	-	3,801	-
<b>Total</b>	<b>3,780</b>	<b>3,801</b>	<b>(21)</b>	<b>-</b>	<b>3,801</b>	<b>-</b>
Transfer from assets			199			
<b>Total balance</b>			<b>178</b>			



Nykredit Bank Group

## 41. FAIR VALUE DISCLOSURES (CONTINUED)

### 41 b. Fair value of assets and liabilities recognised at fair value (IFRS hierarchy)

31 December 2020

	Listed prices	Observable inputs	Unobservable inputs	Total fair value
<b>Financial assets:</b>				
- bonds at fair value	8,549	31,131	-	39,680
- equities measured at fair value through profit or loss	103	-	38	142
- positive fair value of derivative financial instruments	21	21,910	37	21,968
<b>Total</b>	<b>8,674</b>	<b>53,041</b>	<b>75</b>	<b>61,790</b>
<b>Percentage</b>	<b>14.0</b>	<b>85.8</b>	<b>0.1</b>	<b>100.0</b>
<b>Financial liabilities:</b>				
- other non-derivative financial liabilities at fair value	3,825	6,976	-	10,801
- negative fair value of derivative financial instruments	26	11,322	-	11,348
<b>Total</b>	<b>3,851</b>	<b>18,298</b>	<b>-</b>	<b>22,149</b>
<b>Percentage</b>	<b>17.4</b>	<b>82.6</b>	<b>-</b>	<b>100.0</b>

### Assets and liabilities measured on the basis of unobservable inputs

	Bonds	Equities	Derivatives	Total
<b>Fair value, beginning of year, assets</b>	<b>-</b>	<b>39</b>	<b>1,033</b>	<b>1,072</b>
Unrealised capital gains and losses recognised in "Value adjustments" in the income statement	-	(1)	(385)	(386)
Purchases for the year	-	-	-	-
Sales for the year	-	(1)	(117)	(118)
Transferred from Listed prices and Observable inputs <sup>1</sup>	-	1	373	375
Transferred to Listed prices and Observable inputs <sup>2</sup>	-	-	(868)	(868)
<b>Fair value, year-end, assets</b>	<b>-</b>	<b>38</b>	<b>37</b>	<b>75</b>

<sup>1</sup> Transfers from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.

<sup>2</sup> Transfers to Observable inputs from Unobservable inputs principally consist of interest rate swaps for which individual adjustment for increased credit risk is no longer required.

Nykredit Bank Group

## 41. FAIR VALUE DISCLOSURES (CONTINUED)

### 41 b. Fair value of assets and liabilities recognised at fair value (IFRS hierarchy)

31 December 2019

	Listed prices	Observable inputs	Unobservable inputs	Total fair value
<b>Financial assets:</b>				
- bonds at fair value	18,390	25,927	-	44,317
- equities measured at fair value through profit or loss	89	-	39	128
- positive fair value of derivative financial instruments	5	19,965	1,033	21,004
<b>Total</b>	<b>18,484</b>	<b>45,892</b>	<b>1,072</b>	<b>65,448</b>
<b>Percentage</b>	<b>28.2</b>	<b>70.1</b>	<b>1.6</b>	<b>100.0</b>

<b>Financial liabilities:</b>				
- other non-derivative financial liabilities at fair value	3,234	3,899	-	7,133
- negative fair value of derivative financial instruments	30	12,135	-	12,165
<b>Total</b>	<b>3,264</b>	<b>16,034</b>	<b>-</b>	<b>19,298</b>
<b>Percentage</b>	<b>16.9</b>	<b>83.1</b>	<b>-</b>	<b>100.0</b>

### Assets and liabilities measured on the basis of unobservable inputs

	Bonds	Equities	Derivatives	Total
<b>Fair value, beginning of year, assets</b>	<b>-</b>	<b>82</b>	<b>1,495</b>	<b>1,577</b>
Unrealised capital gains and losses recognised in "Value adjustments" in the income statement	-	8	(119)	(111)
Purchases for the year	-	-	-	-
Sales for the year	-	(0)	(162)	(162)
Transferred from Listed prices and Observable inputs <sup>1</sup>	-	6	388	394
Transferred to Listed prices and Observable inputs <sup>2</sup>	-	(57)	(569)	(627)
<b>Fair value, year-end, assets</b>	<b>-</b>	<b>39</b>	<b>1,033</b>	<b>1,072</b>

<sup>1</sup> Transfers from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.

<sup>2</sup> Transfers to Observable inputs from Unobservable inputs principally consist of interest rate swaps for which individual adjustment for increased credit risk is no longer required.

# NOTES

DKK million

Nykredit Bank Group

## 42. OFFSETTING

	Gross amounts	Financial instru- ments offset	Carrying amount after offsetting	Further offset- ting, master net- ting agreements	Collateral	Net amounts
<b>2020</b>						
<b>Financial assets</b>						
Derivatives with a positive fair value	37,922	15,954	21,968	8,461	2,802	10,705
Reverse repo transactions	41,613	3,093	38,520	-	38,487	33
<b>Total</b>	<b>79,535</b>	<b>19,047</b>	<b>60,488</b>	<b>8,461</b>	<b>41,289</b>	<b>10,738</b>
<b>Financial liabilities</b>						
Derivatives with a negative fair value	27,302	15,954	11,348	8,461	2,396	491
Repo transactions	13,401	3,093	10,308	-	10,296	12
<b>Total</b>	<b>40,703</b>	<b>19,047</b>	<b>21,656</b>	<b>8,461</b>	<b>12,692</b>	<b>503</b>
<b>2019</b>						
<b>Financial assets</b>						
Derivatives with a positive fair value	33,097	12,093	21,004	7,671	3,135	10,198
Reverse repo transactions	55,094	2,137	52,957	-	52,892	65
<b>Total</b>	<b>88,191</b>	<b>14,230</b>	<b>73,961</b>	<b>7,671</b>	<b>56,027</b>	<b>10,263</b>
<b>Financial liabilities</b>						
Derivatives with a negative fair value	24,258	12,093	12,165	7,671	4,239	255
Repo transactions	23,991	2,137	21,854	-	21,786	68
<b>Total</b>	<b>48,249</b>	<b>14,230</b>	<b>34,019</b>	<b>7,671</b>	<b>26,025</b>	<b>323</b>

Financial assets and liabilities are offset and the net amount reported when the Group and the counterparty have a legally enforceable right of set-off and have agreed to settle on a net basis or to realise the asset and settle the liability.

Positive and negative fair values of derivative financial instruments with the same counterparty are offset if it has been agreed to settle contractual payments on a net basis when cash payments are made or collateral is provided on a daily basis in case of fair value changes. The Group's netting of positive and negative fair values of derivative financial instruments may be cleared through LCH (CCP clearing).

Furthermore, netting is carried out in accordance with enforceable master netting agreements. Master netting agreements and similar agreements entitle parties to offset in the event of default, which further reduces the exposure to a defaulting counterparty but does not meet the conditions for accounting offsetting in the balance sheet.

## 43. DERIVATIVE FINANCIAL INSTRUMENTS

By time-to-maturity	Net 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	Positive market value	Negative market value	Net market value	
<b>2020</b>								
<b>Foreign exchange contracts</b>								
Forward contracts/futures, purchased	(821)	(106)	(8)	-	144	1,079	(936)	56,817
Forward contracts/futures, sold	757	106	8	-	1,004	134	870	57,308
Swaps	-	61	9	27	160	63	98	5,479
Options, purchased	2	2	0	-	5	-	5	183
Options, written	(3)	(2)	(0)	-	0	5	(5)	184
<b>Interest rate contracts</b>								
Forward contracts/futures, purchased	10	-	-	-	16	6	10	13,566
Forward contracts/futures, sold	(14)	-	-	-	5	19	(14)	10,526
Forward rate agreements, purchased	(0)	0	-	-	0	0	(0)	10,551
Forward rate agreements, sold	0	(0)	-	-	0	0	0	10,836
Swaps	(24)	80	395	10,106	20,513	9,956	10,557	643,562
Options, purchased	6	0	3	67	104	28	76	27,095
Options, written	-	(29)	(0)	(16)	-	45	(45)	13,688
<b>Equity contracts</b>								
Forward contracts/futures, purchased	0	-	-	-	0	0	0	9
Forward contracts/futures, sold	(1)	-	-	-	0	1	(1)	27
Swaps	-	-	-	-	-	-	-	-
<b>Credit contracts</b>								
Swaps	-	-	-	-	-	-	-	-
<b>Total</b>							<b>10,614</b>	

