

Nykredit Realkredit Group



Annual Report 2019

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FOREWORD

Customer growth, solid financial performance and new colleagues

2019 was a highly satisfactory year, which has resulted in customer growth, solid financial performance and new colleagues from among others Sparinvest.

Over the year many people and businesses all across Denmark chose to become customers of the Nykredit Group, which led to customer and lending growth in Nykredit Bank as well as Totalkredit. In Nykredit Bank assets under management also increased significantly. The business growth driven by more customers feeds through to our financial performance. And although the operating conditions for financial businesses worsened in 2019, Nykredit can today deliver annual results comprising growth in core earnings items and achievements that confirm the strength of Nykredit's underlying business.

We have not only welcomed new customers in 2019, but also new colleagues. Nykredit acquired 75% of the shares in Sparinvest. The transaction was approved by the relevant authorities in August, and later in the year, our new colleagues of Sparinvest joined us at Nykredit's headquarters. Now that Sparinvest is part of the Group, Nykredit wants to expand the Totalkredit alliance to also include investment products. In 2019 Nykredit also acquired LR Realkredit, a small mortgage provider.

Winning the Double

2019 was the fifth financial year in which Nykredit operated according to our strategy Winning the Double. This strategy has proved effective and right for the Group, which now is in a position of considerable strength compared with when the strategy was first launched.

Over the past five years we have seen customer and business growth. Totalkredit has expanded its position as the largest mortgage lender for Danish homeowners. And at the same time, Nykredit Bank has grown to become the third largest bank in terms of lending.

In the same period Nykredit's operational performance has improved. As seen in 2019, our underlying business is delivering much better results than previously. Winning the Double has improved our earnings by focusing on income as well as costs.

Winning the Double has enabled the Group to significantly bolster our equity. At the same time Nykredit has gained access to obtain additional equity if so required. Consequently, Nykredit has consolidated its capital position considerably. Combined with the improved financial performance, this forms the basis for Nykredit's credit rating, raised to A+ in 2019 by S&P Global Ratings. For the first time Nykredit is their best rated Danish financial institution.

However, the earnings progress and stronger capital position have not changed the fact that Nykredit offers probably the world's most attractive home loans to customers. In fact, customers' average administration margin payments on our most popular product, mortgage loans to homeowners with Totalkredit, are now lower than before the Winning the Double strategy. This is possible not least thanks to our customer-owned structure, which enables us to share our progress with our customers through our KundeKroner discounts, which reduce customers' administration margin payments and other initiatives. We are proud of

the tangible benefits to customers of our unique customer-owned structure.

Winning the Double 2.0

Following five years' successful delivery of the Winning the Double strategy, it was re-evaluated in 2019. We concluded that the current strategic path was still right for Nykredit and have therefore updated the strategy rather than set a new course. The updated strategy is named Winning the Double 2.0.

Winning the Double 2.0 includes a new and more explicit ambition of clearly embedding Nykredit's customer-owned structure and corporate responsibility into the strategy. We further maintain our fundamental dual ambition of Winning the Double of growing the number of full-service customer relationships in Nykredit on the one hand and strengthening the alliance with the Totalkredit partner banks on the other. The three overarching strategic objectives of Winning the Double 2.0 are:

- We want to **secure** Totalkredit's future position as market leader in home financing in Denmark
- We want to **expand** Nykredit's banking position by gaining more full-service customers
- We want to **be** the customer-owned, responsible financial provider for people and businesses all over Denmark.

Winning the Double 2.0, which sets the course for Nykredit's development in the coming years, will be explained in greater detail later in this Annual Report.

Dividend paid to our owners

At Nykredit, we share our progress with our customers. In 2019 we paid back more than DKK 1.5 billion to homeowners, businesses and agricultural customers thanks to our unique customer-owned structure.

Based on the highly satisfactory financial performance for 2019 and the strong capital position, it is recommended to the Annual General Meeting that Nykredit distributes ordinary dividend of DKK 3,660 million. Forenet Kredit's share of the dividend will be DKK 2,848 million.

Yours sincerely



Steffen Kragh
Chairman



Michael Rasmussen
Group Chief Executive

NYKREDIT HIGHLIGHTS



We contribute to growth and development in Denmark

We want to be the customer-owned, responsible financial provider for people and businesses all over Denmark. This ambition is now an explicit part of the Group's strategy. Our customers should have an even stronger awareness of Nykredit's unique ownership structure, and our entire business must contribute to growth and development in Denmark.



We share our progress

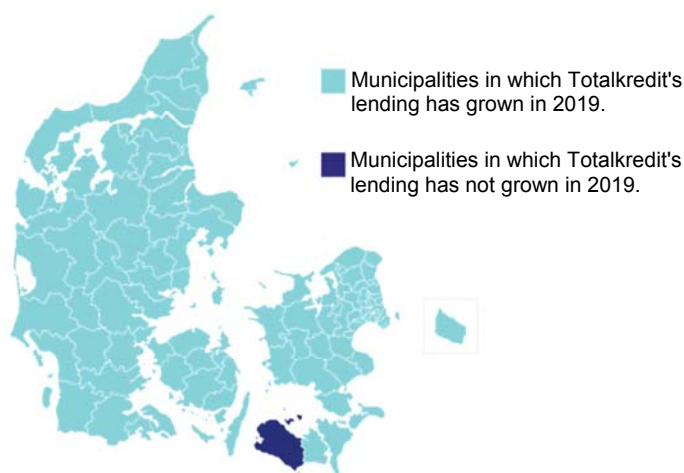
Nykredit is partly owned by an association. This is why we can give money back to our customers. We have expanded our benefits programme to include customers with Totalkredit secured homeowner loans who now also get KundeKroner discounts. Our customers have received more than DKK 1.5 billion from the KundeKroner, ErhvervsKroner and MineMål programmes in 2019.



We contribute to the green transition

We have seen growing demand for our green bonds and mortgage loans, making it more attractive for our corporate clients to finance energy-efficient buildings. We also offer sustainable investments, for instance in our Nordic Swan Ecolabelled fund, and green loans to finance electric and hybrid cars.

Furthermore, we have set ambitious targets to reduce our own energy consumption, carbon footprint and amount of waste.



We are increasing lending throughout Denmark

We provide loans all across the country. Together with our partner banks, Totalkredit has once again increased lending to Danish homeowners all across Denmark.



We make it more attractive to our customers

Totalkredit customers receive discounts under the KundeKroner benefits programme. This reduces their administration margin payments, which today average DKK 608 monthly for each DKK 1 million borrowed. This is the lowest level for more than five years.



We are official Danish Tokyo 2020 Olympic partner

This summer when the Olympic flame is lit in Tokyo, Nykredit will be official partner to the Danish athletes at the 2020 Olympic Games. We feel a special bond with the local communities, which, thanks to the engagement of volunteers all across Denmark, organise community sports activities. And being owned by an association, we know that together we can do more.

FINANCIAL HIGHLIGHTS

DKK million

Nykredit Realkredit Group	2019	2018	2017	2016	2015
BUSINESS PROFIT AND PROFIT FOR THE YEAR					
Net interest income	9,344	9,226	9,006	8,747	8,462
Net fee income	2,739	1,950	2,470	2,251	2,376
Wealth management income	1,610	1,361	1,402	1,184	1,040
Net interest from capitalisation	(352)	(356)	(360)	(448)	(573)
Net income relating to customer benefits programmes ¹	(358)	(248)	-	-	-
Trading, investment portfolio and other income	1,672	89	1,492	1,676	1,102
Income	14,655	12,023	14,010	13,410	12,407
Costs	5,326	4,865	4,977	5,260	5,066
Business profit before impairment charges	9,329	7,157	9,033	8,151	7,341
Impairment charges for loans and advances	994	380	379	680	920
Business profit	8,335	6,777	8,653	7,471	6,421
Legacy derivatives	(112)	280	1,517	(763)	229
Badwill, impairment of goodwill and amortisation of customer relationships	564	-	-	-	(1,965)
Profit before tax	8,787	7,057	10,170	6,708	4,685
Tax	1,344	1,247	2,039	1,327	1,448
Profit for the year	7,443	5,810	8,130	5,380	3,237
Other comprehensive income, value adjustment of strategic equities	0	0	(6)	331	7
Other comprehensive income, remaining items	22	(7)	1	12	25
Comprehensive income for the year	7,465	5,803	8,125	5,723	3,269
Interest on Additional Tier 1 capital charged against equity	233	233	233	233	197
Minority interests	(1)	-	-	-	-
SUMMARY BALANCE SHEET					
Assets	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Receivables from credit institutions and central banks	59,623	29,691	48,031	34,829	23,253
Mortgage loans at fair value	1,287,370	1,193,667	1,163,879	1,124,693	1,119,101
Bank loans excluding reverse repurchase lending	65,466	60,566	55,783	55,003	46,747
Bonds and equities	115,690	99,444	102,125	116,555	110,294
Remaining assets	82,188	64,624	56,992	69,525	84,394
Total assets	1,610,336	1,447,991	1,426,810	1,400,606	1,383,789
Liabilities and equity					
Payables to credit institutions and central banks	13,914	15,692	13,319	21,681	30,226
Deposits excluding repo deposits	85,396	76,946	75,914	65,415	62,599
Bonds in issue at fair value	1,336,414	1,196,229	1,179,093	1,152,383	1,137,314
Subordinated debt	11,004	11,011	10,942	11,078	11,006
Remaining liabilities	79,230	68,236	68,695	79,092	77,184
Equity	84,378	79,878	78,847	70,957	65,460
Total liabilities and equity	1,610,336	1,447,991	1,426,810	1,400,606	1,383,789
FINANCIAL RATIOS					
Profit (loss) for the year as % of average business capital (ROAC) ²	12.4	10.2	14.5	10.1	5.4
Profit for the year as % of average equity ³	9.3	7.4	11.0	8.6	5.0
Costs as % of income	36.3	40.5	35.5	39.2	40.8
Total provisions for loan impairment and guarantees	8,033	8,184	7,915	8,341	8,646
Impairment charges for the year, %	0.07	0.03	0.03	0.06	0.08
Total capital ratio, %	23.7	25.4	25.3	23.0	23.9
Common Equity Tier 1 capital ratio, %	19.5	21.0	20.6	18.8	19.4
Internal capital adequacy requirement, %	10.9	10.0	10.2	10.2	11.8
Average number of staff, full-time equivalent	3,515	3,382	3,505	3,648	3,757

¹ "Net income relating to customer benefits programmes" are described in detail in "Alternative performance measures".

² "Profit (loss) for the year as % of average business capital (ROAC)" shows profit for the period relative to business capital. Profit corresponds to profit for accounting purposes less interest expenses for Additional Tier 1 (AT1) capital plus value adjustment of strategic equities recognised as "Other comprehensive income".

³ For the purpose of return on equity, the AT1 capital raised in 2015 is treated as a financial obligation for accounting purposes, and the dividends for the period thereon for accounting purposes are included as interest expenses on subordinated debt in profit for the year.

WINNING THE DOUBLE 2.0

Winning the Double has been the Group's strategy since 2014. Over the past year, the strategy has been updated and refocused under the heading of "Winning the Double 2.0".

Initially, the aim behind Winning the Double was to consolidate the Group's strategic foundation by gaining more full-service customers and by strengthening the Totalkredit alliance. On both parameters, the Group has achieved considerable results in the past five years, having also delivered an improved financial performance, thanks to our focused efforts, which included a thorough review of virtually all parts of the business and the underlying organisation.

Based on Winning the Double, we maintain our ambitions of growing the number of full-service customer relationships in prioritised customer segments and strengthening the alliance with the Totalkredit partner banks. With Winning the Double 2.0, we are introducing a new and more explicit ambition to be the customer-owned, responsible financial provider for people and businesses all over Denmark.

Our three overarching strategic objectives are:

1. to secure our future position as market leader in home financing
2. to expand our banking position by gaining more full-service customers
3. to be the customer-owned, responsible financial provider for people and businesses all over Denmark.

In personal banking, we want to win over homeowners and personal wealth clients as satisfied and loyal full-service customers out of an overarching ambition to create financial security. This means offering a holistic advisory experience that is based on customers' life events and covers all angles of a customer's home, assets, day-to-day finances and insurance needs. In business banking, we want to expand our full-service customer relationships with business managers, segments of Danish businesses as well as agricultural customers. For our corporate and institutional clients, we want to offer market-leading solutions within selected core areas.

To achieve all three objectives, we aim to expand the joint development between the Nykredit Group and the Totalkredit partner banks. We thus remain committed to expanding our close alliance with the Totalkredit partner banks; a unique and strong distribution network with extensive local knowledge all across Denmark. The currently increasing pressure on financial sector costs and the need for a broader business model create an even stronger basis for leveraging the scaling benefits of joining forces in areas such as development, infrastructure and process optimisation to the advantage of customers as well as banks. Also the Group's acquisition of Sparinvest should be viewed in the light of an even stronger partner alliance.

The third and new objective is to be the customer-owned, responsible financial provider for people and businesses all over Denmark. This objective builds on a wish to accentuate the Group's unique ownership structure and business concept vis-à-vis the customers and to show that part of Nykredit's strategy is to contribute to growth and development in Denmark.

The foundation of these three objectives is even more focus on compliance and conduct management in the light of increasing expectations for the sector. This includes improved processes to ensure efficiency and good customer experience, higher agility in business development as well as a number of strategic HR efforts to attract, develop and maintain the right skills.

Winning the Double in 2019

Over the past few years, we have launched a number of major business development initiatives as part of the delivery of Nykredit's Winning the Double strategy. In 2019 we took further strides towards realising the full potential of our Group strategy with initiatives in relation to full-service customers, partnership activities and corporate responsibility. To underpin the Group's strategic development, Nykredit launched a major reorganisation in the spring of 2019. The Group is leaving 2019 holding a strong position in a market generally under pressure. Our results are satisfactory, the Group's image is improving and thanks to our business concept and its unique customer benefits programmes, we have now been recognised as the best mortgage loan provider (recommended by the Danish Consumer Council). We have also recorded rising staff satisfaction levels. On balance, this provides the Nykredit Group with a strong platform for additional growth.

Focus on full-service customers

The Group's focus on generating more value for more full-service customers in 2019 resulted in customer growth and increased satisfaction in prioritised personal banking segments as well as a stable trend in business banking with a continued large potential.

The Group continued its efforts to become customers' preferred bank. This resulted in, for example, new guiding principles for customer service, new adviser tools as well as a continued strong organisational focus on enhancing customer experience.

Forenet Kredit, Nykredit's majority owner, wants the dividend it receives from the Nykredit Group to benefit our customers. Thus, in recent years, Nykredit has established and consolidated its overarching business concept, the KundeKroner concept, which builds value for our customers. In 2019 it was decided to extend the KundeKroner and ErhvervsKroner benefits programmes until 2020. In addition, the KundeKroner benefits programme was launched for customers with secured homeowner loans, as also the MineMål benefits programme was launched for the Group's personal full-service customers in December 2018. The concept is simple: When Nykredit is doing well, we give money back to our customers via their MineMål account. During the first six months of the year, we focused on launching a string of new service deals offered to customers through a network of business partners. In addition, on 1 July 2019, we launched an interest rate discount on bank and secured homeowner loans.

Retail has focused on implementing a new system for Customer Engagement Management (CEM). Nykredit's CEM system has been developed in collaboration with BEC, an IT provider. The aim of the new CEM is to accumulate customer data and enhance the customer experience by way of a more modern and intuitive system, which supports and supplements personal advisory services.

In recent years Nykredit has established a strong position in the Danish market for wealth and asset management services, winning national and international awards again in 2019. The establishment of Wealth Management as an independent business area in March 2019 and the acquisition of Sparinvest with effect from August 2019 underscore the Group's strategic ambitions in this area. Furthermore, the acquisition of Sparinvest is an important strategic initiative, which strengthens and expands the alliance with the partner banks of Totalkredit. Sustainable investments are gaining increasing strategic importance, and Nykredit Invest has introduced the fund "Bæredygtige Aktier", which was the first Danish investment fund to obtain the Nordic Swan Ecolabel.

In addition to the full-service customer initiatives, in 2019 Nykredit acquired all shares in LR Realkredit A/S. LR Realkredit A/S is Denmark's smallest mortgage lender with total lending of about DKK 22 billion, mainly providing loans to finance properties, which qualify for public support, particularly public housing and housing cooperatives. Nykredit has a long experience with these customer types. The acquisition of LR Realkredit A/S has increased Nykredit's equity and lending in an area where the Group already has strong expertise.

Strengthening partnership activities

In 2019 the alliance with the Totalkredit partner banks was further expanded and strengthened, and partner satisfaction continues to rise from an already high level in 2018 and has reached an all-time high. We recorded continued growth in lending and rising market share. In the autumn of 2018 Nykredit and Totalkredit announced a new joint project with the partner banks in the field of property valuations, setting up a new nationwide, shared property valuation unit.

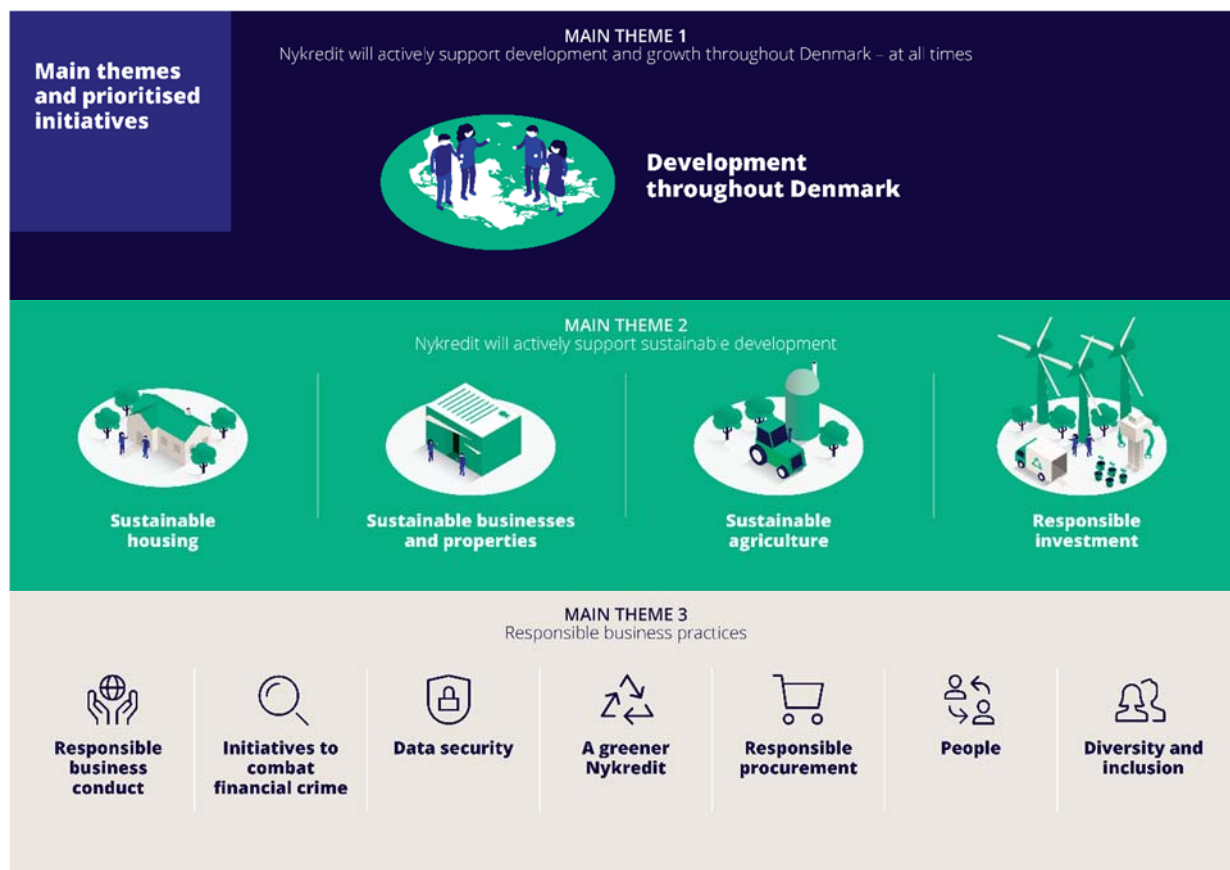
In 2019 all Totalkredit partner banks had adopted this solution. The shared solution was indeed stress tested during the large refinancing surges in 2019 – and passed. Thus, the shared property valuation unit is another example of the Totalkredit alliance continuing its journey from product collaboration to wider partnership for the mutual benefit of all parties.

On the product side, mortgage loans with a 30-year interest-only option were launched in response to the different competing offers in the market. These are loans aimed at customers with significant home equity (loan-to-value (LTV) ratio below 60) who for various reasons want a longer interest-only horizon.

The new mortgage lending platform (NRP) remains essential to the digital strengthening of Totalkredit. The NRP is a platform shared between Totalkredit and the IT providers where three IT providers deliver the user interface to the new housing universes. The aim of the NRP is to support the primary business processes within mortgage lending for personal customers in 2020-2022.

Corporate responsibility

In 2019 Nykredit took decisive steps in its corporate responsibility commitment. Nykredit's three main themes, and prioritised initiatives, which delineate the Group's corporate responsibility efforts, have been more clearly embedded in the business areas responsible for driving goals and initiatives. Our initiatives have been refocused to reflect the areas where Nykredit may contribute to solving important societal challenges while creating value for our customers and opportunities for our business. The main themes and initiatives are shown below.



As a result of the enhanced focus on corporate responsibility, it has been integrated into the Group's governance model. From 2020, corporate responsibility KPIs will be added to the Group's balanced scorecard. We have started integrating sustainability more explicitly into Nykredit's risk and credit policies to ensure that the Group systematically considers new risks and new opportunities arising, for example, as a result of climate change. In 2019 Nykredit also became a founding signatory of the UN Principles for Responsible Banking (PRB), which give us a firmer international framework for the efforts to ensure that the Group's strategy and our daily operations are aligned with societal goals. The UN Sustainable Development Goals (SDGs) and the Paris Agreement remain central benchmarks for how Nykredit may contribute to solving major societal challenges. Nykredit's Corporate Responsibility Report 2019 outlines which SDGs and related targets Nykredit is particularly contributing to through its work.

The partnership with the 52 Totalkredit partner banks is the foundation for the Nykredit Group's efforts to contribute to development and offer favourable and secure loans all over Denmark at all times. In 2019 Nykredit, together with its 52 Totalkredit partner banks, recorded growth in lending in 97 out of 98 municipalities.

We are also working to identify ways of contributing to the green transition all across the Group. In 2019 Nykredit reached its 2020 target to reduce the Group's total carbon emissions by 65% relative to the level in 2012. The Group has resolved to compensate for the part of carbon emissions from for instance district heating, which is beyond our control, by buying carbon credits to achieve carbon neutrality by 2020.

We strive to promote sustainable solutions by engaging in dialogue with our customers and having a sustainable product range. In 2019 we took the first steps by, for example, launching a green car loan for electric and hybrid cars and by issuing green bonds, which have paved the way for green loans to finance energy-efficient commercial properties. Improvements to our environmental, social and governance (ESG) processes in relation to asset management combined with Nykredit's fund "Bæredygtige Aktier", which carries the Nordic Swan Ecolabel, have been the main elements of greater focus on sustainable investments.

When it comes to responsible business practices, one of Nykredit's main objectives is to ensure advice, products and services that are responsible in a societal context and relative to the finances of the individual customer. This calls for strong risk management practices and a healthy and open corporate culture. As part of this work, Nykredit carried out a Conduct Risk Self-Assessment for the first time in 2019, which has formed the framework for our work on ethical dilemmas in the business.

Another key element of our responsibility is to prevent and counter misuse of the Nykredit Group for financial crime. In 2019 we invested significantly in transaction monitoring systems, and we changed our IT platform to a joint sector solution (BEC). As part of our efforts in 2019 to review our customer base to ensure alignment with our business model and risk appetite, we terminated a large number of foreign correspondent relationships, high-risk customers and customers that refused to comply with our customer due diligence procedures.

We are continually working to improve our documentation in relation to important ESG issues. This information is also useful for ESG ratings where Nykredit's ESG performance is assessed by external rating agencies, reflecting how we manage ESG risks. Our investors use ESG ratings to make investment decisions.

In 2019 Sustainalytics, one of the leading ESG rating agencies, raised Nykredit's ESG rating. Sustainalytics considers Nykredit's ESG risk to be "low", ranking Nykredit among the highest rated banks in the agency's universe.

For additional information on Nykredit's corporate responsibility performance, please refer to our Corporate Responsibility Report 2019 at nykredit.com/samfundsansvar. The report includes our:

1. Communication on Progress to the UN Global Compact, which Nykredit signed in 2008.
2. Report on corporate responsibility, cf section 135 of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.
3. Report on the gender composition of management, cf section 135a of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

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



FINANCIAL REVIEW

		DKK million					
Nykredit Realkredit Group			Q4/ 2019	Q3/ 2019	Q2/ 2019	Q1/ 2019	Q4/ 2018
	2019	2018					
BUSINESS PROFIT AND PROFIT FOR THE PERIOD							
Net interest income	9,344	9,226	2,415	2,337	2,310	2,283	2,330
Net fee income	2,739	1,950	731	853	671	484	429
Wealth management income	1,610	1,361	494	397	369	350	336
Net interest from capitalisation	(352)	(356)	(90)	(90)	(84)	(89)	(92)
Net income relating to customer benefits programmes ¹	(358)	(248)	(236)	(19)	(23)	(80)	(73)
Trading, investment portfolio and other income	1,672	89	508	(137)	623	679	(264)
Income	14,655	12,023	3,822	3,340	3,865	3,627	2,666
Costs	5,326	4,865	1,530	1,304	1,264	1,228	1,266
Business profit before impairment charges	9,329	7,157	2,292	2,036	2,601	2,399	1,399
Impairment charges for loans and advances	994	380	329	232	213	219	167
Business profit	8,335	6,777	1,963	1,804	2,388	2,180	1,232
Legacy derivatives	(112)	280	485	(328)	(50)	(219)	(104)
Badwill, impairment of goodwill and amortisation of customer relationships	564	-	564	-	-	-	-
Profit before tax for the period	8,787	7,057	3,012	1,477	2,338	1,961	1,128
Tax	1,344	1,247	427	234	354	330	115
Profit for the period	7,443	5,810	2,585	1,243	1,984	1,631	1,013
Other comprehensive income, remaining items	22	(7)	23	2	29	(32)	11
Comprehensive income for the period	7,465	5,803	2,608	1,245	2,013	1,599	1,024
Interest on Additional Tier 1 capital charged against equity	233	233	59	57	59	58	59
Minority interests	(1)	0	(4)	3	-	-	-

¹ "Net income relating to customer benefits programmes" are described in detail in "Alternative performance measures".

PERFORMANCE HIGHLIGHTS IN 2019

Nykredit delivered a highly satisfactory profit before tax for 2019 of DKK 8,787 million (2018: DKK 7,057 million). Business profit stood at DKK 8,335 million (2018: DKK 6,777 million). Financial performance was positively affected by a one-off gain of about DKK 564 million in connection with the acquisition of shares in LR Realkredit A/S, increasing business volumes, exceptionally high remortgaging activity as from Q2, as well as a very favourable trend in investment portfolio income.

The full-year outlook has been raised three times. Most recently, on 15 January 2020, we raised our full-year outlook for profit before tax by DKK 450 million. To this should be added a one-off gain from the acquisition of LR Realkredit of about DKK 564 million, leading to a full-year outlook for profit before tax between DKK 8,300 million and DKK 8,800 million. These expectations were matched. The business profit forecast for 2019 was revised up in the Q1-Q3 Interim Report for 2019 to between DKK 7,750 million and DKK 8,250 million. Nykredit ends the year with a marginally better business profit for 2019 of DKK 8,335 million.

Nykredit delivered a satisfactory performance in 2019, recording strong customer growth and high business volumes throughout the Group. Bank lending grew by DKK 4.9 billion to DKK 65.5 billion at end-2019 (end-2018: DKK 60.6 billion), equal to an increase of 8.1%, and the Totalkredit partnership led to increased nominal mortgage lending totalling DKK 1,263 billion at end-2019, up 7.8%. More than 827,000 homeowners now have Totalkredit loans.

The strong bank alliance was further consolidated during the year with the implementation of the new shared property valuation unit serving

the Totalkredit partner banks. The unit will ensure uniform property valuations, fast response times and focus on customer experience. Furthermore, the partnership was strengthened with the acquisition of 75% of the shares in Sparinvest. On 30 December Nykredit acquired all shares in LR Realkredit A/S.

Income

Total income was DKK 14,655 million in 2019 (2018: DKK 12,023 million).

Net interest income amounted to DKK 9,344 million (2018: DKK 9,226 million), increasing 1% in a market where margins are under pressure. Continuously increasing bank and mortgage lending positively affected net interest income.

Net fee income rose to DKK 2,739 million in 2019 (2018: DKK 1,950 million), primarily due to significantly higher remortgaging activity in 2019 than in 2018.

Wealth management income came to DKK 1,610 million (2018: DKK 1,361 million), primarily driven by growth in assets under management and income from Sparinvest recognised as from September.

Net interest expenses from capitalisation, including interest on subordinated debt, were stable at DKK 352 million (2018: DKK 356 million).

Net income relating to the customer benefits programmes KundeKroner, ErhvervsKroner and MineMål was a negative DKK 358 million (2018: a negative DKK 248 million). The amount includes contributions received from Forenet Kredit.

	Business profit for 2019	Profit for 2019	Income in 2019
	DKK 8,335 million	DKK 8,787 million	DKK 14,655 million
	Business profit	Profit before tax for the year	Income

	ROAC	Return on equity	Cost:income ratio
	12.4%	9.3%	36.3%
	Profit for the year as % pa of average business capital	Profit for the year as % pa of average equity	Costs as % of income

Trading, investment portfolio and other income, including value adjustments of swaps, increased to DKK 1,672 million (2018: DKK 89 million). The increase is primarily attributable to investment portfolio income, which was significantly higher than last year, driven by considerable capital gains from our Danish bank equity portfolio etc.

Costs

Costs as a percentage of income amounted to 36.3% in 2019 (2018: 40.5%). The decrease was primarily due to increased income.

Costs totalled DKK 5,326 million (2018: DKK 4,865 million) and increased mainly due to the development of new business areas (Sparinvest and the shared valuation unit), as well as additional investments in compliance-related activities. Also the high remortgaging activity required more resources.

The average headcount was 3,515 (2018: 3,382). The increase can primarily be ascribed to the number of Sparinvest staff joining Nykredit as well as staff transferred to the shared property valuation unit.

Impairment charges for loans and advances

Impairment charges for loans and advances amounted to DKK 994 million in 2019 (2018: DKK 380 million). Credit quality remains strong, and the increase in impairment charges for the year was mainly driven by economic trends, sector-specific aspects as well as technical adjustments in the use of credit risk models etc.