# NOTES

DKK million

Nykredit Bank Group

## 43. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

By time-to-maturity	Net 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	Positive market value	Negative market value	Net market value	
<b>2019</b>								
<b>Foreign exchange contracts</b>								
Forward contracts/futures, purchased	(168)	15	(11)	-	106	272	(165)	56,387
Forward contracts/futures, sold	161	(9)	12	-	268	104	164	51,213
Swaps	-	-	85	34	219	100	119	5,598
Options, purchased	0	1	1	-	2	0	2	218
Options, written	(0)	(1)	(1)	-	0	2	(2)	217
<b>Interest rate contracts</b>								
Forward contracts/futures, purchased	(20)	(0)	-	-	0	21	(21)	19,216
Forward contracts/futures, sold	(4)	(0)	-	-	5	9	(4)	19,545
Forward rate agreements, purchased	7	2	-	-	9	0	9	26,514
Forward rate agreements, sold	(8)	(2)	-	-	0	10	(10)	26,764
Swaps	(2)	(9)	689	8,000	20,181	11,504	8,677	559,713
Options, purchased	-	0	9	86	119	24	96	32,317
Options, written	-	(0)	(62)	(11)	-	73	(73)	15,759
<b>Equity contracts</b>								
Forward contracts/futures, purchased	0	-	-	-	0	0	0	1
Forward contracts/futures, sold	(0)	-	-	-	0	0	(0)	15
<b>Credit contracts</b>								
Swaps	-	-	-	-	-	-	-	-
<b>Total</b>							<b>8,792</b>	

## 44. UNSETTLED SPOT TRANSACTIONS

### Nykredit Bank Group

	2020 Market value				2019
	Nominal value	Positive	Negative	Net market value	Net market value
Foreign exchange contracts, purchased	1,196	2	1	1	(7)
Foreign exchange contracts, sold	2,414	1	3	(1)	(0)
Interest rate contracts, purchased	9,950	2,190	-	2,190	59
Interest rate contracts, sold	10,972	3	2,188	(2,185)	(6)
Equity contracts, purchased	408	2	2	0	(1)
Equity contracts, sold	377	3	1	1	1
<b>Total</b>	<b>25,318</b>	<b>2,201</b>	<b>2,195</b>	<b>7</b>	<b>46</b>
<b>Total, the year before</b>	<b>37,380</b>	<b>93</b>	<b>47</b>	<b>46</b>	<b>6</b>

### Nykredit Bank A/S

	2020 Market value				2019
	Nominal value	Positive	Negative	Net market value	Net market value
Foreign exchange contracts, purchased	1,196	2	1	1	(7)
Foreign exchange contracts, sold	2,414	1	3	(1)	(0)
Interest rate contracts, purchased	9,950	6	(2,184)	2,190	59
Interest rate contracts, sold	10,972	3	2,188	(2,185)	(6)
Equity contracts, purchased	408	2	2	0	(1)
Equity contracts, sold	377	3	1	1	1
<b>Total</b>	<b>25,318</b>	<b>16</b>	<b>10</b>	<b>7</b>	<b>46</b>
<b>Total, the year before</b>	<b>37,380</b>	<b>93</b>	<b>47</b>	<b>46</b>	<b>6</b>

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

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

# NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>45. REPO TRANSACTIONS AND REVERSE REPURCHASE LENDING</b>			
<p>Nykredit Bank applies repo transactions and reverse repurchase lending in its day-to-day business operations. All transactions were entered into using bonds as the underlying asset</p> <p>Nykredit Bank offsets financial assets and liabilities in connection with derivative contracts entered into with the same counterparty, where there is a right of set-off and netting of payments has been agreed.</p> <p><b>Of the asset items below, reverse repurchase lending represents:</b></p>			
4,209	1,248	1,248	4,209
4,192	1,245	1,245	4,192
<b>17</b>	<b>3</b>	<b>3</b>	<b>17</b>
<b>Total less collateral</b>			
50,886	40,364	40,364	50,886
2,137	3,093	3,093	2,137
<b>48,749</b>	<b>37,271</b>	<b>37,271</b>	<b>48,749</b>
<b>Carrying amount after set-off</b>			
48,700	37,242	37,242	48,700
<b>49</b>	<b>30</b>	<b>30</b>	<b>49</b>
<b>Total less collateral</b>			
<b>Of the liability items below, repo transactions represent:</b>			
18,522	7,634	7,634	18,522
18,484	7,630	7,630	18,484
5,469	5,766	5,766	5,469
2,137	3,093	3,093	2,137
<b>3,331</b>	<b>2,674</b>	<b>2,674</b>	<b>3,331</b>
<b>Carrying amount after set-off</b>			
3,302	2,666	2,666	3,302
<b>Bonds provided as collateral</b>			

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

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

## 46. RISK MANAGEMENT

### Risk profile

Nykredit's risk profile mainly relates to loans and credit facilities provided to personal and business customers. The business activities and 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 having adequate capital. Liquidity risk is mitigated by having a sufficient stock of liquid assets.

Nykredit publishes a report annually entitled Risk and Capital Management, available at [nykredit.com/riskandcapitalmanagement](https://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 payment obligations.

Credit risk is managed in accordance with the credit policy. The credit policy is reviewed and adopted by the Board of Directors and is based on the Nykredit Group's strategy and the aim that customers should perceive Nykredit as a reliable and qualified financial partner.

All credit applications are assessed against the credit policy by financially trained, and qualified staff. Specifically, they assess the willingness and ability of customers to meet their obligations to Nykredit. The assessment of a customer's creditworthiness is the core element, supported by any security provided, including mortgages on real estate.

Nykredit's customer centres have been authorised to process most credit applications independently, as it is Nykredit's aim that most credit decisions should be made locally by a financially trained, qualified customer adviser. The authority comes with a requirement of credit policy and business procedure certification every three years, in addition to the statutory certification.

Nykredit has five regional credit units that process business customers' credit applications that exceed the authority assigned to the customer centres. Applications exceeding the authority of the regional credit units are processed centrally by Group Credits, unless they involve exposures requiring escalation to the Credits Committee, the Bank 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 customer 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 a material part of the assessment of personal and business customers.

At least once a year, the Bank's exposures exceeding DKK 1 million are reviewed. This forms part of the monitoring of credit exposures and is based on updated financial and customer information. In addition, all exposures showing signs of risk are reviewed, including minor exposures, to identify any need for changing a rating or for 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.

### Credit models

Nykredit uses internal ratings-based (IRB) models in its risk management and for the determination of the capital requirement for credit risk for the greater part of the loan portfolio. The determination of credit risk is based on three key parameters: Probability of Default (PD), expected Loss Given Default (LGD) and expected Exposure at Default (EAD). These three key parameters are referred to as risk parameters. Nykredit estimates these risk parameters on the basis of Nykredit's default and loss history.

### Modelling principles

According to the CRR, PDs must be estimated on the basis of historical 1-year PDs while at the same time reflecting 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.



## Elements of credit risk determination

PD	Probability of Default (PD) is the probability of a customer defaulting on an obligation to Nykredit.
LGD	Loss Given Default (LGD) is the estimated loss rate of an exposure in case of a customer's default.
EAD	Exposure at Default (EAD) 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 (REA) is calculated by risk-weighting credit exposures relating to the individual customer. The risk weighting is calculated on the basis of PD and LGD.
Default	<p><i>Applicable as at 31 December 2020:</i></p> <p>An exposure is in default at the time of sending the third reminder (typically 25 days past due). Exposures subject to impairment under certain circumstances or write-offs are also considered in default. The same applies to customers classified in stage 3 and some customers classified in stage 2 in accordance with the rules of IFRS 9. The stages are described in detail in the accounting policies. Exposures for which a direct loss has been incurred are also considered in default.</p> <p><i>Applicable from 1 January 2021:</i></p> <p>With effect from 1 January 2021, Nykredit has updated its definition of exposures in default and defined, for both mortgage and bank exposures, a number of events that make it unlikely that a customer will be able to pay its credit obligations without realisation of collateral. The main ones are: events leading to IFRS 9 stage 3, bankruptcy, distressed restructuring and significant arrears/overdrafts (90 days past due).</p>

## Rating scale and limit values

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%

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 probability of default. Manual correction of the calculated rating is referred to as override.

### Loss Given Default (LGD)

For each customer product, Nykredit calculates an LGD, reflecting the percentage share of the exposure which is expected to be lost in case of customer default.

Expected LGDs vary with economic trends. In periods of high business activity, default will often not lead to any loss, as the value of the security will typically exceed the value of the loan. This applies in particular to loans secured by mortgages on real estate. Conversely, more and greater losses would be expected during an economic downturn.

For the determination of capital requirements, LGDs are calibrated to reflect losses during a severe economic downturn.

### Exposure at Default (EAD)

Nykredit 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).

### Model validation and reliability

Nykredit continuously develops and improves its credit risk models, including internal models for calculation of impairment under IFRS 9. Focus is on achieving models that are accurate and yield consistent and stable parameters.

The Group Risk Committee and a number of control units are responsible for monitoring and managing the Group's model risks. This includes assessing all models, model changes and results of model validation. Main conclusions regarding model risks and from the validation work are reported to the Group Risk Committee, Executive Boards, the Board Risk Committee, as well as Boards of Directors.

### 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 2020.

The Bank's largest single exposure to a non-financial counterparty was DKK 4.4 billion at end-2020, equal to 16% of eligible capital.