Other items

Legacy derivatives, which are not included in business profit, saw a negative value adjustment of DKK 112 million (2018: a gain of DKK 280 million). The decline was primarily driven by decreasing interest rates for the year as a whole. Legacy derivatives are derivatives Nykredit no longer offers to customers, comprising a portfolio with a total market value of DKK 6.6 billion (end-2018: DKK 5.6 billion). The portfolio was written down to DKK 4.5 billion at end-2019 (end-2018: DKK 3.5 billion).

In connection with the acquisition of LR Realkredit A/S, goodwill of DKK 564 million was recognised, which positively affects profit before tax.

Tax

Tax calculated on profit for the year was DKK 1,344 million (2018: DKK 1,247 million).

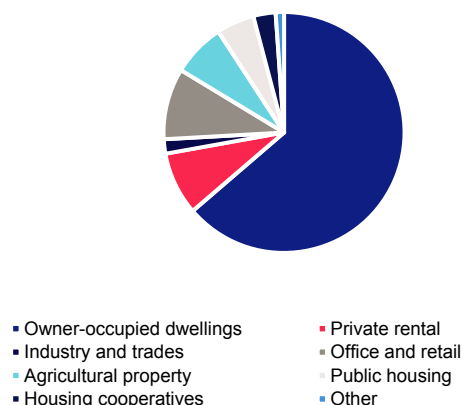
Balance sheet

Nominal mortgage lending was DKK 1,263 billion at end-2019 (end-2018: DKK 1,171 billion), equal to an increase of DKK 91 billion on end-2018 compared with end-2018, of which DKK 21.9 billion from LR Realkredit. All business areas recorded growth.

The strong alliance between Totalkredit and the partner banks continues to drive growth in mortgage lending, which amounted to DKK 740 billion in nominal terms at end-2019 (end-2018: DKK 672 billion). This represents a 10.1% increase since end-2018. More than 827,000 homeowners now have Totalkredit loans.

Nykredit Realkredit Group Mortgage lending in 2019 by property type

%/DKK billion



The Group's market share of total Danish mortgage lending was 42.0% at end-2019 (end-2018: 41.3%).

Nykredit's loan portfolio continues to develop positively, and bank lending increased by DKK 4.9 billion to DKK 65.5 billion at end-2019 (end-2018: DKK 60.6 billion), corresponding to an 8.1% increase since end-2018. Bank lending (including secured homeowner loans transferred to Totalkredit) rose to DKK 72.3 billion (end-2018: DKK 66.8 billion). At 31 December 2019 secured homeowner loans transferred to Totalkredit amounted to DKK 6.8 billion (end-2018: DKK 6.2 billion).

Guarantees provided by Nykredit amounted to DKK 6.6 billion at end-2019 (end-2018: DKK 5.9 billion).

Deposits, excluding repo deposits, increased by DKK 8.5 billion to DKK 85.4 billion (end-2018: DKK 76.9 billion).

Nykredit Bank's deposits exceeded lending by DKK 20.1 billion at end-2019 (end-2018: DKK 16.6 billion).

The acquisition of shares in Sparinvest included recognition of intangible assets of DKK 1.8 billion, consisting of goodwill as well as customer relationships.

Equity

The Nykredit Realkredit Group's equity stood at DKK 84.4 billion at end-2019 (end-2018: DKK 79.9 billion). Based on profit for the year, it is recommended to the Annual General Meeting that Nykredit distributes a dividend of DKK 3.6 billion.

RESULTS FOR Q4/2019 RELATIVE TO Q3/2019

The Group recorded a profit before tax of DKK 3,012 million in Q4/2019 (Q3/2019: DKK 1,477 million).

Income was DKK 3,822 million in Q4 (Q3/2019: DKK 3,340 million). The increase compared with last year was driven by continued underlying business growth, increasing net interest and wealth management income, as well as rising investment portfolio income because of considerable capital gains from our Danish bank equity portfolio etc. In Q3 market turmoil and falling interest rates resulted in a loss from the investment portfolio as well as negative value adjustments of swaps.

The increase in wealth management income is partly due to the inclusion of the full quarterly income from Sparinvest compared with one month in Q3.

Costs rose to DKK 1,530 million in Q4/2019 (Q3/2019: DKK 1,304 million), mainly driven by increased costs from the acquisition of Sparinvest, the extraordinarily high remortgaging activity as well as investments in compliance.

Impairment charges for loans and advances were DKK 329 million (Q3/2019: DKK 232 million).

Legacy derivatives resulted in a positive value adjustment of DKK 485 million (Q3/2019: a negative DKK 328 million), generated by an interest rate rise in Q4.

In connection with the acquisition of LR Realkredit A/S, goodwill of DKK 564 million was recognised in Q4.

RESULTS RELATIVE TO OUTLOOK

Expectations for business profit and profit before tax for 2019 presented in the Annual Report for 2018 were between DKK 6,500 million and DKK 7,000 million.

The full-year outlook has been raised several times since then. The business profit forecast for 2019 was most recently revised up in the Q1-Q3 Interim Report 2019 to between DKK 7,750 million and DKK 8,250 million. Nykredit ends the year with a marginally better business profit for 2019 of DKK 8,335 million. On 15 January 2020 we raised our full-year outlook for profit before tax by DKK 450 million. To this should be added a one-off gain from the acquisition of LR Realkredit of about DKK 564 million, leading to a full-year outlook for profit before tax of between DKK 8,300 million and DKK 8,800 million. These expectations were also matched.

The business profit for 2019 exceeded our initial expectations as a result of high growth in lending and assets under management, high remortgaging activity, as well as a very favourable trend in investment portfolio income, driven by considerable capital gains from our Danish bank equity portfolio etc. Moreover, profit for the year was positively impacted by a one-off gain from the acquisition of shares in LR Realkredit A/S as well as a positive development in legacy derivatives in Q4 because of the increase in interest rates.

OUTLOOK FOR 2020

For 2020 Nykredit expects a business profit of between DKK 6,250 million and DKK 6,750 million. Profit before tax for 2020 is expected to be at the same level, as there are no specific expectations for the development in legacy derivatives.

The earnings outlook is based on the following assumptions:

- Nykredit expects a decrease in income, as the high remortgaging activity in 2019 is not expected to continue at the same level in 2020, and as investment portfolio income is expected to be lower in 2020. By contrast, the full-year impact of the acquisition of Sparinvest is expected to generate increasing wealth management income.
- We expect slightly increasing costs as a result of the full-year impact of the acquisition of LR Realkredit and Sparinvest as well as investments in compliance.
- Impairment charges for loans and advances are expected at largely the same level as in 2019.

The most important uncertainty factors applying to the 2020 outlook are related to investment portfolio income due to Nykredit's portfolio of bank equities and to legacy derivatives as well as impairment charges for loans and advances.

SPECIAL ACCOUNTING CIRCUMSTANCES

Implementation of IFRS 16 "Leases"

IFRS 16 was implemented with effect from 1 January 2019. The standard implies capitalisation of Nykredit's rights to leased assets, including leasehold premises, and the recognition of liabilities arising from such leases.

A simplified transition approach has been applied to leases where Nykredit acts as lessee, and therefore comparative figures have not been restated. This implementation has increased Nykredit's assets and liabilities by about DKK 0.8 billion, or about 0.1% of the balance sheet total.

Further reference is made to note 1, accounting policies, in the Financial Statements.

Change in accounting policies following implementation of annual improvements to IFRS standards 2015-2017

With effect from 1 January 2019, IAS 12 "Income Taxes" has been changed. For Nykredit, this means that taxes relating to interest expenses for Additional Tier 1 capital will be recognised in profit as from 1 January 2019. The tax effect was previously recognised directly in equity together with the interest expense. With effect from 1 January 2020, interest expenses will not be subject to deductions.

Changed presentation of impact of customer benefits programmes

The presentation of the impact of customer benefits programmes was changed with effect from 1 January 2019. The impact was previously presented under each business area. In future, the impact will be presented separately under Group Items as income. The change is aimed at providing a more transparent presentation of the performance of business areas, which, in future, will be presented excluding the impact of the Group's customer benefits programmes. Net income relating to customer benefits programmes will be presented as "Net income relating to customer benefits programmes" in Group Items. Comparative figures for 2017 and 2018 have been restated to reflect the change of presentation. The change does not affect the presentation in the income statement on page 46.

OTHER

Changes to the Boards of Directors

Nykredit Chairman Steffen Kragh, having served 14 years on the Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S and from March 2016 as Chairman, has notified the Boards of Directors that he plans to withdraw from the Boards of Directors as from the next Annual General Meeting on 26 March 2020. Following the Annual General Meeting, the Board of Directors is expected to elect current Deputy Chairman Merete Eldrup as new Chairman of Nykredit A/S and Nykredit Realkredit A/S and Nina Smith as continuing Deputy Chairman.

At the Annual General Meeting on 26 March 2020, the Board of Directors will recommend the election of former Nordea Banking Executive Jørgen Høholt as new member of the Boards of Directors.

New organisation and composition of the Executive Board

A Group-wide reorganisation was implemented with effect from 21 March 2019 to further strengthen Nykredit's capacity to take strategy and customer experience to the next level.

On 1 July 2019 Tonny Thierry Andersen joined Nykredit as Group Managing Director and new member of the Group Executive Board

with responsibility for Banking. Søren Holm and Kim Duus both resigned from the Group Executive Board on 21 March 2019 and left the Group at end-June 2019.

Acquisition of Sparinvest completed

In March 2019 Nykredit entered into a conditional agreement with Sparinvest, a Danish asset manager, to acquire the majority of its shares.

The acquisition was approved by the Danish Competition and Consumer Authority in July and by the Luxembourg supervisory authority (CSSF) in August 2019. The acquisition was completed on 30 August 2019. Sparinvest has subsequently become a subsidiary of Nykredit Bank A/S with an ownership interest of 76.4%.

Acquisition of shares in LR Realkredit A/S

In April 2019 Nykredit Realkredit A/S entered into a conditional purchase agreement with the group of owners behind LR Realkredit A/S to acquire all shares in the company at a price of DKK 2.7 billion.

The agreement was approved by the Danish Financial Supervisory Authority (FSA) on 3 July 2019, and the acquisition was approved by the Danish Competition and Consumer Authority on 2 December 2019. The acquisition was completed on 30 December 2019. The transaction generated one-off income of about DKK 564 million in 2019 in Nykredit Realkredit A/S.

KundeKroner, ErhvervsKroner and MineMål

The Committee of Representatives of Forenet Kredit decided on 21 March 2019 to make a total contribution of DKK 1.25 billion to Nykredit Realkredit, Nykredit Bank and Totalkredit to the benefit of the customers in 2020.

Totalkredit will thus receive DKK 725 million in 2020. Nykredit Realkredit A/S will receive DKK 225 million, and Nykredit Bank A/S will receive DKK 300 million, also in 2020. These amounts will be used to secure the funding of our customer benefits programmes.

UNCERTAINTY AS TO RECOGNITION AND MEASUREMENT

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

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

MATERIAL RISKS

The Group's most material risks are described in detail in note 51 of the Annual Report for 2019, to which reference is made.

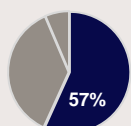
EVENTS SINCE THE BALANCE SHEET DATE

No events have occurred in the period up to the presentation of the Annual Report for 2019 which materially affect the Group's financial position.

BUSINESS AREAS

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

Banking



Comprises Retail and Corporates & Institutions.

Retail comprises mortgage lending and banking services tailored to Nykredit's personal customers and SMEs, including agricultural customers and residential rental customers. Retail also includes estate agency and leasing activities.

Corporates & Institutions comprises Nykredit's corporate and institutional clients, the public housing segment, large housing cooperatives and mortgage lending to business customers for properties abroad. The division is also responsible for Nykredit's activities within securities trading and financial instruments.

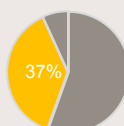
Business profit:
DKK 4,314 million

Income: DKK 9,204 million

Impairment charges for loans and advances: DKK 1,047 million

Total loans and advances:
DKK 694.1 billion

Totalkredit Partners



Comprises Totalkredit-branded mortgage loans to personal and business customers arranged by 52 Danish local and regional banks. Mortgage loans arranged by Nykredit are included in the business area Banking.

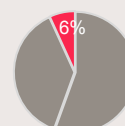
Business profit:
DKK 2,796 million

Income: DKK 3,378 million

Impairment charges for loans and advances: Net reversal of DKK 69 million

Total loans and advances:
DKK 620.7 billion

Wealth Management



Comprises the Group's asset management propositions and activities as well as portfolio administration services to institutional clients, foundations, municipalities, businesses and high-net-worth clients.

Business profit:
DKK 486 million

Income: DKK 1,163 million

Total loans and advances:
DKK 13.1 billion

Assets under management:
DKK 335.8 billion

Assets under administration:
DKK 888.6 billion

Percentages show the business divisions' share of business profit for 2019 excluding Group Items.

To this should be added Group Items, which comprises other income and costs not allocated to business areas as well as core income from securities and investment portfolio income.

Please refer to note 3 in the Financial Statements for complete segment financial statements with comparative figures.

BANKING

DKK million							
Results –			Q4/	Q3/	Q2/	Q1/	Q4/
Banking	2019	2018	2019	2019	2019	2019	2018
Net interest income	6,330	6,354	1,595	1,581	1,580	1,575	1,580
Net fee income	2,070	1,485	537	655	491	386	351
Wealth management income	614	630	170	152	147	144	164
Net interest from capitalisation	(336)	(343)	(82)	(86)	(88)	(79)	(84)
Trading, investment portfolio and other income	526	641	319	4	145	58	8
Income	9,204	8,767	2,540	2,306	2,275	2,084	2,018
Costs	3,843	3,729	1,094	881	972	895	1,023
Business profit before impairment charges	5,361	5,037	1,445	1,423	1,303	1,189	996
Impairment charges for mortgage lending	842	(11)	235	329	143	135	(137)
Impairment charges for bank lending	205	259	31	80	58	36	168
Business profit	4,314	4,789	1,179	1,014	1,102	1,018	965
Legacy derivatives	(113)	280	484	(327)	(50)	(219)	(104)
Profit before tax	4,201	5,069	1,663	687	1,052	799	861

Comparative figures have been restated to reflect the reorganisation, which took effect on 21 March 2019.

2019 in summary

In 2019 Banking continued its efforts to become the best bank for customers, and to strengthen the customer experience further we have

- implemented a new Customer Engagement Management (CEM) system in Q3, which has laid the groundwork for providing enhanced and even more relevant customer advisory services
- actively included customer advisory activities in our customer benefits programmes, MineMål, KundeKroner and ErhvervsKroner, which provide unique benefits to Nykredit's customers
- created a new self-service solution for Nykredit's business customers, which enhanced customer experience through a faster assessment and onboarding of new customers. In addition, a specialist team has been set up to ensure smooth customer onboarding
- secured strong expertise within strategic financial advisory services and capital market transactions.

In 2019 we helped a large number of customers remortgage their loans and take advantage of the historically low interest rates. Demand was significant and afforded many opportunities in the market. Consequently, in 2019, we again welcomed a significant amount of new customers entrusting Nykredit with their finances. We look forward to serving the new customers joining us from LR Realkredit A/S and to welcoming the new staff members to our Corporates & Institutions division.

Banking remains focused on strengthening our Private Banking propositions, which are currently provided at 10 customer centres located all across Denmark. In 2019 many new customers opted for Nykredit's private banking concept, which was well received. Again in 2019, Nykredit's Private Banking concept for both Banking and Wealth Management won several prizes, including "Best Private Bank in Denmark" awarded by the Financial Times.