The PDs of individual customers are translated into ratings from 0 to 10, 10 being the highest rating. Exposures in default are placed in a category of their own, outside the rating scale. The individual rating categories have been defined based on fixed PD ranges, which 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.

At end-2020 the Bank's 20 largest exposures to non-financial counterparties totalled DKK 31,3 billion, equivalent to 132% of eligible capital. In 2019 the Bank's 20 largest exposures to non-financial counterparties amounted to DKK 24.9 billion, equivalent to 110% of eligible capital.

Nykredit Bank has allocated capital under Pillar II to cover any potential concentration risk in addition to the regulatory capital requirement under Pillar I.

## Risk exposure amount for credit risk

Nykredit Bank's REA for credit risk fell from DKK 79.9 billion in 2019 to DKK 75.6 billion in 2020.

Nykredit Bank Group		
REA for credit risk excluding counterparty risk (CCR)		
DKK million	2020	2019
Standardised approach	8,196	7,779
IRB approach	66,555	70,591
Other non credit-obligation assets	830	1,525
<b>Total credit risk excluding CCR</b>	<b>75,581</b>	<b>79,894</b>

## 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. Interest rate swaps, FRAs and repo transactions are cleared through CCPs.

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' creditworthiness.

REA for counterparty risk after netting and collateral was DKK 18.4 billion at end-2020. Of this amount, derivatives represented DKK 16.9 billion and repo transactions DKK 0.9 billion. The remaining DKK 0.6 billion related to credit valuation adjustment (CVA) and default fund contributions (CCP).

## Value adjustment of derivatives

Nykredit makes fair value adjustments of derivatives, including credit valuation adjustments (CVA) and funding valuation adjustments (FVA), in accordance with the International Financial Reporting Standards (IFRS). This includes individual value adjustments of customers showing objective evidence of credit impairment, 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 objective evidence of credit impairment (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.

## Market risk

Nykredit Bank 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, yield spread, foreign exchange, equity price and volatility risks.

Market risk in Nykredit Bank consists of positions in the trading books and the banking books, depending on the purpose of the relevant position. Portfolios with positions held for trading are placed in the trading book and mainly consist of covered bonds. Positions forming part of Nykredit Bank's lending business are placed in the banking book.

Market risk is further divided into general market risk, which means risk that affects the financial markets in general, and specific risk, which is the risk related to one individual issuer of securities. This distinction is applied in the day-to-day risk management as well as in the determination of risk exposures involving market risk used for the capital adequacy purposes.

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 based on the Board's market risk policy and the accompanying guidelines, which include specific limits to the different types of risk in the trading book as well as the banking book.

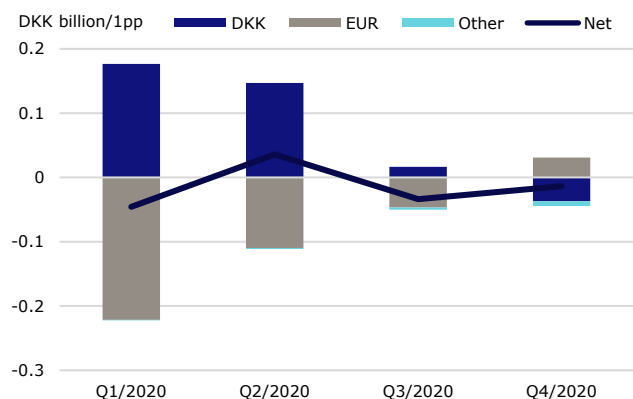
The main principle is that losses on exposures involving market risk in the trading book must not have a significant earnings impact. Market risk is managed by comparing estimated earnings with means of estimated losses in stress scenarios. Statistical as well as forward-looking stress scenarios are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

# NOTES

Nykredit Bank Group

## Nykredit Bank

### Interest rate risk in the trading book



The guidelines restrict the scope for assuming interest rate, yield spread, equity price, foreign exchange and volatility risks. The guidelines permit the use of 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 the 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 breach.

### Day-to-day market risk management

The day-to-day determination, management and reporting of market risk take place by combining statistical models, stress tests, key figures and various subjective assessments.

Traditional risk measures, such as interest rate, yield spread, equity price, foreign exchange and volatility risks, are monitored using portfolio sensitivity tests. They are used to calculate the effect on the value of a portfolio in case of changing market conditions. This could be a rise or fall in interest rates, yield spreads, equity prices or volatilities. Calculations are only made for one type of risk at a time.

Traditional risk measures do not indicate how likely a particular event is to occur, but exclusively how much the event, viewed in isolation, would affect the value of a portfolio. In the day-to-day management of the market risk of Nykredit's trading book, Nykredit therefore uses Value-at-Risk models for calculating one overall risk metric covering most of the trading book positions. Value-at-Risk captures Nykredit's maximum potential losses in one day at a probability of 99%. The model allows for the effect and probability of several risks occurring at the same time.

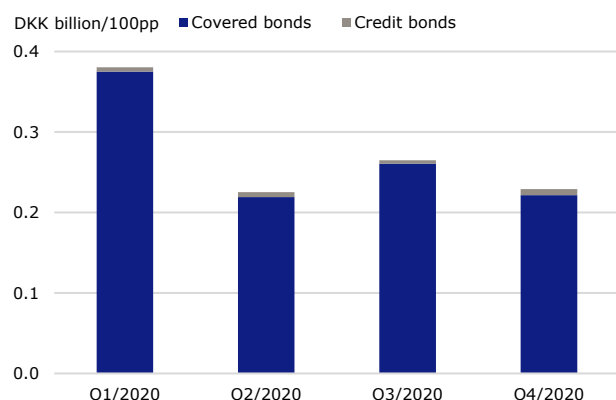
### Interest rate risk

Nykredit Bank's interest rate risk is the risk of loss as a result of interest rate changes. Nykredit Bank's interest rate risk is measured as the change in the market value of Nykredit Bank's portfolios that would result from a general interest rate increase of 1 percentage point.

The net interest rate exposure in the trading book was DKK -13 million at end-2020 and the interest risk in the banking book was DKK 65 million.

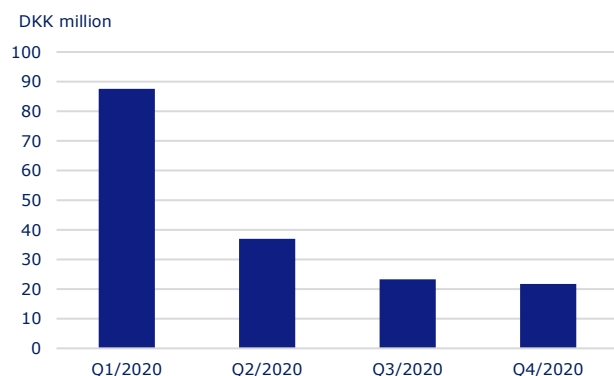
## Nykredit Bank

### Yield spread risk in the trading book



## Nykredit Bank

### Market value of equity portfolios in the trading book



## Yield spread risk

Yield spread risk is the risk of loss as a result of spreads between individual bonds and general interest rate levels widening by 1 percentage point. In historical terms, spread widening of 1 percentage point is less frequent than a general interest rate rise of 1 percentage point.

The yield spread risk on the Bank's trading portfolio of covered bonds amounted to DKK 221 million and approximately DKK 7 million on the portfolio of corporate bonds at end-2020. In the banking book the yield spread risk amounted to DKK 224 million at end-2020.

## Equity price risk

Equity price risk is the risk of loss as a result of changes in equity prices and is measured as the market value exposure of the portfolio. Nykredit Bank's net equity price risk in the trading portfolio was DKK 22 million at end-2020. In the banking book the equity price risk amounted to DKK 55 million at end-2020, which is composed of strategic equity positions.

## Other market risks

Besides the market risks addressed above, Nykredit is exposed to foreign exchange risk and volatility risk. These risks only make up a minor amount of Nykredit Bank's total market risk exposure.

Nykredit hedges its foreign exchange risk and only has minor tactical foreign exchange positions held to achieve a gain. Therefore, the Group had only minor positions in currencies other than EUR in 2020.

The market value of options and financial instruments with embedded options, such as callable covered bonds, partly depends on the expected market volatility. Volatility risk is the risk of loss as a result of changes in market expectations for future volatility. Volatility risk is measured as the change in market value resulting from an increase in volatility of 1 percentage point.

Volatility risk is determined for all financial instruments with embedded options and is managed by means of limits. The risk is low and stems mainly from the portfolio of Danish callable covered bonds, but also from other interest rate and equity derivatives.

## REA for market risk

Nykredit Bank A/S has the approval of the Danish FSA to apply a VaR model in determining the total risk exposure amount (REA) for general market risk in the trading book. The confidence level of the VaR model is 99%, and the time horizon for calculating statutory REA is 10 days. The model results are backtested on a daily basis against actual realised returns on the trading portfolios to ensure that the model results are reliable and correct at any time.