The development of digital value propositions is at the top of the agenda in tandem with Nykredit's focus on a nation-wide physical presence. Efforts are made to expand the digital value propositions in concert with other participants, such as innovative fintech companies.

Banking is committed to ensuring that Nykredit complies with all the tightened regulatory requirements concerning the treatment of personal data and prevention of money laundering. Our efforts to strengthen anti-money laundering procedures were therefore taken to the next level in Q3 with the employment of a significant number of new staff members.

Banking has put sustainability on the agenda, an area closely intertwined with Nykredit's pledge to society. This includes creating financial solutions and value propositions aimed at facilitating a sustainable development for Nykredit as well as our customers. We are dedicated to promoting sustainable solutions by engaging in dialogue and having a sustainable product range. In 2019 we launched green car loans, for example, to finance electric and hybrid cars.

Results for 2019 relative to 2018

Banking delivered a business profit of DKK 4,314 million in 2019 (2018: DKK 4,789 million).

Increasing bank and mortgage lending throughout the year affected net interest income positively, but interest margins were also under pressure as more and more customers choose fixed-rate repayment loans. The significantly higher remortgaging activity as from Q2 impacted net fee income as demonstrated by a 39% increase on 2018. Total income was DKK 9,204 million, up DKK 437 million compared with the same period last year (2018: DKK 8,767 million).

Costs rose by DKK 114 million to DKK 3,843 million (2018: DKK 3,729 million) owing to the considerable resources allocated to compliance and increased expenses in connection with remortgaging activity.

Impairment charges for loans and advances increased to DKK 1,047 million (2018: DKK 248 million) despite the continued favourable economic trends. Credit quality remains strong, and the increase in impairment charges for the year was mainly impacted by the economic outlook, sector-specific aspects as well as technical adjustments in the use of credit risk models etc.

Legacy derivatives saw a negative value adjustment of DKK 113 million (2018: a gain of DKK 280 million).

Results for Q4/2019 relative to Q3/2019

Banking delivered a business profit of DKK 1,179 million in Q4/2019 (Q3/2019: DKK 1,014 million).

Income totalled DKK 2,540 million (Q3/2019: DKK 2,306 million). The increase was mainly driven by higher trading, investment portfolio and other income as a result of positive value adjustment of swaps currently offered.

Impairment charges for loans and advances were DKK 266 million (Q3/2019: DKK 409 million).

Legacy derivatives were a gain of DKK 484 million (Q3/2019: a loss of DKK 327 million), generated by an interest rate rise in Q4, which led to positive value adjustments of swaps.

Selected balance sheet items	31.12.2019	30.09.2019	30.06.2019	31.03.2019	31.12.2018
Banking					
Retail Personal Banking					
Loans and advances	186,113	185,483	184,406	182,903	183,533
- of which mortgage lending, nominal value	168,397	167,652	166,585	165,565	166,635
- of which secured homeowner loans	7,727	7,774	7,723	7,451	7,074
- of which bank lending	9,989	10,057	10,099	9,886	9,824
Deposits	35,379	33,573	33,185	30,788	30,332
Retail Business Banking					
Loans and advances	252,575	252,331	250,663	252,345	252,083
- of which mortgage lending, nominal value	228,637	229,079	228,097	230,038	230,847
- of which bank lending	23,938	23,252	22,565	22,306	21,236
Deposits	21,059	20,933	19,406	18,121	19,055
Corporates & Institutions					
Loans and advances	255,405	227,332	222,280	219,486	216,702
- of which mortgage lending, nominal value	229,611	203,283	197,674	196,971	193,360
- of which bank lending	25,794	24,049	24,606	22,515	23,342
Deposits	9,495	10,285	8,585	10,162	11,708

Comparative figures have been restated to reflect the reorganisation, which took effect on 21 March 2019.

Activities

Loan volumes totalled DKK 694.1 billion at 31 December 2019 (end-2018: DKK 652.3 billion), of which DKK 626.7 billion was mortgage loans at nominal value (end-2018: DKK 590.8 billion).

Bank lending in Retail Personal Banking came to DKK 10.0 billion (end-2018: DKK 9.8 billion). Bank deposits in Retail Personal Banking rose by DKK 5.0 billion from end-2018 to DKK 35.4 billion.

Bank lending in Retail Business Banking increased by DKK 2.7 billion to DKK 23.9 billion (end-2018: DKK 21.2 billion).

Bank lending in Corporates & Institutions stood at DKK 25.8 billion (end-2018: 23.3 billion).

Arrears

At the September due date, Retail's 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.67% against 0.80% at the same date in 2018.



TOTALKREDIT PARTNERS

DKK million							
Results –			Q4/	Q3/	Q2/	Q1/	Q4/
Totalkredit Partners	2019	2018	2019	2019	2019	2019	2018
Net interest income	2,879	2,754	782	725	697	675	717
Net fee income	657	478	192	194	170	100	99
Net interest from capitalisation	(182)	(177)	(44)	(50)	(47)	(40)	(62)
Trading, investment portfolio and other income	24	14	5	8	(6)	17	14
Income	3,378	3,070	935	877	814	752	767
Costs	651	554	206	155	138	153	150
Business profit before impairment charges	2,726	2,515	730	721	676	599	618
Impairment charges for mortgage lending	(69)	122	46	(173)	34	24	144
Business profit	2,796	2,393	683	895	642	575	474

Comparative figures have been restated to reflect the reorganisation, which took effect on 21 March 2019.

2019 in summary

Totalkredit Partners focuses on further strengthening the alliance with the partner banks as well as offering customers the most favourable propositions in the market, which in 2019 resulted in

- Totalkredit being recommended by the Danish Consumer Council as the mortgage lender offering the most affordable mortgage loans in the sector
- high lending and customer growth
- the successful launch of a shared property valuation unit as from Q1/2019
- a joint IT platform, supporting our continued ability to offer customers the best home financing options.

KundeKroner discounts have a large impact on the costs of a mortgage loan. This means that Totalkredit currently charges the lowest administration margin payments in the market on the most popular types of mortgage loans. One of the benefits of our customer-ownership structure is that the best part of the dividends paid by Nykredit to Forenet Kredit is given back to our customers in the form of KundeKroner discounts.

The alliance between Totalkredit and the partner banks has resulted in strong growth in lending of 10% since end-2018. We have seen a large intake of new customers, and now more than 827,000 homeowners have Totalkredit loans.

The Totalkredit alliance is developing a joint IT platform, which in the coming years will ensure that the alliance as a whole is better positioned to offer customers the best home financing options. All three of the collaborating IT partners have implemented the first part of the platform, offering customers and advisers a better overview of customers' aggregate facilities, including Totalkredit mortgage loans.

A very successful implementation of the new shared property valuation unit serving the Totalkredit alliance was completed in Q3, and the unit was put to the test by the very high remortgaging activity as from Q2. In connection with the implementation, a number of staff members from the partner banks were transferred to Totalkredit. The unit will ensure uniform property valuations, fast response times and focus on customer experience.

Totalkredit business mortgages are offered to the segments Office and Retail, Residential Rental as well as Industry and Trades. A total

of 38 banks, representing the majority of partner banks having business customers with mortgage needs, offer business mortgages.

Results for 2019 relative to 2018

Totalkredit Partners recorded a business profit of DKK 2,796 million (2018: DKK 2,393 million).

Income, which amounted to DKK 3,378 million (2018: DKK 3,070 million), was satisfactory.

Net interest income increased to DKK 2,879 million (2018: DKK 2,754 million) and was positively affected by rising mortgage lending, but margins are under pressure as more and more customers choose fixed-rate repayment loans.

Net fee income increased by DKK 178 million to DKK 657 million relative to the same period last year (2018: DKK 478 million), mainly driven by exceptionally high growth in remortgaging activity as from Q2.

Costs rose to DKK 651 million (2018: DKK 554 million), primarily due to extraordinary expenses in connection with remortgaging activity, establishment of the new shared property valuation unit as well as rising expenses for compliance.

Impairment charges for loans and advances were a net reversal of DKK 69 million (2018: a charge of DKK 122 million).

Results for Q4/2019 relative to Q3/2019

Totalkredit Partners delivered a business profit of DKK 683 million in Q4 (Q3/2019: DKK 895 million).

Income rose by DKK 56 million to DKK 935 million (Q3/2019: DKK 877 million), mainly driven by higher net interest income.

Impairment charges for loans and advances were DKK 46 million (Q3/2019: a net reversal of DKK 173 million).

DKK million

Selected balance sheet items	31.12.2019	30.09.2019	30.06.2019	31.03.2019	31.12.2018
Totalkredit Partners					
Personal Banking					
Loans and advances	614,336	600,948	584,910	571,469	562,459
- of which mortgage lending, nominal value	604,881	590,877	574,364	560,664	551,454
- of which secured homeowner loans	9,455	10,070	10,545	10,805	11,005
Business Banking					
Loans and advances	6,319	5,528	4,998	4,322	4,093
- of which mortgage lending, nominal value	6,319	5,528	4,998	4,322	4,093

Comparative figures have been restated to reflect the reorganisation, which took effect on 21 March 2019.

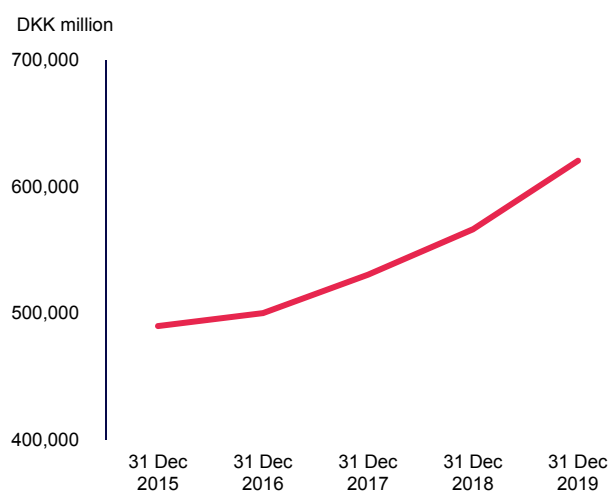
Activities

Totalkredit Partners recorded strong lending growth in 2019, and nominal lending to personal customers came to DKK 614.3 billion at end-2019 (end-2018: DKK 562.5 billion), equal to an increase of 9%. The business loan portfolio increased by DKK 2.2 billion to nominally DKK 6.3 billion (end-2018: DKK 4.1 billion).

Arrears

At the September due date, Totalkredit Partners's 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.22% against 0.18% at the same date in 2018.

Lending, Totalkredit Partners



WEALTH MANAGEMENT

DKK million							
Results –			Q4/	Q3/	Q2/	Q1/	Q4/
Wealth Management	2019	2018	2019	2019	2019	2019	2018
Net interest income	129	120	35	29	33	33	32
Net fee income	36	24	8	13	10	5	5
Wealth management income	984	714	320	242	220	203	166
Net interest from capitalisation	(9)	(8)	(2)	(2)	(2)	(2)	(3)
Trading, investment portfolio and other income	23	13	5	5	7	6	5
Income	1,163	863	366	286	267	244	204
Costs	666	471	250	181	116	118	131
Business profit before impairment charges	497	392	116	105	150	126	73
Impairment charges for mortgage lending	11	(5)	6	5	0	0	(2)
Impairment charges for bank lending	0	24	6	(1)	(24)	19	(3)
Business profit	486	374	103	101	174	107	78
Legacy derivatives	0	0	1	(1)	0	0	0
Profit before tax	486	373	104	101	174	107	78

Comparative figures have been restated to reflect the reorganisation, which took effect on 21 March 2019.

2019 in summary

Wealth Management wants to enhance the customer experience by, for example,

- collaborating with Sparinvest's partner banks on offering relevant investment products to wealth clients all over Denmark
- offering a wide range of investment products, including a Nordic Swan Ecolabelled fund and other sustainable investment options
- expanding our business area within administration of credit and lending strategies in Nykredit Portefølje Administration
- upgrading the value proposition to the Private Banking Elite segment to ensure its relevance and holistic approach to wealth clients.

On 30 August Nykredit acquired 75% of the shares in Sparinvest. The acquisition constitutes a considerable investment in our future competitiveness and distribution power, consolidates our wealth management skills and provides us with a wider and stronger product portfolio, improving our capacity to meet the demands that both personal customers and institutional clients place on us as an asset manager.

Following the acquisition of Sparinvest, Wealth Management has made several organisational adjustments to ensure Sparinvest's successful integration to maintain the solid business momentum existing in both Sparinvest and Nykredit Wealth Management today and to remain a strong business partner to customers, to Sparinvest partner banks and across the Group.

Nykredit Private Banking continued winning awards in 2019. Recently, Private Banking was ranked no 1 by Danish private banking clients for the third consecutive year in Prospera's annual survey. Moreover, for the third year running Nykredit Private Banking Elite was awarded the best private bank in Denmark by PWM/The Banker, two Financial Times media, and won Outstanding Private Banking Customer Relationship Service and Engagement for the second consecutive year at the Private Banker International Awards in London. 68.3% of Nykredit Asset Management's investment strategies (GIPS composites) generated above-benchmark returns in 2019. Over the past three years, 83.8% has generated above-benchmark returns.

Nykredit Portefølje Administration applied for and obtained authorisation to administer a number of credit and lending strategies. In recent years, an increasing number of investors have turned towards alternative investments. This trend is expected to continue. Nykredit Portefølje Administration has several different alternative asset classes under administration, and with the increasing demand for this asset class, new authorisations have been applied for and obtained from the Danish FSA.

Results for 2019 relative to 2018

Wealth Management's business profit remained high at DKK 486 million in 2019 (2018: DKK 374 million).

Income increased to DKK 1,163 million on the previous year (2018: DKK 863 million). The increase was partly due to the inclusion of Sparinvest as from September, higher wealth management income from growth in assets under management and in Nykredit's investment funds.

Results for Q4/2019 relative to Q3/2019

Wealth Management delivered a business profit of DKK 103 million in Q4, at the same level as in the previous quarter (Q3/2019: DKK 101 million).

Income amounted to DKK 366 million in Q4/2019 (Q3/2019: DKK 286 million). The increase was mainly due to the inclusion of Sparinvest in the Financial Statements for the three months under review.

Impairment charges for loans and advances were DKK 12 million (Q3/2019: DKK 4 million).

DKK million

Selected balance sheet items	31.12.2019	30.09.2019	30.06.2019	31.03.2019	31.12.2018
Wealth Management					
Assets under management	335,771	326,984	232,852	230,297	210,623
- of which Nykredit Group investment funds	162,997	157,798	78,069	74,837	68,758
Assets under administration	888,569	852,774	755,342	734,513	664,590
Lending/deposits					
Loans and advances	13,301	12,932	12,771	12,932	12,619
- of which mortgage lending, nominal value	8,539	8,173	7,716	8,104	7,902
- of which secured homeowner loans	1,134	1,152	1,172	1,138	1,111
- of which bank lending	3,629	3,607	3,883	3,690	3,606
Deposits	16,121	15,575	16,598	13,457	12,090

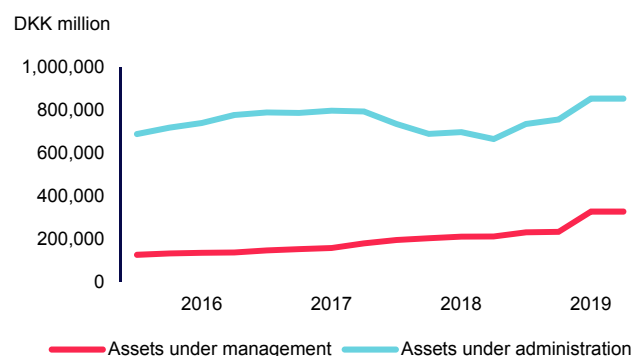
Comparative figures have been restated to reflect the reorganisation, which took effect on 21 March 2019.