The VaR model is based on historical financial market data on relevant risk factors. As the current conditions in financial markets do not always correspond to the historical conditions (for instance during a financial crisis), the additional REA resulting from stressed VaR is added to the REA resulting from the current VaR. The stressed VaR is also calculated by using the regular VaR model on the trading book positions.

Risk exposures are calculated as the sum of the individual calculations, comprising general risk from the VaR model, specific risk and general risk under the standardised approach. The total REA from VaR was DKK 8.7 billion at end-2020, of which stressed VaR accounted for DKK 6.5 billion. The total risk exposure for market risk was DKK 12.9 billion at end-2020.

Nykredit Bank Group		
REA – market risk		
DKK million	2020	2019
Internal models (VaR)	8,693	6,853
Standardised approach	4,190	4,465
Settlement risk	0	0
<b>Total market risk exposure</b>	<b>12,884</b>	<b>11,319</b>

## 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. Liquidity risk is also the risk of funding shortages preventing the Bank from pursuing the adopted business model, or the risk that the Bank's costs of raising liquidity become prohibitive.

Nykredit Bank funds its lending by deposits, but raises additional market funding to ensure compliance of regulatory requirements and sufficient liquidity to be able to provide financing for customers and the Bank's other business activities.

The composition of liquidity and funding is much affected by regulatory requirements and rating criteria. Nykredit Bank therefore has a strong focus on existing and future requirements, including the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Minimum Requirement for own funds and Eligible Liabilities (MREL) and Supervisory Diamond benchmarks.

The stock of liquid assets ensures that the Bank has a sufficiently large liquidity buffer of unencumbered securities for cash flows driven by customer behaviour, current costs and maturing market funding.

The Bank's liquid assets are mainly liquid Danish and other European government and covered bonds. These securities are recognised in the balance sheet as bonds at fair value and, in a liquid repo market, they are eligible as collateral with other banks and with the Danish or other European central banks and thus directly exchangeable into liquidity. To this should be added a small portfolio of money market deposits, equities and corporate bonds.

## Liquidity policy and liquidity management guidelines

The liquidity policy is laid down by the Board of Directors and defines Nykredit Bank's overall risk appetite, liquidity risk profile and funding structure.

In addition to the liquidity policy, Nykredit Bank's Board of Directors has laid down guidelines on the day-to-day liquidity management. In accordance with the guidelines provided by the Board of Directors, the Executive Board delegates limits for liquidity management to the Bank through the Asset/Liability Committee.

The guidelines provide limits for Nykredit Bank's day-to-day liquidity management and for short-term, medium-term and long-term management. Limits have also been set for the composition of the stock of liquid assets, the LCR, the loan portfolio, the use and diversification of funding sources, the Supervisory Diamond benchmarks and leverage.

Nykredit annually prepares a report on the Internal Liquidity Adequacy Assessment Process (ILAAP), which is submitted to the Boards of Directors of Nykredit Realkredit, Totalkredit and Nykredit Bank for their approval and to the Danish FSA for its assessment.

The Board of Directors and the Nykredit Realkredit Group's Asset/Liability Committee monitor the development in the Bank's liquidity on a current basis. The Bank manages the day-to-day liquidity risk.

The Board of Directors has considered and approved the liquidity contingency plan for responding to situations such as a liquidity crisis or situations where the Bank is unable to comply with the liquidity policy and the liquidity management guidelines laid down by the Board of Directors. The liquidity contingency plan must be endorsed by the Asset/Liability Committee, which also decides whether to initiate the plan. The liquidity contingency plan is considered and approved by the Board of Directors at least once a year.

## Liquidity Coverage Ratio (LCR)

The regulatory LCR requirement is used to assess Nykredit Bank's short-term liquidity risk. The LCR reflects the proportion of liquid assets relative to net cash outflows over a 30-day period and must be at least 100%.

Under the LCR rules, the Bank must hold liquid assets adequate to withstand a liquidity stress for a period of at least 30 days.

At end-2020 the Bank's LCR was 178% and the excess liquidity coverage totalled DKK 22 billion.

## **Operational risk**

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

Nykredit is continuously working to create a risk culture where 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 day-to-day operations and long-term planning. Operational risk must be limited continually, taking into consideration the costs involved.

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

As part of operational risk management, Nykredit is continuously working on identifying significant operational risks. Operational risks are mapped by each business division identifying and assessing its own significant risks. Nykredit's centralised risk control function holds quarterly risk meetings with selected business areas. At these meetings, the operational risks are discussed and it is assessed whether the risks are adequately managed through controls and other risk-mitigating actions.

In addition to the above, operational risk events, including events with a gain and events with a potential, but not incurred loss/gain (near-miss events), are systematically recorded, categorised and reported for the purpose of identifying loss sources and building experience for sharing across the organisation.

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 of the past three years. REA for operational risk was DKK 10.1 billion throughout 2020.

# NOTES

DKK million

Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>46. RISK MANAGEMENT (CONTINUED)</b>			
<b>Credit, currency, equity and interest rate risk</b>			
<b>Credit risk</b>			
The Group's maximum credit exposure comprises selected balance sheet and off-balance sheet items.			
<b>Total credit exposure</b>			
<b>Balance sheet items</b>			
7,110	16,001	16,001	7,110
26,270	5,337	5,468	26,418
-	-	-	-
112,839	106,966	108,417	114,215
28,133	27,328	35,066	35,623
25,794	32,355	32,355	25,794
3,943	32,355	3,561	3,943
54,970	43,723	37,436	48,854
49,652	38,508	39,680	50,661
25,726	26,169	26,274	25,839
<b>Off-balance sheet items</b>			
36,073	29,725	29,726	35,974
12,522	10,488	10,670	12,745
<b>Collateral security received</b>			
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-2019 collateral security excluding guarantees included:			
7,937	8,068	8,068	7,937
9,792	9,992	9,992	9,792
6,344	8,182	8,182	6,344
102	123	123	102
1,265	1,228	1,228	1,265
1,753	1,778	1,778	1,753

Leasing solutions are 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.

# NOTES

Nykredit Bank Group

## 46. RISK MANAGEMENT (CONTINUED)

### Credit, foreign exchange, equity price and interest rate exposures (continued)

Loans, advances, guarantees and provisions by sector

	Carrying amount				Provisions		
	Lending	Guarantees	Total	Proportion, %	Impairment provisions (stages 1-3)	Provisions (stages 1-3)	Total
<b>31 December 2020</b>							
<b>Public sector</b>	<b>866</b>	<b>0</b>	<b>866</b>	<b>1</b>	<b>4</b>	<b>0</b>	<b>4</b>
<b>Business customers</b>							
Agriculture, hunting, forestry and fishing	2,594	836	3,430	2	179	6	184
Manufacturing, mining and quarrying	8,167	1,593	9,759	7	395	19	415
Energy supply	6,881	215	7,096	5	35	4	40
Construction	1,957	674	2,631	2	180	18	198
Trade	7,795	993	8,788	6	420	32	453
Transport, accommodation and food service activities	6,699	494	7,193	5	168	15	183
Information and communication	2,920	342	3,262	2	103	3	106
Finance and insurance	41,787	1,424	43,211	31	140	5	144
Real estate	12,084	4,482	16,566	12	559	37	595
Other	6,596	1,830	8,426	6	333	22	355
<b>Total business customers</b>	<b>97,480</b>	<b>12,883</b>	<b>110,363</b>	<b>80</b>	<b>2,512</b>	<b>162</b>	<b>2,673</b>
Personal customers	10,071	16,843	26,914	19	497	79	576
<b>Total</b>	<b>108,417</b>	<b>29,726</b>	<b>138,143</b>	<b>100</b>	<b>3,012</b>	<b>241</b>	<b>3,254</b>
Of which reverse repurchase lending (loans and advances at amortised cost)	37,271	-	37,271	27	-	-	-
<b>31 December 2019</b>							
<b>Public sector</b>	<b>652</b>	<b>113</b>	<b>765</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>
<b>Business customers</b>							
Agriculture, hunting, forestry and fishing	2,671	1,526	4,197	3	161	3	164
Manufacturing, mining and quarrying	8,374	547	8,921	6	282	3	285
Energy supply	2,669	188	2,857	2	28	1	30
Construction	2,669	1,054	3,723	2	181	17	198
Trade	6,882	949	7,831	5	319	16	335
Transport, accommodation and food service activities	5,208	572	5,780	4	91	8	99
Information and communication	2,926	508	3,434	2	100	3	102
Finance and insurance	53,697	1,005	54,702	36	118	4	122
Real estate	10,407	3,859	14,266	9	455	17	472
Other	7,545	2,397	9,941	7	254	12	266
<b>Total business customers</b>	<b>103,047</b>	<b>12,604</b>	<b>115,651</b>	<b>77</b>	<b>1,988</b>	<b>84</b>	<b>2,072</b>
Personal customers	10,516	23,257	33,773	22	536	53	589
<b>Total</b>	<b>114,215</b>	<b>35,974</b>	<b>150,188</b>	<b>100</b>	<b>2,526</b>	<b>137</b>	<b>2,663</b>
Of which reverse repurchase lending (loans and advances at amortised cost)	48,749	-	48,749	32	-	-	-



## 46. RISK MANAGEMENT (CONTINUED)

### Bank lending (including repo transactions) by sector and rating category

The rating illustrates the customer's ability to pay, but not the probability of loss.

2020

Rating category	Manufacturing and construction	Credit and finance	Property management and trade	Transport, trade and accommodation	Other trade and public	Personal customers	Total
10	7,094	3,846	1,368	2,964	1,640	999	17,911
9	2,433	11,633	1,848	3,439	1,718	826	21,899
8	1,717	838	2,080	2,028	1,697	1,047	9,407
7	2,153	798	2,471	2,912	3,017	931	12,280
6	1,850	16,001	2,442	1,286	2,150	2,848	26,577
5	698	4,504	726	1,187	1,718	1,625	10,457
4	353	9	698	588	259	1,059	2,966
3	97	2,687	253	128	482	457	4,106
2	432	1,128	136	137	345	141	2,319
1	46	238	94	66	94	158	697
0	16	15	6	19	14	9	78
Exposures in default	725	229	520	330	462	467	2,732
<b>Total</b>	<b>17,615</b>	<b>41,926</b>	<b>12,643</b>	<b>15,083</b>	<b>13,595</b>	<b>10,568</b>	<b>111,429</b>

### Bank lending (excluding repo transactions) by sector and rating category

2019

Rating category	Manufacturing and construction	Credit and finance	Property management and trade	Transport, trade and accommodation	Other trade and public	Personal customers	Total
10	2,379	7,143	888	1,621	1,688	995	14,714
9	1,513	17,129	1,747	3,230	1,055	800	25,475
8	1,982	848	1,862	2,476	2,655	1,092	10,914
7	1,697	670	2,045	1,462	2,335	1,164	9,374
6	2,283	19,646	1,890	1,830	3,226	2,419	31,293
5	670	5,002	1,050	934	947	1,711	10,314
4	814	209	389	194	787	1,468	3,860
3	110	1,960	145	88	191	526	3,020
2	1,956	814	224	206	624	257	4,080
1	79	310	92	37	297	154	969
0	14	7	3	15	20	8	68
Exposures in default	706	77	528	405	484	458	2,659
<b>Total</b>	<b>14,203</b>	<b>53,815</b>	<b>10,862</b>	<b>12,499</b>	<b>14,309</b>	<b>11,052</b>	<b>116,741</b>

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

Nykredit Bank Group

## 46. RISK MANAGEMENT (CONTINUED)

### Loans carrying a reduced interest rate

Group	2020				2019			
Gross lending	205				330			
Impairment provisions	185				263			
<b>Carrying amount</b>	<b>20</b>				<b>67</b>			
Of which non-accrual	17				65			
Of which carrying a reduced interest rate	3				2			

Provisioning rate	2020				2019			
	Q4/	Q3/	Q2/	Q1/	Q4/	Q3/	Q2/	Q1/
<b>Group</b>								
Total loans and advances	109,657	102,859	108,926	108,417	114,215	113,297	112,655	97,271
Total guarantees	27,632	23,994	25,374	29,726	35,974	36,563	28,470	22,536
Impairment provisions	2,723	2,710	2,945	3,012	2,526	2,751	2,741	2,708
Provisions for guarantees	147	255	206	241	137	134	132	154
<b>Total</b>	<b>140,160</b>	<b>129,818</b>	<b>137,451</b>	<b>141,396</b>	<b>152,851</b>	<b>152,745</b>	<b>143,999</b>	<b>122,669</b>
Provisioning rate, %	2.0	2.3	2.3	2.3	1.7	1.9	2.0	2.3
Provisioning rate excluding guarantees	2.4	2.6	2.6	2.7	2.2	2.4	2.4	2.7

### Secured lending before impairment provisions

Group	2020			2019		
	Public sector	Personal customers	Business customers	Public sector	Personal customers	Business customers
Unsecured lending	589	3,684	41,840	208	4,761	39,432
Lending secured by way of legal charge or other collateral security:						
Fully secured	261	2,805	42,114	296	2,621	51,426
Partially secured	20	4,106	16,010	149	3,716	14,132
<b>Total lending before impairment provisions</b>	<b>870</b>	<b>10,595</b>	<b>99,964</b>	<b>653</b>	<b>11,098</b>	<b>104,990</b>

Includes the Nykredit Bank Group's loans and advances at amortised cost. The determination is based on official Danish sector codes and is therefore not a reflection of Nykredit Bank's business segments. Of total stage 3 impairment provisions) approximately DKK 0.1 billion, or 9.6% (2019: around 13%), is attributable 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.

# NOTES

		DKK million	
Nykredit Bank A/S		Nykredit Bank Group	
2019	2020	2020	2019
<b>46. RISK MANAGEMENT (CONTINUED)</b>			
<b>Foreign exchange risk</b>			
34,108	43,140	Total foreign exchange assets	43,140 34,108
Of which			
24,778	30,465	- receivables with credit institutions, loans and advances, securities etc	30,465 24,778
9,330	12,675	- interest receivable and positive market value of financial instruments	12,675 9,330
51,039	43,159	Total foreign exchange liabilities	43,159 51,039
Of which			
37,281	39,165	- payables to credit institutions, deposits, bond in issue etc	39,165 37,281
13,758	3,994	- interest payable and negative market value of financial instruments	3,994 13,758
225.7	25.6	Exchange rate indicator 1 (DKK million)	25.6 225.7
1.0	0.1	Exchange rate indicator 1 as % of Tier 1 capital after deductions	0.1 1.0
0.3	0.1	Exchange rate indicator 2 (DKK million)	0.1 0.3
-	-	Exchange rate indicator 2 as % of Tier 1 capital after deductions	- -
<b>Interest rate risk by the currency involving the highest interest rate exposure</b>			
127	23	DKK	69 149
(33)	28	EUR	(7) (33)
(11)	0	CHF	(3) (11)
(4)	(4)	SEK	3 (4)
1	2	NOK	1 1
1	(0)	USD	1 1
(0)	(0)	PLN	(0) (0)
(3)	(1)	Other currencies	(1) (3)
<b>77</b>	<b>46</b>	<b>Total interest rate exposure of debt instruments etc, year-end</b>	<b>64 99</b>
Interest rate exposure measured at a general rise in interest rates of 1 percentage point ranged between a loss of DKK 234 million and a gain of DKK 48 million (2019: between a loss of DKK 159 million and a loss of 63 million).			
<b>Value-at-Risk</b>			
5	10	Year-end	10 5
6	14	Average for the year	14 6
Value-at-risk ranged between DKK 3 million and DKK 46 million (2019: DKK 4 million and DKK 10 million). 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.			
1.6	1.4	<b>Volatility risk</b>	1.4 1.6
The interest rate volatility risk is measured as the change in a market value following a change in volatility of 1 percentage point.			
428	455	<b>Yield spread risk</b>	455 428
Yield spread risk totalled DKK 455 million at end-2020 (2019: DKK 428 million). This figure indicates that a spread widening of 100bp at bank level will trigger a loss of DKK 455 million.			
104	77	<b>Equity price risk</b>	77 104
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 8 million (2019: DKK 10 million).			
153%	178%	<b>Liquidity risk, Liquidity Coverage Ratio (LCR)</b>	178% 153%

## 47. HEDGE ACCOUNTING

The interest rate risk etc relating to fixed-rate assets and liabilities has been hedged on a current basis. The hedge comprises the following:

	Nominal/ amortised value	Carrying amount	Fair value ad- justment for ac- counting pur- poses
<b>2020</b>			
<b>Assets</b>			
Loans, advances and other receivables (interest rate risk)	189	195	6
<b>Liabilities</b>			
Deposits and other payables (interest rate)	112	131	(19)
Bonds in issue at amortised cost (interest rate risk)	685	693	(8)
<b>Derivative financial instruments</b>			
Interest rate swaps, loans, advances and other receivables	112	20	20
Interest rate swaps, deposits and other payables	572	(6)	(6)
Interest rate swaps, bonds in issue	719	9	9
Gain/loss for the year on hedging instruments		(17)	
Gain/loss for the year on hedged items		13	
<b>Net gain/loss</b>		<b>(4)</b>	
<b>By time-to-maturity</b>	Up to 1 year	Over 1 year and up to 5 years	Over 5 years
Swaps, hedging interest rate risk of financial assets	-	2	18
Swaps, hedging interest rate risk of financial liabilities	9	-	(5)

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

Interest rate swaps, credit derivatives are included in the balance sheet items "Other assets" (positive market value) or "Other liabilities" (negative market value).

It is the Group's strategy to apply derivative financial instruments to hedge the interest rate risk of fixed-rate financial assets and liabilities, except for the interest rate risk of short-term loans, advances and deposits and to hedge close to 100%. This enables the Group to manage the level of its aggregate interest rate sensitivity taking into consideration the expected interest rate development. When the deposit rate is tied to an equity index, risk is managed using equity derivatives. The average fixed rate of derivatives hedging financial assets and liabilities, respectively, is 4.8% or 2.1%.