Activities

Assets under management continue the strong growth of recent years, driven by particularly international, professional Danish and Private Banking Elite clients. Total assets under management went up by DKK 125.1 billion to DKK 335.8 billion at end-2019 (end-2018: DKK 210.6 billion). The increase was attributable to positive net sales of DKK 10.9 billion as well as positive value adjustments of DKK 18.4 billion. Sparinvest has been recognised as at 30 August 2019 with assets under management of DKK 96.0 billion.

Total assets under administration rose by DKK 224.0 billion compared with end-2018 to DKK 888.6 billion at end-2019 (end-2018: DKK 664.6 billion). The increase comprised net growth of DKK 23.1 billion, driven by demand from institutional clients as well as from the Group's savings products, and value adjustments of DKK 122.8 billion. Assets under administration in Sparinvest totalled DKK 78.1 billion at 30 August 2019.

Assets under management and assets under administration by Wealth Management



GROUP ITEMS

DKK million							
Results – Group Items	2019	2018	Q4/ 2019	Q3/ 2019	Q2/ 2019	Q1/ 2019	Q4/ 2018
Net interest income	6	(1)	4	2	0	0	1
Net fee income	(24)	(37)	(7)	(9)	(1)	(6)	(25)
Wealth management income	12	16	4	3	2	3	6
Net interest from capitalisation	175	173	39	49	54	33	57
Net income relating to customer benefits programmes ¹	(358)	(248)	(236)	(19)	(23)	(80)	(248)
Trading, investment portfolio and other income	1,099	(579)	178	(154)	478	598	(291)
Income	911	(676)	(19)	(128)	511	546	(326)
Costs	167	112	(20)	85	39	63	(36)
Business profit (loss) before impairment charges	745	(789)	2	(213)	470	485	(287)
Impairment charges for mortgage lending	-	-	-	-	-	-	-
Impairment charges for bank lending	5	(9)	5	(8)	2	6	(2)
Business profit (loss)	740	(780)	(3)	(205)	469	479	(284)
Badwill	564	-	564	-	-	-	-
Profit (loss) before tax	1,304	(780)	562	(205)	468	480	(284)

DKK million					
Selected balance sheet items Group Items	31.12.2019	30.09.2019	30.06.2019	31.03.2019	31.12.2018
Lending/deposits					
Loans and advances	106	147	144	142	526
- of which bank lending	106	147	144	142	526
Deposits	3,496	3,235	2,314	7,202	3,787

¹ "Net income relating to customer benefits programmes" are described in detail in "Alternative performance measures". Comparative figures have been restated to reflect the reorganisation, which took effect on 21 March 2019.

A few income statement and balance sheet items, including badwill, are not allocated to the business areas but are included in Group Items.

Group Items also includes Nykredit's total return on the securities portfolio. The activities of the companies Nykredit Ejendomme A/S (wound up) and Ejendomsselskabet Kalvebod A/S also form part of Group Items.

The presentation of the impact of customer benefits programmes was changed with effect from 1 January 2019. The impact was previously presented under each business area but will be presented under Group Items in future. The change is aimed at providing a more transparent presentation of the performance of the business areas. Comparative figures for 2018 have been restated to reflect the change of presentation.

Results for 2019 relative to 2018

The business profit of Group Items rose by DKK 1,520 million relative to 2018 to DKK 740 million (2018: a loss of DKK 780 million).

This trend was primarily driven by rising investment portfolio income due to significant capital gains on the portfolio of, for example, Danish bank equities as well as positive earnings on the remaining trading book.

In connection with the acquisition of LR Realkredit A/S, badwill of DKK 564 million was recognised in Q4.

CAPITAL, FUNDING AND LIQUIDITY

EQUITY AND OWN FUNDS

Equity

Nykredit's equity was DKK 84.4 billion at end-2019, equalling an increase of DKK 4.5 billion on end-2018.

The Board of Directors proposes to the Annual General Meeting that dividend for 2019 be distributed in the amount of DKK 3,660 million. Dividend will be deducted from equity carried for accounting purposes at the time of approval by the Annual General Meeting, whereas the proposed dividend was deducted from own funds for capital adequacy purposes already at end-2019.

DKK million		
Nykredit Realkredit Group		
Equity (including AT1 capital)	31.12.2019	31.12.2018
Equity, beginning of year	79,878	78,847
Profit for the year	7,443	5,810
Proposed dividend	(3,660)	(2,800)
Other adjustments	717	1,979
Equity, year-end	84,378	79,878

DKK million		
Nykredit Realkredit Group		
Capital and capital adequacy	31.12.2019	31.12.2018
Credit risk	324,627	291,637
Market risk	29,336	27,390
Operational risk	25,499	25,709
Total risk exposure amount	379,462	344,736
Equity (including AT1 capital)	84,378	79,878
AT1 capital etc	(3,777)	(3,772)
Proposed dividend	(3,660)	(2,800)
CET1 capital additions/deductions	(2,596)	(605)
CET1 capital	74,344	72,701
AT1 capital	3,741	3,729
AT1 capital deductions	(48)	(28)
Tier 1 capital	78,036	76,403
Tier 2 capital	10,823	10,828
Tier 2 capital additions/deductions	1,224	453
Own funds	90,083	87,683
CET1 capital ratio, %	19.5	21.0
Tier 1 capital ratio, %	20.5	22.1
Total capital ratio, %	23.7	25.4

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

DKK million		
Nykredit Realkredit Group		
Required own funds and internal capital adequacy requirement	31.12.2019	31.12.2018
Credit risk	25,970	23,331
Market risk	2,347	2,191
Operational risk	2,040	2,057
Total Pillar I	30,357	27,579
Risk scenarios and credit quality changes	2,930	1,249
Other risks	8,045	5,560
Total Pillar II	10,975	6,809
Total required own funds	41,332	34,388
Internal capital adequacy requirement (Pillar I and Pillar II), %	10.9	10.0

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

Capital

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

At end-2019 Nykredit's risk exposure amount (REA) totalled DKK 379.5 billion (end-2018: DKK 344.7 billion). With own funds at DKK 90.1 billion, this corresponded to a total capital ratio of 23.7% (end-2018: 25.4%). The CET1 capital ratio was 19.5% (end-2018: 21.0%).

Nykredit's Tier 1 capital consists mainly of Common Equity Tier 1 (CET1) capital. Tier 1 capital amounted to DKK 78.0 billion at 31 December 2019. CET1 capital came to DKK 74.3 billion at 31 December 2019, and AT1 capital after deductions came to DKK 3.7 billion.

Capital targets 2020

Nykredit's capital policy is laid down annually by the Board of Directors and is to support the Group's strategy and objectives.

In accordance with the business model, Nykredit aims to have stable earnings, a strong capital structure and competitive credit ratings. Based on a long-term capital management framework, the Group aims to be able to maintain its business activities independently of fluctuations in economic trends. This implies having adequate access to capital to withstand a severe economic downturn and losses, and maintain active lending also during and after a crisis.

The Board of Directors has set the CET1 capital requirement at 15.5-16.5% of REA. Furthermore, Nykredit has already reserved CET1 capital to meet the upcoming Basel requirements of around DKK 14 billion. Nykredit may obtain new CET1 capital from Forenet Kredit and through investment commitments from a number of Danish pension companies. Based on the capital resources inherent in the ownership structure, Nykredit is expected to have a capital requirement corresponding to that of a listed SIFI when the new Basel requirements have been implemented.

Required own funds and internal capital adequacy requirement

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

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

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

Pillar I

Pillar I capital, covering credit, market and operational risks, was determined at DKK 30.4 billion at end-2019 (end-2018: DKK 27.5 billion). The Pillar I requirement is identical to the statutory capital requirement.

Pillar II

Pillar II capital covers other risks as well as a capital charge for a slight economic downturn. In a worsened economic situation the capital charge is determined using eg stress tests. The Pillar II capital requirement was determined at DKK 11.0 billion at end-2019 (end-2018: DKK 6.8 billion).

Nykredit applies model-based stress tests and capital projections to determine both the required own funds and its capital targets. Nykredit's stress tests are described in more detail in the publication Risk and Capital Management 2019 available at Nykredit.com/riskandcapitalmanagement

The determination of other risks includes assessments of effects of model updates, model risk, operational risks, IT risks, validation and backtest results, data quality, documentation requirements, concentration risk, control risk, strategic risk, external risk, interest rate risk, credit valuation adjustment (CVA), etc.

The Pillar II requirement also includes a general capital charge that serves as a management buffer, as the capital determination depends on statistical methods, choice of model, model properties, unforeseen events, etc.

At end-2019, Nykredit's required own funds were recognised at DKK 41.3 billion (end-2018: DKK 34.3 billion). The internal capital adequacy requirement, calculated as the required own funds as a percentage of REA, amounted to 10.9%.

As a systemically important financial institution (SIFI), Nykredit is subject to a special SIFI buffer requirement of 2%. A capital conservation buffer of 2.5% is also applicable to all financial institutions. Upon recommendation from the European Systemic Board Risk Committee, the Danish Minister for Industry, Business and Financial Affairs has decided to raise the countercyclical buffer rate from 1.0% to 1.5% in June 2020 and additionally to 2.0% at end-2020. All buffer requirements must be met using CET1 capital.

Dividend policy

Nykredit's long-term ambition is to provide our ultimate owners with a competitive return in the form of dividend in the region of 50% of profit for the year, taking into account the current capital policy. The purpose is to ensure that Forenet Kredit strengthens its capital position and can continue to make contributions to the Group to be used for KundeKroner discounts for example.

Nykredit Group		
Shareholders at 31 December 2019	Share capital, DKK	Share capital, %
Forenet Kredit f.m.b.a.	1,046,965,700	78.90
PFA Pension	133,083,800	10.03
PensionDanmark	31,824,400	2.40
PKA	31,824,400	2.40
PRAS A/S	29,852,600	2.25
Østifterne f.m.b.a.	21,616,300	1.63
AP Pension	21,563,500	1.63
MP Pension	5,786,300	0.44
Industriens Fond	4,463,700	0.34
Total	1,326,980,700	100.00



FUNDING AND LIQUIDITY

Nykredit's assets mainly consist of match-funded mortgage loans. Mortgage lending is secured by mortgages on real estate and is therefore characterised by high collateralisation.

The Danish mortgage system is governed by the Danish Financial Business Act, the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act and the Executive Order on the Issue of Bonds, the Balance Principle and Risk Management.

This means that Nykredit incurs only limited interest rate, foreign exchange and liquidity risks on mortgage lending and the underlying funding. Liquidity risk is further mitigated by the Danish legal provisions regulating refinancing risk.

Balance principle and match funding

Nykredit's mortgage lending is governed by the balance principle, which provides limits to the financial risks Nykredit may assume in relation to lending and funding.

Nykredit operates according to the general balance principle, which allows the use of derivatives for risk hedging under certain conditions. In practice, Nykredit's mortgage lending is match funded. As a result, Nykredit's lending and related funding activities only incur negligible financial risks. Nykredit currently does not apply derivatives in connection with mortgage lending.

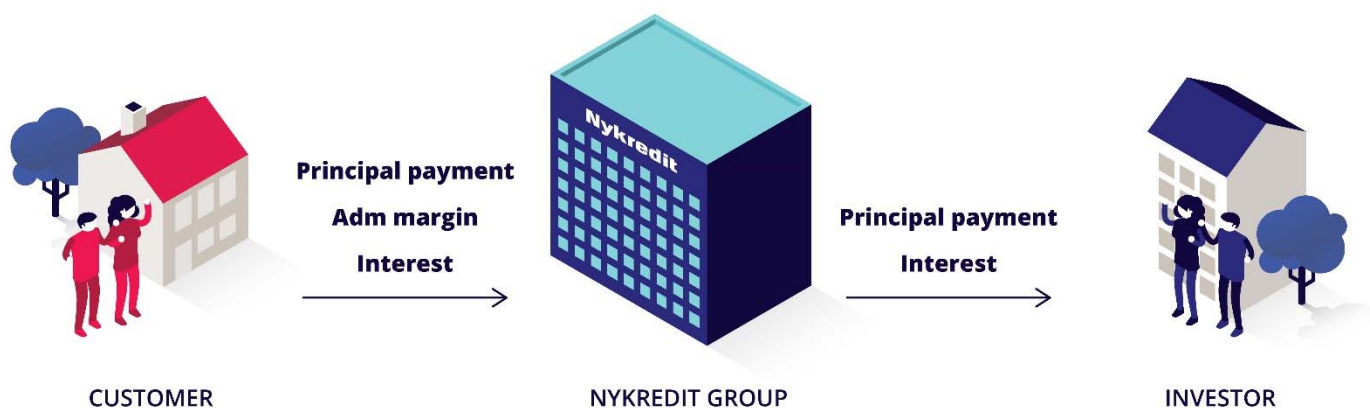
To eliminate interest rate risk and foreign exchange risk, the interest rate and foreign exchange terms of mortgage loans match those of the bonds funding the loans. Long-term fixed-rate loans maintain the same funding throughout the term of a loan. Adjustable-rate mortgages (ARMs) and variable-rate loans are funded by bonds with maturities that are shorter than the terms of the related loans, which are refinanced on maturity of the bonds. Customers' loan rates are adjusted upon refinancing at the yield-to-maturity of the bonds sold.

The outstanding funding is reduced with principal payments and loan redemptions. Borrowers cover Nykredit's costs of prepayments.

Borrowers' due dates for payment of interest and principal are scheduled so that Nykredit, provided borrowers make timely payments, receives the funds on or before the due dates for payments to bondholders.

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

Balance principle and match funding



REGULATORY REQUIREMENTS

Legislation lays down a number of requirements for the composition and the amount of Nykredit's liquidity and funding. Over the next few years, Nykredit will be faced with new regulation that will affect its funding requirement.

Liquidity Coverage Ratio (LCR)

Under the LCR rules, Nykredit must hold a large stock of liquid assets.

The LCR determination of the different companies shows that Nykredit holds substantial liquidity reserves and meets the 100% requirement by a comfortable margin.

	(%)	
Nykredit Realkredit Group		
LCR determination	2019	2018
Nykredit Realkredit Group*	955	660
Nykredit Realkredit Group, LCR EUR	483	566
Nykredit Realkredit and Totalkredit	3,482	1,581
Nykredit Realkredit and Totalkredit, incl LCR minimum requirement*	155	143
Nykredit Bank	153	157

LCR is calculated excluding LR Realkredit.

* The determination of the liquid assets of Nykredit Realkredit and Totalkredit including LCR requirement has been adjusted implying that the portfolio of liquid assets has a lower value than previously calculated, which has affected the liquidity coverage ratios (LCR) as at 31 December 2018 by 92 and 43 percentage points, respectively. Comparative figures have been restated.

As a Danish mortgage provider, Nykredit is exempt from including a part of the mortgage-related cash flows in the determination of the LCR, and the Danish FSA has instead set a minimum liquidity requirement. In practice, the requirement means that Nykredit must hold a stock of liquid assets of 2.5% of total mortgage lending.

Supplementary collateral

In order for the Capital Centres E and H to maintain their SDO status, Nykredit must provide supplementary collateral for loans with LTV ratios that exceed the statutory LTV limits.