The financial assets and liabilities that qualify as eligible hedged items are monitored on a current basis. These items may be included either as individual items or portfolios of assets and liabilities. Both are used for hedge accounting. Nykredit Bank's fixed-rate loans and fixed-rate deposits are grouped into portfolios. These include portfolios of loans, advances, deposits and other payables of a uniform risk level and are hedged using derivative financial instruments with similar characteristics (such as interest rate). Bonds in issue are hedged separately using interest rate swaps with characteristics similar to the bonds.

Hedge effectiveness is monitored daily. Effectiveness tests monitor that movements in market values of the hedged item and the hedging instrument are within a range of 80-125%. If the effectiveness test indicates undesired ineffectiveness, hedge adjustments are made. Ineffectiveness may typically arise in periods when market values are very low compared with the size of the portfolios. Moreover, ineffectiveness may arise in case of eg unexpected market movements or in case a counterparty terminates or prepays a hedged financial instrument. In this case, the swap portfolio hedging the deposits and loans and advances in question will be adjusted. Changes at the swap counterparty may also lead to some ineffectiveness.

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 for accounting purposes of the financial assets and liabilities that form part of an effective hedge accounting has been allowed. The fair value adjustment exclusively concerns the hedged part (eg the interest rate exposure). Reference is made to notes 42 and 43, which show offsetting and maturities relating to derivative financial instruments as well as "Hedge accounting" in accounting policies.

## 47. HEDGE ACCOUNTING (CONTINUED)

	Nominal/ amortised value	Carrying amount	Fair value adjust- ment for account- ing purposes
<b>2019</b>			
<b>Assets</b>			
Loans, advances and other receivables (interest rate risk)	569	577	8
<b>Liabilities</b>			
Deposits and other payables (interest rate)	112	133	(21)
Bonds in issue at amortised cost (interest rate risk)	762	784	(22)
<b>Derivative financial instruments</b>			
Interest rate swaps, loans, advances and other receivables	112	22	22
Interest rate swaps, deposits and other payables	584	(8)	(8)
Interest rate swaps, bonds in issue	796	26	26
Gain/loss for the year on hedging instruments		(15)	
Gain/loss for the year on hedged items		14	
<b>Net gain/loss</b>		<b>(1)</b>	

## 47. HEDGE ACCOUNTING (CONTINUED)

### Interest Rate Benchmark Reform (amendment to IFRS 9, IAS 39 and IFRS 7)

Following the interest rate benchmark reform (IBOR reform), interest rate fixing of several financial products will in the short term be based on new risk-free reference rates (for instance the Euro Short-Term Rate, €STR), replacing the current IBOR rates. There is continued uncertainty about how and when the transition to the new reference rates will unfold, including the extent to which the current benchmarks will be supported, possibly in a changed form.

LIBOR for example is currently expected to be phased out after 2021. The current EONIA reference rate will also be replaced by a new euro reference rate, €STR. The transition will take effect during an implementation period running from October 2019 to 1 January 2022. The market has yet to move from EONIA to €STR on a large scale, but as clearinghouses shifted to €STR in July 2020, more and more banks are likely to transition to the new benchmark. Nykredit has set up a working group to assess for instance, how and when the transition should be effected. In 2019 several trading systems were adapted to handle the new rate.

The reform is likely to impact the financial sector in Denmark as well as internationally. IBOR is often used to set the rates of various loans, including consumer, business and mortgage loans. Furthermore, IBOR is frequently used in derivatives contracts. As such IBOR is an important element of the operations of financial undertakings, including determination of market risk, valuation of assets as well as liquidity and risk management etc.

The reform is expected to prompt a certain change to the yield spread between instruments linked to the current IBOR rate and the new reference rates. To Nykredit this change will, among other things, lead to differences in the valuation of instruments based on IBOR rates and the new reference rates.

The IASB has amended a number of standards to ease the accounting transition to new interest rate benchmarks.

The table below shows the volume of derivatives used by Nykredit for hedge accounting. No hedging relationships have been established for cash flows or investments in foreign entities.

The amendment (to IFRS 9, IAS 39 and IFRS 7) aims at reducing potential accounting challenges, as the transition to new benchmarks could increase the difference in the valuation of the hedged or the hedging instrument, respectively, indicating that the hedging relationship falls outside the criteria of the effectiveness test (80%-125%). Under the amendments, the effectiveness test may be performed assuming that the benchmark and cash flows are unchanged, and the test is in principle based on previously applicable reference rates. The relaxation covers the period in which the timing of transition or actual switch to new benchmarks is uncertain. The amendment will not give rise to additional changes to the effectiveness test, which is conducted as an IASB project in two phases in which phase I consists of the above changes. The most important elements of phase II relate to "modifications", "hedge accounting" as well as "disclosure obligations" on any new financial risks resulting from the IBOR reform.

Nykredit has started identifying the products likely to be affected by the interest rate benchmark reform, including the economic impact and influence on Nykredit's trading systems and operational risks etc in order to build a solid basis for decision for the transitional period. Our focus has also been on the contractual basis of the current contracts as well as preparation of information material for staff and customers to ensure a documented and transparent transition. The transition is currently not expected to significantly impact Nykredit's profit (loss).

DKK million

## 47. HEDGE ACCOUNTING (CONTINUED)

Hedging derivative	Nominal value	Carrying amount, assets	Carrying amount, liabilities	P&L effect (hedge ineffectiveness)
<b>Interest rate swaps, end-2020:</b>				
Cibor	336			
Euribor	275			
Libor	792			
<b>Total 2020</b>	<b>1,403</b>	<b>195</b>	<b>824</b>	<b>(4)</b>
<b>Total 2019</b>	<b>1,492</b>	<b>577</b>	<b>917</b>	<b>(1)</b>
<b>Swaps: Carrying amount by time-to-maturity</b>		<b>2020</b>	<b>2019</b>	
Up to 1 year		9	-	
Over 1 year and up to 5 years		1	26	
Over 5 years		13	14	
<b>Total</b>		<b>23</b>	<b>40</b>	

## 48. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	Financial items at amortised cost	Financial items at fair value	Financial items at amortised cost	Financial items at fair value
	2020	2020	2019	2019
<b>Assets</b>				
Receivables from credit institutions and central banks	21,469	-	33,528	-
Loans and advances at fair value (reverse repurchase lending)	-	-	-	-
Loans and advances etc	108,417	-	114,215	-
Bonds and equities	-	39,680	6,344	44,317
Positive market value of derivatives	-	21,968	-	21,004
Interest receivable etc	167	630	189	705
<b>Total</b>	<b>130,053</b>	<b>62,278</b>	<b>154,276</b>	<b>66,026</b>
<b>Liabilities and equity</b>				
Payables to credit institutions and central banks	49,121	-	85,154	-
Deposits and other payables	90,943	-	88,881	-
Bonds in issue at amortised cost	5,400	-	3,780	-
Other non-derivative financial liabilities at fair value	-	10,801	-	7,133
Subordinated debt	2,000	-	2,000	-
Negative market value of derivatives	-	11,348	-	12,165
Interest etc payable	55	530	100	613
<b>Total</b>	<b>147,520</b>	<b>22,679</b>	<b>179,916</b>	<b>19,911</b>

Nykredit Bank Group

## 49. ACQUISITION OF GROUP ENTERPRISE AND INTANGIBLE ASSETS

Sparinvest		Adjusted balance sheet at 30 August 2019
<b>Assets</b>		
Cash balances and receivables from credit institutions		321
Receivables		39
Bonds		57
Equities		178
Intangible assets		25
Owner-occupied properties, including leased properties		248
Other property, plant and equipment		-
Other assets and prepayments etc		-
<b>Total assets</b>		<b>873</b>
<b>Liabilities and equity</b>		
Other payables		199
Provisions		2
<b>Total liabilities and equity</b>		<b>201</b>
<b>Equity (net assets)</b>		<b>673</b>
<b>Minorities' share of equity (24.77%)</b>		<b>166</b>
<b>Equity excluding minorities (Nykredit Bank's share)</b>		<b>506</b>
Cash purchase price including previous holdings of about 0.2%		2,192
<b>Goodwill calculated at end-2020</b>		<b>1,686</b>
Adjustment of goodwill, beginning of 2020		71
<b>Goodwill as at 31 December 2020</b>		<b>1,757</b>

In 2019 the subsidiary Nykredit Bank A/S acquired 76% of the shares in Sparinvest Holdings SE, which subsequently became a subsidiary of the Nykredit Bank Group. At the time goodwill was calculated at DKK 1,686 million.

The review in 2020 of the net assets acquired, including determination of goodwill, called for a few adjustments relative to intangible assets and deferred tax. This resulted in an increase in goodwill of DKK 71 million. The offsetting entry is a correction to "Investments in Group enterprises" in Nykredit Bank's Financial Statements.

This adjustment in itself has not affected comprehensive income for the year.