Supplementary collateral is not required for public housing loans issued through SDO Capital Centre J, as these loans and bonds are government guaranteed.

It is Nykredit's policy to have a collateral buffer in case of declining property prices. The minimum buffer is determined by means of stress testing.

The funding of the debt buffer requirement and the minimum requirement for own funds and eligible liabilities (MREL) raises Nykredit's ability to absorb a property price decline.

Debt buffer requirement and minimum requirement for own funds and eligible liabilities

Being Danish mortgage banks, Nykredit Realkredit and Totalkredit must fulfil the regulatory debt buffer requirements. The debt buffer serves to bolster the loss-absorbing capacity of a failing mortgage bank without impairing its lending capacity.

The purpose of the MREL requirement is to ensure that should the Nykredit Group fail, it can be recapitalised and restructured through a principal write-down or conversion of capital and debt instruments. The aggregate MREL and debt buffer requirement applies to Nykredit A/S at a consolidated level for the whole Group. As mortgage banks, Nykredit Realkredit and Totalkredit are exempt from the MREL requirement and are not included in the consolidation.

The regulatory requirement of a debt buffer of at least 2% of mortgage lending will be fully phased in by 15 June 2020. Nykredit already fully meets the 2% debt buffer requirement. As from 2022, the debt buffer will be adjusted so that, together with own funds and the MREL requirement, it will amount to at least 8% of the consolidated balance sheet.

Own funds and bail-inable senior debt are used to meet the regulatory debt buffer requirements as well as the MREL requirement.

New regulation of covered bonds

The EU has adopted a covered bond directive aimed at harmonising and strengthening existing covered bond regulation. The covered bond directive is expected to come into force on 8 July 2022 at the latest.

Danish covered bond legislation already to a large extent complies with the requirements of the directive, and Nykredit therefore does not expect the directive to imply significant changes to the Danish mortgage system. However, the proposed directive includes aspects, which may be of significance to Nykredit's funding such as the introduction of a minimum overcollateralisation (OC) requirement of 5%. This requirement may be lowered (but not below 2%) at national level if the OC requirement is risk-based, as it is in Denmark today. The funding need in relation to OC is therefore expected to grow.

Supervisory Diamond

Nykredit is subject to the Danish FSA's Supervisory Diamond, both at the level of the Group and the individual companies.

The Supervisory Diamond model for banks and mortgage lenders, respectively, uses five key benchmarks to measure if a bank or a mortgage lender is operating at an elevated risk.

Nykredit complies with all benchmark limits of the Supervisory Diamond model for banks and mortgage lenders as at 31 December 2019.

Nykredit Bank A/S		
Supervisory Diamond	31.12.2019	31.12.2018
Large exposures ¹ (limit value <175%)	109.9%	91.7%
Lending growth (limit value <20%)	8.1%	8.9%
Property exposure (limit value <25%)	10.2%	10.7%
Funding ratio (limit value <1.0)	0.57	0.60
Liquidity benchmark ² (limit value >100%)	194.9%	183.8%

¹ The benchmark "Large exposures" has been changed in 2018 and is now showing the 20 largest exposures relative to Common Equity Tier 1 capital.

² The liquidity benchmark replaces the former benchmark "Excess liquidity coverage".

Supervisory Diamond for mortgage lenders

Benchmark	Definition	Nykredit Realkredit Group 31 December 2019	Nykredit Realkredit A/S 31 December 2019	Limit value
Lending growth in segment				
Personal customers ¹	Annual lending growth may not exceed 15% in each of the segments personal customers, commercial residential properties, agricultural properties and other commercial.	7.4%	(17.1)%	15.0%
Commercial residential properties		5.3%	5.3%	15.0%
Agricultural properties		(0.9)%	(0.9)%	15.0%
Other commercial		3.7%	2.9%	15.0%
Borrower's interest rate risk	The proportion of lending where the LTV ratio exceeds 75% of the statutory LTV limit and where the loan rate is fixed for up to two years only may not exceed 25% of the total loan portfolio.			
Private residential and residential rental		12.6%	22.4%	25.0%
Interest-only period	The proportion of IO loans for owner-occupied and holiday homes with an LTV ratio above 75% of the statutory LTV limit may not exceed 10% of total lending.			
Personal customers		7.7%	5.9%	10.0%
Loans with short-term funding				
Refinancing (annually)	The proportion of loans to be refinanced must be below 25% per year and below 12.5% per quarter.	12.5%	15.0%	25.0%
Refinancing (quarterly)		2.6%	2.1%	12.5%
Large exposures	The sum of the 20 largest exposures (after deductions) must not exceed equity.			
Loans and advances:equity		37.0%	36.0%	100.0%

¹ The decrease in loans and advances to personal customers in Nykredit Realkredit A/S is a natural consequence of new lending for personal customers being issued through Totalkredit A/S.

FUNDING

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

Funding of bank lending

At 31 December 2019 Nykredit Bank's deposits equalled 131% of lending against 127% in 2018.

Mortgage funding through covered bonds

Nykredit's balance sheet mainly consists of lending secured by mortgages on real estate funded through the issuance of mortgage covered bonds (SDOs and ROs). Mortgage covered bonds are issued through daily tap issuance coupled with refinancing auctions for adjustable-rate mortgages (ARMs) and floating-rate loans etc.

Covered bond market

Nykredit is the largest issuer of mortgage bonds in Europe, and the Group's issues mainly consist of covered bonds. At end-2019, the Group had a nominal amount of DKK 1,263 billion of SDOs in issue and DKK 152 billion of ROs in issue.

Nykredit's investors are mainly Danish institutional investors, comprising Danish banks, mortgage lenders and investment funds, which held a total of 45% at end-2019, and insurance companies and pension funds, which held 21%. Foreign ownership amounted to 26% at end-2019. In recent years, foreign investors have increasingly purchased long-dated callable covered bonds and relatively fewer short-dated bonds.

In 2019 Nykredit issued bonds worth a total of DKK 553 billion, of which daily tap issues amounted to DKK 405 billion, while bonds issued for the purpose of refinancing auctions amounted to DKK 147 billion. LR Realkredit has issued bonds worth about DKK 11 billion in 2019.

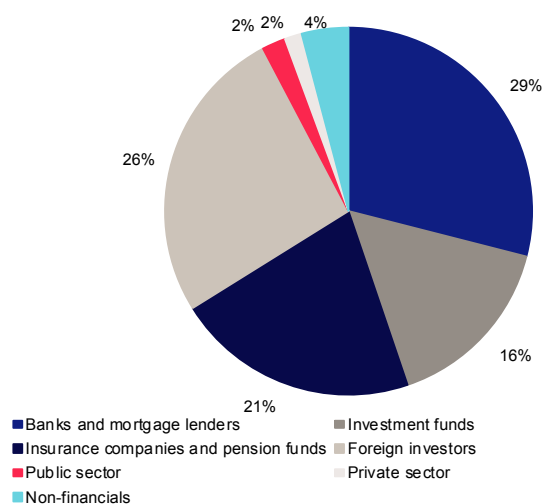
In addition to daily tap sales and refinancing auctions, Nykredit occasionally issues SDOs to investment bank syndicates.

Green bonds

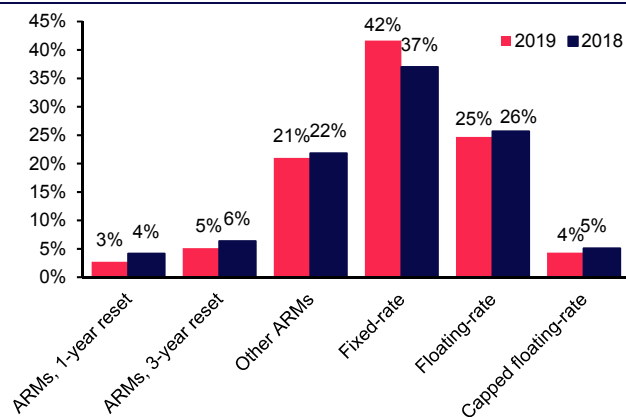
Nykredit launched its first green bonds in H1/2019. Green mortgage loans are offered to finance energy-efficient buildings with energy label A or B or equivalent certification. The loan is offered to corporate clients. About DKK 6 billion-worth of green bonds had been issued at end-2019.

Nykredit's Green Bond Framework, which was established in compliance with IMCA's Green Bond Principles (GBP), describes the principles of green loans and determines which buildings are eligible for financing with green mortgage bonds.

Nykredit Realkredit Group
Covered bonds investor base



Nykredit Realkredit Group
Mortgage lending by loan type



Benchmark bond series

Nykredit strives to build large, liquid benchmark bond series to obtain an effective pricing of its bonds. Nykredit Realkredit and Totalkredit's joint bond issuance contributes to creating large volumes and deep liquidity in the Group's key bond series.

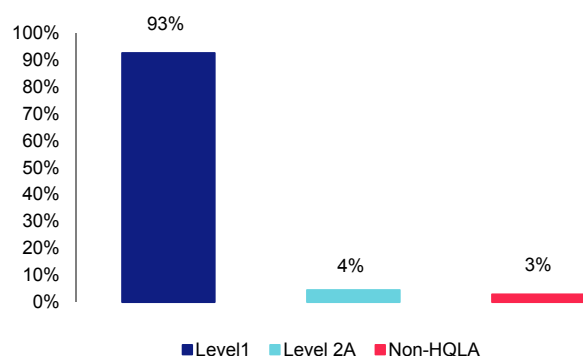
Nykredit has made primary dealer arrangements with a number of securities brokers for the purpose of underpinning liquidity and ensuring consistent market making in and efficient pricing of Nykredit's bonds.

With the introduction of the LCR (Liquidity Coverage Ratio), banks prefer bonds with outstanding amounts of more than EUR 500 million and high credit ratings. As much as 93% of the outstanding amounts in Nykredit's active bond series is today classified in the top LCR category, while 4% is in the second-best category.

We strive to have a product range that best suits customers' needs and investors' preference for very liquid bond series.

Nykredit Realkredit Group

LCR classification of covered bonds, funding loans at 31 December 2019



Refinancing risk

For several years Nykredit has worked to reduce the refinancing risk and establish an even maturity profile for example by refinancing short-term ARMs into loan types with fixed rates or longer interest reset periods, mainly ARMs with 5-year interest reset, Cita- or Cibar-linked loans. This trend was underpinned by the low interest rates.

Nykredit holds refinancing auctions four times a year, which reduces individual auction volumes and refinancing risk.

The annual maturity one year ahead totals DKK 289 billion, of which ordinary principal payments, prepayments etc total DKK 139 billion. Thus, refinancing volumes are DKK 150 billion.

DKK billion	
Nykredit Realkredit Group	
Refinancing risk ¹	2019
Total maturity before set-off of self-issued bonds	289.1
- Ordinary principal payments and known ² prepayments (paid up)	109.4
- Ordinary principal payments and known ² prepayments (unpaid)	24.9
- Pre-issued bonds and interest rate risk ²	4.7
Total refinancing volume	150.1
- Pre-auctioned amount sold under forward contracts	24.3
Refinancing volume remaining for 2019	125.8
of which SDOs and ROs	125.8
of which other issues	0.0

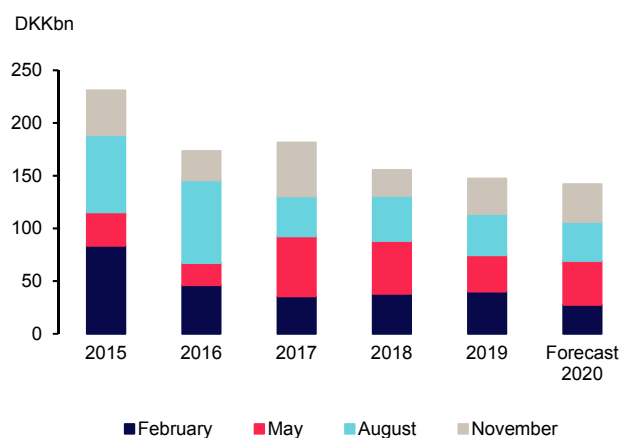
¹ Applicable for the January, April, July and October 2020 payment dates.

² Known as at 31 December 2019.

Because of the low interest rate levels, borrowers increasingly choose loans funded by bonds with maturities from 5 to 30 years. Annual refinancing volumes are expected to be maintained at around DKK 160 billion.

Nykredit Realkredit Group

Refinancing auctions of covered bonds (SDO's and ROs)



Capital market funding

In 2019 Nykredit issued bail-inable senior debt of approximately DKK 17 billion to meet the debt buffer/MREL requirement and S&P's ALAC criteria. Bail-inable senior debt in issue totalled DKK 30.3 billion at year-end.

Nykredit did not issue senior secured or senior unsecured debt in 2019 other than regular Euro Commercial Paper (ECP).

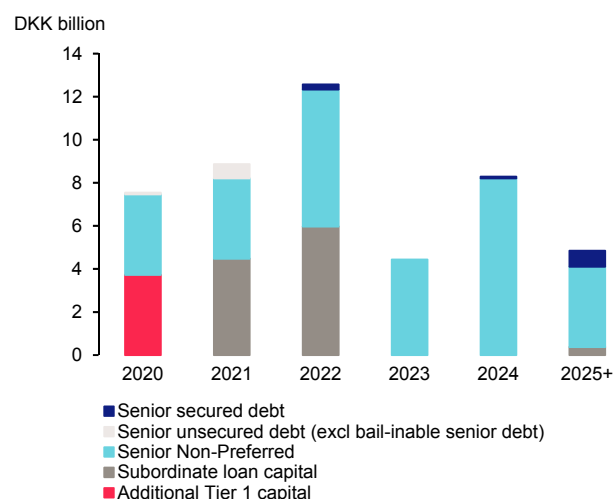
The Bank's senior unsecured debt outstanding consisted of Euro Medium Term Notes (EMTN) of DKK 0.8 billion and short-term ECPs of DKK 3.2 billion as at 31 December 2019.

Debt to fund Nykredit Bank will be issued by Nykredit Realkredit, and the proceeds will be transferred to Nykredit Bank by way of long-term intercompany funding.

The total funding and ECP issuance need will depend on the development in customer deposits and lending as well as the Bank's other business activities.

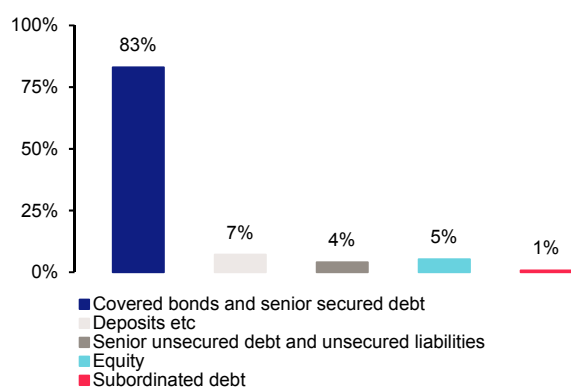
Nykredit Realkredit Group

Maturity profile of capital market funding



Nykredit Realkredit Group

Funding sources



DKK million

Nykredit Realkredit Group

Bonds in issue

	2019	2018
Covered bonds (ROs), see note 34 a	152,406	138,809
Covered bonds (SDOs), see note 34 b	1,262,714	1,107,963
Senior secured debt, see notes 34 c	934	4,704
Senior unsecured debt, see note 34 d and senior unsecured debt in Nykredit Bank A/S	1,369	5,908
Senior non-preferred (SNP), see note 35	30,306	17,152
Tier 2 capital, see note 44	11,004	11,011
Additional Tier 1 capital, see note 2	3,735	3,734
ECP issues of Nykredit Bank A/S	3,185	3,237

Issuance schedule for 2020

Nykredit Realkredit will continue to issue mortgage covered bonds on tap and at refinancing auctions. Nykredit expects to refinance bonds worth DKK 28 billion and DKK 42 billion at the auctions in February and May 2020, respectively, and DKK 37 billion and DKK 36 billion at the auctions in August and November 2020, respectively.