The purchase price was settled in cash. The Nykredit Group received DKK 321 million in cash in connection with the acquisition. The balance sheet corresponds to the balance sheet of Sparinvest Holdings SE as at 30 August 2019 with a few adjustments made by Nykredit; for example the equity portfolio was adjusted to fair value, while owner-occupied properties as well as other payables increased by DKK 24 million in relation to particularly leased properties in accordance with IFRS 16. To this should be added capitalisation of an intangible asset "customer relationships" at DKK 170 million as well as provisions for deferred tax of DKK 37 million. The value of goodwill is not deductible for tax purposes. The carrying amount of cash and cash equivalents, short-term receivables and payables is assumed to equal fair value.

Goodwill corresponding to the balance between the value of Nykredit's ownership interest in the company and purchase price has been allocated to Wealth Management, a business area of the Nykredit Group. Goodwill is tested for impairment once a year and is written down to the recoverable amount if lower than the carrying amount. The recoverable amount equals the present value of the estimated future cash flows from the cash flow-generating units to which allocation of goodwill is made.



# NOTES

---

Nykredit Bank Group

---

## 50. OTHER INFORMATION

### Events since the balance sheet date

#### **Nykredit has entered into an agreement to sell its Depositary Services unit**

Nykredit has entered into an agreement with Bank of New York Mellon to divest Nykredit's Depositary Services unit and activities. As part of the agreement, the unit's nine staff members will transfer to Bank of New York Mellon. The agreement is subject to regulatory approvals, which are anticipated at end-October 2021.

No further events have occurred in the period up to the presentation of the Annual Report for 2020 which materially affect the Nykredit Bank Group's financial position.

## 51. 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:equity (loan gearing)

Growth in loans and advances for the year, %

Loans and advances:deposits

Loans and advances:equity

Growth in loans and advances excluding 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 % pa of average equity\*

Costs as % of income

Business profit (loss) as % pa of average equity\*

### DEFINITION

The sum of profit (loss) before tax as a % of average equity

The sum of profit (loss) after tax as a % of average equity

Total income divided by total costs less tax

Interest rate exposure divided by Tier 1 capital.

Exchange rate indicator 1 at year-end divided by Tier 1 capital

Exchange rate indicator 2 divided by Tier 1 capital

The sum of loans and advances at fair value and loans and advances at amortised cost divided by equity at year-end

Loans and advances at year-end divided by loans and advances at the beginning of the year

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/period). 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)

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 etc 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 the risk exposure amount

Tier 1 capital divided by the risk exposure amount

Common Equity Tier 1 capital divided by the risk exposure amount

### DEFINITION

Profit (loss) for the year divided by average equity

Costs divided by income

Business profit (loss) divided by average equity

\* Equity is calculated as a five-quarter average.

# NOTES

DKK million

Nykredit Bank Group

	2020	2019	2018	2017	2016
<b>52. FIVE-YEAR FINANCIAL HIGHLIGHTS</b>					
<b>Summary income statement</b>					
Net interest income	1,547	1,545	1,636	1,594	1,498
Net fee income etc	2,292	1,973	1,637	1,714	1,097
<b>Net interest and fee income</b>	<b>3,839</b>	<b>3,518</b>	<b>3,273</b>	<b>3,308</b>	<b>2,595</b>
Value adjustments	1,139	670	1,114	2,562	84
Other operating income	336	44	30	34	28
Staff and administrative expenses	2,655	2,338	2,005	1,934	2,000
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	34	13	0	12	16
Other operating expenses	38	24	23	28	45
Impairment charges for loans, advances and receivables etc	579	210	274	(102)	(141)
Profit (loss) from investments in associates and Group enterprises	7	6	3	2	(0)
<b>Profit before tax</b>	<b>2,015</b>	<b>1,653</b>	<b>2,118</b>	<b>4,033</b>	<b>788</b>
Tax	385	366	458	901	161
<b>Profit for the year</b>	<b>1,630</b>	<b>1,287</b>	<b>1,660</b>	<b>3,133</b>	<b>627</b>
<b>Comprehensive income</b>					
Other comprehensive income	1,630	1,287	1,660	3,133	627
<b>Comprehensive income for the year</b>	<b>1,630</b>	<b>1,287</b>	<b>1,660</b>	<b>3,133</b>	<b>627</b>
<b>SUMMARY BALANCE SHEET, YEAR-END</b>					
	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
<b>ASSETS</b>					
Cash balances and receivables from credit institutions and central banks	21,469	33,528	17,909	19,991	35,723
Loans, advances and other receivables at fair value	-	-	-	27,566	30,091
Loans, advances and other receivables at amortised cost	108,417	114,215	97,993	55,783	55,003
Bonds and equities etc	39,822	44,445	49,288	47,453	42,576
Remaining assets	28,481	34,340	21,944	22,793	31,534
<b>Total assets</b>	<b>198,189</b>	<b>226,528</b>	<b>187,135</b>	<b>173,585</b>	<b>194,926</b>
<b>LIABILITIES AND EQUITY</b>					
Payables to credit institutions and central banks	49,121	85,154	54,620	40,218	51,606
Deposits and other payables	90,943	88,881	82,864	76,501	66,263
Bonds in issue at amortised cost	5,400	3,780	5,411	6,473	10,158
Other non-derivative financial liabilities at fair value	10,801	7,133	7,618	13,976	21,348
Remaining liabilities	13,159	14,695	13,236	14,298	26,546
Provisions	683	450	290	241	261
Subordinated debt	2,000	2,000	2,000	2,000	2,000
Equity	26,082	24,434	21,095	19,877	16,744
<b>Total liabilities and equity</b>	<b>198,189</b>	<b>226,528</b>	<b>187,135</b>	<b>173,585</b>	<b>194,926</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
Contingent liabilities	29,726	35,974	22,527	25,080	17,152
Other commitments	10,670	12,745	8,924	6,835	5,375

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

# NOTES

Nykredit Bank Group

	2020	2019	2018	2017	2016
<b>52. FIVE-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)</b>					
<b>FINANCIAL RATIOS<sup>1</sup></b>					
Total capital ratio, %	22.7	20,8	21,5	22,3	16,6
Tier 1 capital ratio, %	20.5	18,9	19,4	20,1	14,8
Return on equity before tax, %	8.0	7,3	10,3	21,7	4,8
Return on equity after tax, %	6.5	5,7	8,1	16,8	3,9
Income:cost ratio	1.61	1,64	1,92	3,15	1,41
Interest rate exposure, %	0.3	0,3	0,4	0,7	0,5
Foreign exchange position, %	0.1	1,0	0,3	0,2	1,0
Foreign exchange exposure, %	0.0	0,0	0,0	0,0	0,0
Loans and advances:deposits	1.2	1,3	1,2	1,1	1,3
Loans and advances:equity (loan gearing)	4.2	4,7	4,6	4,2	5,1
Growth in loans and advances for the year excluding repo transactions, %	8.7	8,1	8,6	1,4	17,7
Liquidity Coverage Ratio, % <sup>2</sup>	178.0	153.0	156,7	147,7	
Excess coverage:statutory liquidity requirements, %					263,5
Total large exposures, %					-
Large exposures, % <sup>2</sup>	132.9	110.7	91,8	96,1	
Impairment charges for the year, %	0.4	0,1	0,3	(0.1)	(0.1)
Return on capital employed, %	0.8	0,6	0,9	1,8	0,3
Average number of staff, full-time equivalent	979	900	837	822	800

<sup>1</sup> Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 51 in the Annual Report.

<sup>2</sup> The benchmark "Large exposures" was changed in 2018 and now shows the 20 largest exposures relative to Common Equity Tier 1 capital. Comparative figures have been restated accordingly. The liquidity benchmark replaced the former benchmark "Excess liquidity coverage" as at 30 June 2018. Comparative figures have been restated.