In light of the debt buffer/MREL requirement and S&P's ALAC criteria, Nykredit expects to issue about DKK 20 billion in 2020, primarily bail-inable senior debt. Nykredit has issued DKK 7.5bn-worth of senior unsecured non-preferred debt in January 2020.

ECP issuance will continue through Nykredit Bank.

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 rating of the companies and their funding.

S&P Global Ratings

On 5 November 2019 S&P upgraded the Issuer Credit Rating and the Resolution Counterparty Rating for Nykredit Realkredit and Nykredit Bank by one notch as a result of improved loss-absorbing capacity (ALAC).

Nykredit Realkredit and Nykredit Bank have subsequently been assigned 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+.

Senior unsecured non-preferred debt has a BBB+ rating with S&P.

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

Fitch Ratings

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

Senior unsecured non-preferred debt is rated A by Fitch.

Listing of ratings

A table listing Nykredit's credit ratings with S&P and Fitch Ratings is available at nykredit.com/ratings as well as in the publication Risk and Capital Management 2019 available at nykredit.com/riskandcapital-management

LIQUIDITY AND BOND PORTFOLIO

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

The Group's bond portfolio comprises the liquidity reserves of the Group's mortgage lenders and Nykredit bank. This includes portfolios attributable to market making in the mortgage lending and banking areas, proceeds from the issuance of senior secured and unsecured debt as well as encumbered assets.

In compliance with the balance principle, the bond portfolio of the mortgage lenders includes a temporary portfolio relating to the refinancing of the covered bullet bonds used to fund Nykredit's ARMs, funds prepaid such as ordinary principal payments, prepayments and mortgage loans not yet paid out. This is why the value of bonds in issue exceeds the value of the mortgage loan portfolio up to a payment date.

DKK billion		
Nykredit Realkredit Group		
Difference between mortgage lending and bonds in issue		
	2019	2018
Mortgage loans – nominal value, see note 21 a	1,263	1,171
Bonds in issue – nominal value, see notes 34 a and 34 b	1,415	1,247
Difference	152	75
The difference comprises:		
- Bonds sold in connection with refinancing ¹	33	24
- Ordinary principal payments and prepayments ²	112	49
- Pre-issued bonds in respect of which the underlying loans have not been disbursed and other pre-issues	7	2
Total	152	75

¹ Nykredit issues and auctions new bonds one month prior to the maturity of the existing bonds. The proceeds are used to buy back/redeem the bonds maturing on 2 January. For a period, there is a double set of bonds.

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

CREDIT RISK

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

Nykredit's credit exposures mainly consist of mortgage loans. As mortgage loans are secured by real estate, credit risk is low. Credit risk on mortgage loans is typically characterised by a stable development.

Nykredit's portfolios have shown a positive trend over the past year, and the level of credit risk is low. Arrears ratios have been declining for some portfolios and are stable for others. Write-offs have been low. Property prices have continued their upward trend all over Denmark, thereby increasing the mortgage security. General macroeconomic conditions have developed favourably.

Credit models

Nykredit uses credit models to determine the capital requirement for credit risk. Nykredit also uses internal ratings-based (IRB) models in the determination of 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). The three key parameters are estimated on the basis of Nykredit's customer default and loss history.

The PD is customer-specific, while the other parameters are product-specific. One PD is therefore assigned to each customer, while each of the customer's products has a separate LGD and EAD.

Nykredit Realkredit Group

Loans, advances, guarantees and impairment charges for loans and advances

DKK million	Loans, advances and guarantees		Total provisions for loan impairment and guarantees		Impairment charges for loans and advances, earnings impact	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	2019	2018
Mortgage lending, nominal value						
Nykredit Realkredit	500,522	499,304	3,845	3,493	695	(42)
Totalkredit	740,289	672,144	1,469	1,532	82	139
LR Realkredit	21,877	-	51	-	-	-
Total	1,262,689	1,171,449	5,365	5,025	777	97
Loans and advances etc						
Nykredit Bank	65,466	60,566	2,526	2,767	190	263
Total	65,466	60,566	2,526	2,767	190	263
Receivables from credit institutions	52,413	20,829	28	21	7	21
Reverse repurchase lending	48,749	37,427	-	-	-	-
Guarantees	6,616	5,913	137	117	20	(1)
Loan impairment, %¹						
Nykredit Realkredit	-	-	0.77	0.69	0.14	(0.01)
Totalkredit	-	-	0.20	0.23	0.01	0.02
Total	-	-	0.43	0.43	0.06	0.01
Nykredit Bank	-	-	3.72	4.53	0.29	0.42
Total	-	-	3.72	4.53	0.29	0.42

¹ Loan impairment excluding receivables from credit institutions, reverse repurchase lending and guarantees.

MORTGAGE LENDING

At end-2019, Nykredit's credit exposure in terms of nominal mortgage lending was DKK 1,263 billion, corresponding to an increase of DKK 91 billion (end-2018: DKK 1,171 billion), of which DKK 21.9 billion from LR Realkredit.

The security underlying mortgage lending is substantial. Furthermore, mortgage loans granted via Totalkredit are covered by set-off agreements. The loss risk relating to personal loans is mitigated through an agreement with the partner banks. Under the agreement, incurred losses corresponding to the cash part of a loan exceeding 60% of the mortgageable value at the time of granting are offset against future commission payments to the partner banks having arranged the loan.

Since 2014 a minor part of the right of set-off has been replaced by a loss guarantee provided by the partner banks.

The average LTV was 61.8% at end-2019 (end-2018: 62.3%).

Total provisions for mortgage loan impairment

Total impairment provisions for mortgage lending equalled 0.43% of total mortgage lending (end-2018: 0.43%). At end-2019, total impairment provisions amounted to DKK 5,365 million (end-2018: DKK 5,025 million).

Earnings impact

Impairment charges for mortgage lending for the year came to DKK 777 million (2018: DKK 97 million). Of the impairment charges for loans and advances for the year, DKK 277 million was attributable to owner-occupied dwellings and DKK 500 million to the business segment.

Arrears

Mortgage loan arrears are determined 15 and 75 days past the due date. Mortgage loan arrears dropped to 0.35% of total mortgage payments due 75 days past the September due date (September 2018: 0.39%).

Bond debt outstanding affected by arrears as a percentage of total bond debt outstanding also decreased to 3.11% (September 2018: DKK 2.70 billion).

Properties acquired by foreclosure

In 2019 the Group acquired 32 properties and sold 47. The property portfolio counted 20 properties at 31 December 2019 (end-2018: 35).

Nykredit Realkredit Group

Arrears ratio – 75 days past due

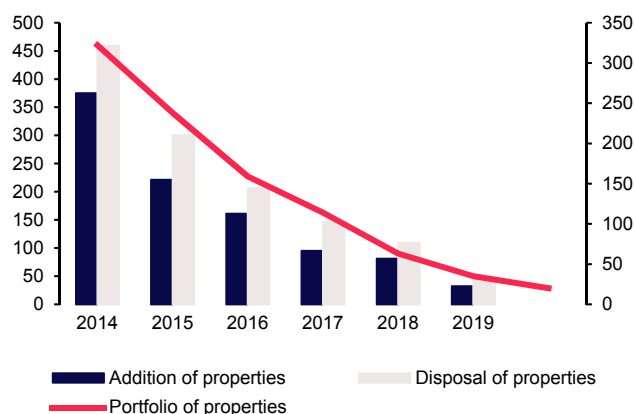
Payment date	Arrears relative to total mortgage payments	Debt outstanding in arrears relative to total debt outstanding	Debt outstanding affected by arrears
	%	%	DKK billion
2019			
- September	0.35	0.25	3.11
- June	0.36	0.28	3.47
- March	0.37	0.28	3.36
2018			
- December	0.38	0.23	2.80
- September	0.39	0.23	2.70
- June	0.40	0.31	3.60

Nykredit Realkredit Group

Properties acquired by foreclosure/sold

Additions/disposals, number

Portfolio, number



Nykredit Realkredit Group

DKK million

Mortgage lending by property type¹

/number

Fair value at end-2019	Owner-occupied dwellings	Public housing ²	Cooperative housing units	Private rental	Office and retail	Agricultural property	Industry and trades	Other	Total
Mortgage lending									
- Bond debt outstanding	810,283	70,891	36,119	128,021	116,515	88,445	23,263	13,833	1,287,370
- Number of loans	688,172	14,508	5,178	26,934	18,518	29,989	2,537	1,959	787,795
Bond debt outstanding by loans subject to									
- public guarantees	289	42,912	400	21	4	116	3	55	43,800
- bank guarantees	38,377	-	-	-	-	-	-	-	38,377
- set-off agreements with partner banks	148,434	-	-	-	-	-	-	-	148,434
- no guarantee	623,183	27,979	35,719	128,000	116,511	88,330	23,260	13,778	1,056,759
Total	810,283	70,891	36,119	128,021	116,515	88,445	23,263	13,833	1,287,370
Bond debt outstanding by loans type									
Fixed-rate loans									
- repayment loans	293,779	16,224	11,924	31,761	15,928	6,329	4,817	3,772	384,533
- with interest-only period	119,816	9	3,014	11,096	2,594	8,602	8	132	145,270
Adjustable-rate mortgage loans (ARMs)									
- repayment loans, 1-year interest reset	14,192	258	131	1,179	1,288	1,608	243	106	19,005
- other repayment loans	84,459	31,806	1,541	11,132	12,693	8,123	2,081	1,035	152,869
- with interest-only period, 1-year interest reset	12,407	-	156	680	424	1,585	156	2	15,410
- other with interest-only period	139,713	19	4,808	20,513	10,502	10,821	3,152	118	189,644
Money market-linked loans									
Loans with interest rate cap									
- repayment loans	33,736	72	235	491	528	1,335	55	259	36,712
- with interest-only period	15,369	-	95	128	61	640	3	5	16,301
Loans without interest rate cap									
- repayment loans	30,807	311	591	11,889	23,926	18,987	5,377	4,583	96,470
- with interest-only period	66,005	97	11,982	39,115	48,570	30,411	7,372	3,735	207,286
Index-linked loans	0	22,095	1,643	38	3	4	-	86	23,869
Total	810,283	70,891	36,119	128,021	116,515	88,445	23,263	13,833	1,287,370
Bond debt outstanding by region									
Capital Region of Denmark	209,543	25,968	19,589	33,297	34,420	2,121	2,767	5,221	332,925
Sealand Region	103,375	8,043	3,271	27,852	11,061	12,536	1,996	928	169,062
North Denmark Region	109,815	8,202	3,384	9,910	8,439	22,059	2,521	1,107	165,436
Central Denmark Region	202,020	13,664	4,868	21,972	20,441	27,701	5,978	4,181	300,827
South Denmark Region	172,574	15,015	4,927	13,919	15,047	23,995	3,257	2,396	251,128
Faeroe Islands and Greenland	2,250	-	80	150	115	-	-	0	2,595
- Total foreign	10,706	-	-	20,921	26,991	34	6,744	-	65,397
Total	810,283	70,891	36,119	128,021	116,515	88,445	23,263	13,833	1,287,370
Bond debt by debt outstanding, DKK million									
0-2	522,289	4,963	1,447	15,640	9,465	15,275	1,238	730	571,045
2-5	254,984	7,305	5,607	15,026	11,911	28,654	1,806	1,465	326,759
5-10	30,444	24,858	17,262	25,376	22,923	39,228	3,069	3,961	167,120
20-50	2,094	18,857	7,177	36,935	15,107	4,792	1,654	2,520	89,135
50-100	369	9,744	2,257	9,818	12,910	497	1,098	1,076	37,770
100-	102	5,164	2,369	25,225	44,200	-	14,399	4,081	95,541
Total	810,283	70,891	36,119	128,021	116,515	88,445	23,263	13,833	1,287,370
Bond debt outstanding by remaining loan term, years									
0-10	21,156	5,655	479	20,012	36,044	1,764	5,755	791	91,655
10-15	43,942	8,528	1,596	7,313	24,375	4,395	5,217	2,055	97,421
15-20	120,227	8,608	10,657	35,401	35,183	15,835	12,238	3,506	241,656
20-25	182,921	24,693	9,017	18,406	7,785	24,370	30	2,744	269,965
25-30	442,037	23,199	14,369	46,889	13,128	42,081	24	4,737	586,463
30-35	-	207	1	-	-	-	-	-	208
35-	-	0	-	0	-	-	-	-	1
Total	810,283	70,891	36,119	128,021	116,515	88,445	23,263	13,833	1,287,370

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

² Public housing includes mortgage lending for subsidised urban renewal.

BANK LENDING

Bank lending at amortised cost amounted to DKK 65.5 billion at end-2019 (end-2018: DKK 60.6 billion).

Nykredit Realkredit Group

Bank lending and guarantees		DKK million
	2019	2018
Bank lending	65,466	60,566
Reverse repurchase lending	48,749	37,427
Guarantees	6,616	5,913
Total	120,831	103,906

Reverse repurchase lending totalled DKK 48.7 billion at end-2019 (end-2018: DKK 37.4 billion). Guarantees provided amounted to DKK 6.6 billion (end-2018: DKK 5.9 billion).

Total provisions for bank loan impairment etc

Provisions for bank loan impairment (exclusive of credit institutions and guarantees) totalled DKK 2,526 million at end-2019 (end-2018: DKK 2,767 million).

Guarantees

Guarantees provided were DKK 6,616 million at end-2019 (end-2018: DKK 5,913 million), which represented a rise of 12%. At end-2019, provisions for guarantees amounted to DKK 137 million (end-2018: DKK 117 million).

Earnings impact

Provisions for loan impairment and guarantees for the year were DKK 210 million (2018: DKK 274 million).

Nykredit Realkredit Group

Credit exposures: bank lending, reverse repurchase lending and guarantees by sector¹

DKK million

	31.12.2019			31.12.2018		
	Lending, year-end	Total impair- ment provisions	Earnings impact	Lending, year-end ²	Total impair- ment provisions	Earnings impact
Public sector	765	1	(1)	639	3	(1)
Agriculture, hunting, forestry and fishing	4,197	164	27	3,332	125	1
Manufacturing, mining and quarrying	8,921	285	3	7,482	272	56
Energy supply	2,857	30	6	1,372	18	(16)
Construction	3,723	198	37	2,620	171	15
Trade	7,831	335	63	5,882	334	129
Transport, accommodation and food service activities	5,780	99	22	6,296	62	(38)
Information and communication	3,434	102	48	3,291	45	16
Finance and insurance	54,702	122	2	41,924	243	155
Real estate	14,266	472	20	13,328	475	(197)
Other	9,941	266	5	7,215	447	157
Total business customers	115,651	2,072	233	92,742	2,192	279
Personal customers	33,773	589	(22)	27,140	689	(14)
Total	150,188	2,663	210	120,520	2,884	265
- of which provisions for losses under guarantees		137	20		117	(3)
Impairment provisions for credit institutions		12	0		12	9
- of which intercompany guarantees and total	29,358	2,675	210	16,614	2,896	274

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

² Comparative figures for 2018 have been restated, and certain loans and advances and provisions for guarantees by personal customers have been reclassified from personal customers to business sectors in order to achieve a better presentation of loans and advances and the credit risk profile. Total loans and advances and guarantees are unchanged.