# NOTES

DKK million

Nykredit Bank A/S	2020	2019	2018	2017	2016
<b>52. FIVE-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)</b>					
<b>Summary income statement</b>					
Net interest income	1,373	1,368	1,469	1,446	1,363
Net fee income etc	1,447	1,380	1,265	1,372	800
<b>Net interest and fee income</b>	<b>2,820</b>	<b>2,747</b>	<b>2,734</b>	<b>2,817</b>	<b>2,163</b>
Value adjustments	1,137	672	1,117	2,563	85
Other operating income	308	11	4	4	1
Staff and administrative expenses	2,141	1,946	1,799	1,712	1,785
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	-	-	-	12	16
Other operating expenses	37	20	19	25	41
Impairment charges for loans, advances and receivables etc	538	183	238	(123)	(158)
Profit from investments in associates and Group enterprises	343	289	250	217	177
<b>Profit before tax</b>	<b>1,892</b>	<b>1,570</b>	<b>2,049</b>	<b>3,975</b>	<b>742</b>
Tax	283	282	389	843	115
<b>Profit for the year</b>	<b>1,610</b>	<b>1,288</b>	<b>1,660</b>	<b>3,133</b>	<b>627</b>
<b>Comprehensive income</b>					
Other comprehensive income	1,610	1,288	1,660	3,133	627
<b>Comprehensive income for the year</b>	<b>1,610</b>	<b>1,288</b>	<b>1,660</b>	<b>3,133</b>	<b>627</b>
<b>Summary balance sheet, year-end</b>					
	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
<b>Assets</b>					
Cash balances and receivables from credit institutions and central banks	21,338	33,380	17,909	19,990	35,723
Loans, advances and other receivables at fair value	-	-	-	27,566	30,091
Loans, advances and other receivables at amortised cost	106,966	112,839	96,699	54,408	53,481
Bonds and equities etc	38,637	49,770	48,441	46,813	42,025
Profit from investments in associates and Group enterprises	2,515	2,299	1,650	1,400	1,181
Remaining assets	28,155	27,598	21,882	22,748	31,475
<b>Total assets</b>	<b>197,611</b>	<b>225,886</b>	<b>186,581</b>	<b>172,925</b>	<b>193,977</b>
<b>Liabilities and equity</b>					
Payables to credit institutions and central banks	49,121	85,154	54,620	39,948	51,066
Deposits and other payables	91,065	89,057	82,942	76,610	66,317
Bonds in issue at amortised cost	5,400	3,780	5,411	6,473	10,158
Other non-derivative financial liabilities at fair value	10,991	7,174	7,618	13,976	21,348
Remaining liabilities	12,595	14,118	12,757	13,929	26,195
Provisions	453	226	139	111	149
Subordinated debt	2,000	2,000	2,000	2,000	2,000
Equity	25,986	24,377	21,095	19,877	16,744
<b>Total liabilities and equity</b>	<b>197,611</b>	<b>225,886</b>	<b>186,581</b>	<b>172,925</b>	<b>193,977</b>
<b>Off-balance sheet items</b>					
Contingent liabilities	29,725	36,073	22,626	25,449	17,790
Other commitments	10,488	12,522	8,724	6,726	5,224

# NOTES

Nykredit Bank A/S

	2020	2019	2018	2017	2016
<b>52. FIVE-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)</b>					
<b>Financial ratios<sup>1</sup></b>					
Total capital ratio, %	21.6	19,8	20,6	21,4	16,0
Tier 1 capital ratio, %	19.5	18,8	18,6	19,4	14,3
Return on equity before tax, %	7.5	6,9	10,3	21,4	4,5
Return on equity after tax, %	6.4	5,7	8,1	16,8	3,8
Income:cost ratio	1.70	1,73	2,00	3,44	1,44
Interest rate exposure, %	0.3	0,3	0,3	0,6	0,5
Foreign exchange position, %	0.1	1,0	0,3	0,2	1,0
Foreign exchange exposure, %	0.0	0,0	0,0	0,0	0,0
Loans and advances:deposits	1.2	1,3	1,2	1,1	1,3
Loans and advances:equity (loan gearing)	4.1	4,6	4,6	4,1	5,0
Growth in loans and advances for the year excluding repo transactions, %	8.7	8,1	8,9	1,7	17,9
Excess coverage:statutory liquidity requirements, %					264,7
Liquidity Coverage Ratio <sup>2</sup>	178.0	153.0	156,7	147,7	-
Total large exposures, %					-
Large exposures, % <sup>2</sup>	132.3	109.9	91,7	96,0	-
Impairment charges for the year, %	0.5	0,1	(0.2)	(0.1)	(0.2)
Return on capital employed, %	0.8	0,6	0,9	1,8	0,3
Average number of staff, full-time equivalent	678	679	664	658	641

<sup>1</sup> Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 51 in the Annual Report.

<sup>2</sup> The benchmark "Large exposures" was changed in 2018 and now shows the 20 largest exposures relative to Common Equity Tier 1 capital. Comparative figures for 2017 have been restated accordingly. Compared with the previous method, the benchmark was 0.0% at end-December 2017. The liquidity benchmark replaced the former benchmark "Excess liquidity coverage" as at 30 June 2018. Comparative figures have been restated.

# NOTES

DKK million

Nykredit Bank Group

## 53. GROUP STRUCTURE

### Name and registered office

Nykredit Bank A/S (Parent), Copenhagen, a)	100	1,610	25,986	678	1,288	24,377	679
Nykredit Portefølje Administration A/S, Copenhagen, b)	100	192	1,271	125	191	1,079	120
Nykredit Leasing A/S, Gladsaxe, c)	100	82	939	58	102	858	58
Sparinvest Holdings SE, Luxembourg, d)	75	44	211	1	280	233	2

### Geographical distribution of activities

Denmark: Names and activities appear from the Group structure above

<sup>1</sup> For companies preparing financial statements in accordance with the Danish Financial Business Act, revenue is defined as interest, fee and commission income and other operating income.

- a) Bank
- b) Investment management company
- c) Leasing business
- d) Holding company, no independent activities

### Name and registered office

#### Associates

Core Property Management P/S, Copenhagen, a)	20	121	32	86	-	63	6	13	21	45
Young Money ApS a, b)	33	-	-	-	-	-	-	-	-	-

- a) Investment company
- b) Established in 2019

Nykredit Bank A/S is wholly owned by Nykredit Realkredit A/S and consolidated with Nykredit A/S for accounting purposes, which is consolidated with Forenet Kredit for accounting purposes.

The financial statements of Forenet Kredit (in Danish) and Nykredit A/S are available from:

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

## MANAGEMENT COMMENTARY (CONTINUED)

---

Nykredit Bank Group

---

### FINANCIAL CALENDAR FOR 2021

11 February	Publication of Annual Reports 2020 and announcements of Financial Statements of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
24 March	Annual General Meeting of Totalkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
24 March	Annual General Meeting of Nykredit Bank A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
25 March	Annual General Meeting of Nykredit Realkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
6 May	Publication of Q1 Interim Report 2021 of the Nykredit Realkredit Group.
19 August	Publication of H1 Interim Reports 2021 of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
4 November	Publication of Q1-Q3 Interim Report 2021 of the Nykredit Realkredit 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 26 March 2020. Re-election is not subject to any restrictions.

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

Below, an account is given of the individual director's position, age, gender 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

Gender: Male

Joined the Board on 1 September 2013

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)

Sparinvest Holdings SE

Deputy Chairman of:

Copenhagen Business School Handelshøjskolen

Finans Danmark\*

Director of:

FR I af 16. september 2015 A/S\*

Member of Investor Board for Danish SDG Investment Fund (Verdensmålsfonden)

#### Anders Jensen, Deputy Chairman

Group Managing Director, Nykredit

Date of birth: 20 January 1965

Gender: Male

Joined the Board on 1 October 2014

Managing Director of:

Nykredit A/S

Nykredit Realkredit A/S

Director of:

Bokis A/S

Foreningen Dansk Skoleskak\*

Grænsefonden

Niels Brock Copenhagen Business College

Niels Brock International A/S

Totalkredit A/S\*

#### Tonny Thierry Andersen

Group Managing Director, Nykredit

Date of birth: 30 September 1964

Gender: Male

Joined the Board on 1 June 2019

Managing Director of:

Nykredit A/S

Nykredit Realkredit A/S

#### David Hellemann

Group Managing Director, Nykredit

Date of birth: 5 December 1970

Gender: Male

Joined the Board on 1 September 2016

Managing Director of:

Nykredit A/S

Nykredit Realkredit A/S

Chairman of:

Bankernes EDB Central a.m.b.a.\*

Ejendomsselskabet Kalvebod A/S\*\* dissolved 8 January 2021

Greve Main 30 A/S\*\*

JN Data A/S\*\*

Kalvebod Ejendomme I A/S

Kalvebod Ejendomme II A/S\*\*

Kirstinehøj 17 A/S

Deputy Chairman of:

Bankernes EDB Central a.m.b.a.\*\*

JN Data A/S\*

Totalkredit A/S\*

Director of:

Totalkredit A/S\*\*

CBS Executive Fonden

Landsdækkende Banker

#### Allan Kristiansen\*\*\*

Chief Relationship Manager

Date of birth: 6 March 1958

Gender: Male

Joined the Board on 13 March 2003

Director of:

Nykredit A/S

Nykredit Realkredit A/S

#### Susanne Møller Nielsen \*\*\*

Senior Supporter

Date of birth: 21 May 1962

Gender: Female

Joined the Board on 25 September 2019

# MANAGEMENT COMMENTARY (CONTINUED)

---

Nykredit Bank Group

---

## 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

Gender: Male

Joined the Executive Board on 1 December 2015

Chairman of:

Nykredit Leasing A/S

Nykredit Mægler A/S

---

### Dan Sørensen

Managing Director

---

Date of birth: 15 December 1967

Gender: Male

Joined the Executive Board on 1 December 2015

Director of:

Nykredit Portefølje Administration A/S

Sparinvest S.A.\*\*

LR Realkredit A/S

Værdipapirfonden NPA

Værdipapirfonden Lokalinvest\*\*

Værdipapirfonden Sparinvest\*\*

\* Joined in 2020

\*\* Resigned in 2020

\*\*\* Staff-elected member