ORGANISATION AND MANAGEMENT

ORGANISATION AND RESPONSIBILITIES

The Board of Directors of Nykredit Realkredit A/S counts 13 members, of whom eight are elected by the General Meeting for a term of one year and five are elected by and among the staff for a term of four years.

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

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

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

Further details on the composition, size and diversity of the Board of Directors as well as the CVs of the individual board members are available at nykredit.com/boardofdirectors.

Performance evaluation of the Board of Directors in 2019

In H2/2019 Nykredit's Board of Directors conducted the annual Board evaluation. The Board evaluation, which was conducted by Deputy Chairman and former CEO Merete Eldrup, comprised a questionnaire survey as well as interviews with each member of the Board of Directors and the Executive Board.

The evaluation outcomes were presented to the Board at the meeting of the Board of Directors on 4 November 2019 where the Board's performance and collaboration with the Group Executive Board were thoroughly discussed.

The outcomes of the Board evaluation were generally positive. The main conclusion was that the Board of Directors is effective, has the right skills and works efficiently, that the collaboration between the Board, the board committees and the Group Executive Board is good and that the organisation of the work and the documentation provided to the Board are generally of a high quality.

It was also concluded that continuous efforts should be made to find more time for discussions of special business matters and to optimise the use of the board committees to ensure that board meeting discussions focus on the matters most relevant to Nykredit.

The next Board evaluation is planned for H2/2020.

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.

Board Audit Committee

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

The Board Audit Committee held eight meetings in 2019.

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 also 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 Merete Eldrup, former CEO (Chairman), Michael Demsitz, CEO, Per W. Hallgren, CEO, and Hans-Ole Jochumsen, former Vice Chairman, who are all members of the Board of Directors of Nykredit A/S and Nykredit Realkredit A/S elected by the General Meeting.

The Board Risk Committee held eight meetings in 2019.

Board Nomination Committee

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

The Board Nomination Committee consists of Steffen Kragh, CEO (Chairman), Merete Eldrup, former CEO, and Nina Smith, Professor, who are all members of the Board of Directors of Nykredit A/S and Nykredit Realkredit A/S elected by the General Meeting. The Board Nomination Committee held three meetings in 2019.

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 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 these are observed. Moreover, the Board Remuneration Committee reviews and considers the criteria for and process of appointing risk takers, assesses whether the Group's processes and systems relative to remuneration are sufficient and takes into consideration the Group's risks, and ensures that the remuneration policy and practices are in alignment with and promote sound and effective risk management and are in accordance with the Group's business strategy, objectives, values and long-term interests. Finally, the Board Remuneration Committee ensures that the information in the Annual Report about remuneration of the Board of Directors and the Group Executive Board is correct, fair and satisfactory.

The Board Remuneration Committee consists of Steffen Kragh, CEO (Chairman), Merete Eldrup, former CEO, and Nina Smith, Professor, who are all members of the Board of Directors of Nykredit A/S and Nykredit Realkredit A/S elected by the General Meeting, and as from 1 July 2019, of Deputy Chairman of NYKREDS Olav Bredgaard Brusen, staff-elected member of the Board of Directors of both companies.

The Board Remuneration Committee held three meetings in 2019.

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

Group Executive Board

Nykredit's Group Executive Board consists of Michael Rasmussen, Group Chief Executive, David Hellemann, Group Managing Director (CFO/COO), Anders Jensen, Group Managing Director (CRO) and Tonny Thierry Andersen, Group Managing Director (Banking).

Committees

The Group Executive Board has set up five committees, which perform specific tasks within selected fields. Each committee must report to the entire Group Executive Board, and the individual members may at any time request the 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 GOVERNANCE

Some years ago, Nykredit decided to act as a listed company for external purposes and be governed on the basis of sound business terms.

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

The recommendations concerning the composition and organisation of the Board of Directors, and in particular the independence of the Board of Directors and shareholders' role and interaction with the company management, address ordinary listed companies with many shareholders.

Nykredit differs from ordinary listed companies, as it has only a limited number of shareholders: Forenet Kredit, Industriens Fond, Østifternes f.m.b.a., PRAS A/S and a group of Danish pension companies headed by PFA Pension and with PensionDanmark, PKA, AP Pension and MP Pension as co-investors.

The purpose of the recommendations concerning shareholders' role and interaction with the company management is to create an appropriate setting encouraging shareholders to enter into a dialogue with the company management. The limited number of shareholders of Nykredit per se creates a favourable setting for a close dialogue between the shareholders and the company management.

Where appropriate, Nykredit also complies with the managerial code of conduct of Finance Denmark, which supplements the Recommendations on Corporate Governance. Information on Nykredit's organisation and corporate governance is available at nykredit.com/corporate-governance.

Forenet Kredit

In 1991 the mortgage association Nykredit was converted into a public limited company. Nykredit operates through Nykredit Realkredit A/S, the object of which is to carry on mortgage banking and other financial business. The company is wholly owned by Nykredit A/S, the object of which is to carry on Nykredit's activities. Forenet Kredit is the largest shareholder of Nykredit A/S, owning 78.9% of the shares. Its objects are to be a shareholder of Nykredit and to carry on financially sustainable mortgage banking and other financial business for the benefit of its customers. The members of Forenet Kredit's Board of Directors elected by the Committee of Representatives make up four of the ten members of the Board of Directors of Nykredit A/S elected by the General Meeting and four of the eight members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting.

REMUNERATION

Material risk takers

At end-2019, the Group had identified a total of 253 risk takers:

- Members of the Board of Directors: 29
- Group Managing Directors: 4
- Managing Directors of financial subsidiaries: 3
- Other material risk takers: 211

The principles for identifying other material risk takers are approved annually by the Board of Directors in accordance with current EU rules.

Remuneration of material risk takers

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

The Board of Directors of Nykredit A/S and Nykredit Realkredit A/S has decided to grant three members of the Executive Board retention payment earned over several years. Provisions for retention payment for the Executive Board of DKK 9 million were made for 2019.

Except from the above potential retention payment, the members of the Board of Directors and the Group Executive Board do not receive variable remuneration, nor bonus awards. The total remuneration of

the Board of Directors and the Group Executive Board appears from note 14 of the Financial Statements.

The bonus provisions in respect of Subsidiary Managing Directors and other risk takers amounted to DKK 65 million for 2019 (2018: DKK 58 million). The 2019 bonus provisions corresponded to 27% of their fixed salaries.

The total remuneration of risk-takers appears from note 14 of these Financial Statements. Details on variable remuneration of risk takers, remuneration policy and practices are available at nykredit.com/remuneration

Variable remuneration

To retain selected executive and key staff members, these may receive retention payment. For 2019, provisions for retention payment amounted to DKK 34 million (2018: DKK 29 million).

Bonus programmes

Special individual bonus programmes apply to some of the staff of Markets Trading, Asset Management, Investments and Treasury who have major earnings responsibility, in line with market standards for such positions. The remuneration of these staff members is chiefly based on their job performance. The 2019 bonus provisions in respect of these staff members (excluding risk takers) amounted to DKK 57 million (2018: DKK 60 million). The 2019 bonus provisions corresponded to 53% of their fixed salaries.

In addition, a limited number of individual bonus programmes apply to selected staff members. The 2019 bonus provisions in respect of these staff members (excluding risk takers) amounted to DKK 23 million (2018: DKK 23 million). The 2019 bonus provisions corresponded to 40% 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 2019 bonus provisions in respect of these management and staff members (excluding risk takers) amounted to DKK 5 million (2018: DKK 6 million). The 2019 bonus provisions corresponded to 4% of their fixed salaries.

Effective from 2019 as the first qualifying year, a long-term (2-year) incentive scheme has been established for a limited number of members of management reporting directly to the Group Executive Board. For 2019, provisions for the scheme amounted to DKK 35 million.

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 2019 DKK 8 million had been provided for the programme.

The bonus programmes do not apply to other management or staff members, but they may receive individual one-off awards. The 2019 provisions for one-off awards came to DKK 10 million (2018: DKK 5 million), which corresponded to 1% of the relevant group's fixed salaries.

Total provisions for accounting purposes for bonuses and one-off awards for 2019 came to DKK 169 million (2018: DKK 151 million), excluding the long-term incentive scheme. The total provisions for bonuses and one-off awards for 2019 corresponded to 8% 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's Management regularly reviews items in respect of which estimates may have a material impact on the value of assets and liabilities.

The process is based on a number of fixed routines, including the planning process, which are prepared together with 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 and 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 Finance is also responsible for the day-to-day internal reporting in the Treasury and Markets areas.

Group Finance & Investments Finance prepares monthly internal reports and performs budget control, which includes explaining 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 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. The Committees perform the current management and monitoring on behalf of the Executive Board.

Risk assessment

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

- Periodical review of risk and financial reporting, including IT systems, general procedures and business procedures
- Review of the areas which include assumptions and estimates material to the financial statements, 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 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 communication policy, stating that Nykredit is committed to a transparent and credible business conduct – in compliance with legislation and the Stock Exchange Code of Ethics. The communication policy is reviewed once a year by the Board of Directors and was last revised in October 2019.

Nykredit's Boards of Directors and Executive Boards regularly receive internal and external financial reporting. Internal reporting includes analyses of material matters in, for instance, Nykredit's business areas and subsidiaries.

For further information on the Group's risk and capital management, please refer to the publication Risk and Capital Management 2019, available at nykredit.com/riskandcapitalmanagement

COMPANY DETAILS

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

Website: nykredit.com
Tel: +45 44 55 10 00

CVR no: 12 71 92 80
Financial year: 1 January – 31 December
Municipality of registered office: Copenhagen

External auditors

Deloitte
Deloitte Chartered Accountant Company
Weidekampsgade 6
DK-2300 Copenhagen S

Annual General Meeting

The Annual General Meeting of the Company will be held on
26 March 2020.

BOARD OF DIRECTORS

Steffen Kragh, Chief Executive Officer
Chairman

Merete Eldrup, Former Chief Executive Officer
Deputy Chairman

Nina Smith, Professor
Deputy Chairman

Helge Leiro Baastad, Chief Executive Officer
Olav Bredgaard Brusen, Deputy Chairman of NYKREDS*
Michael Demsitz, Chief Executive Officer
Per W. Hallgren, Chief Executive Officer
Marlene Holm, Personal Banking Adviser*
Hans-Ole Jochumsen, former Vice Chairman
Vibeke Krag, former Chief Executive Officer
Allan Kristiansen, Chief Relationship Manager*
Inge Sand, Senior Agricultural Adviser*
Leif Vinther, Senior Security Consultant*

* Staff-elected member

See pages 156-160 for directorships and executive positions of the members of the Board of Directors and the Executive Board.

BOARD AUDIT COMMITTEE

Per W. Hallgren, Chairman
Helge Leiro Baastad
Merete Eldrup
Vibeke Krag

BOARD RISK COMMITTEE

Merete Eldrup, Chairman
Michael Demsitz
Per W. Hallgren
Hans-Ole Jochumsen

BOARD NOMINATION COMMITTEE

Steffen Kragh, Chairman
Merete Eldrup
Nina Smith

BOARD REMUNERATION COMMITTEE

Steffen Kragh, Chairman
Merete Eldrup
Nina Smith
Olav Bredgaard Brusen

EXECUTIVE BOARD

Michael Rasmussen
Group Chief Executive

Tonny Thierry Andersen
Group Managing Director

David Hellemann
Group Managing Director

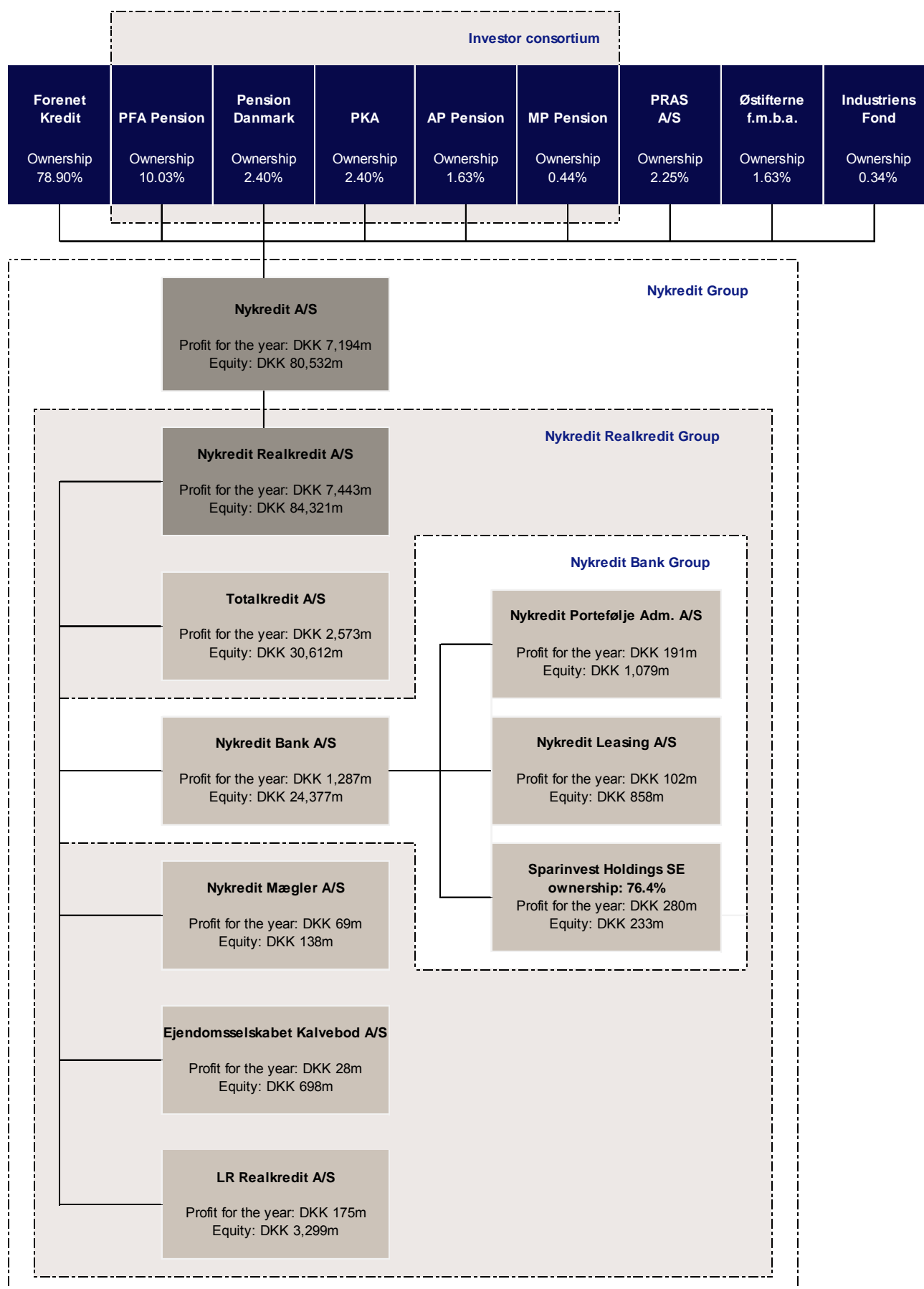
Anders Jensen
Group Managing Director

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

- Annual Report 2019
- CR Report 2019
- Risk and Capital Management 2019.

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

GROUP CHART



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 5 and the business areas (pages 13-20 and note 3) reflect the internal management reporting. The presentation was changed in 2019, and "Net income relating to customer benefits programmes" is now shown separately as part of "Group Items".

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 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 net administration margin income from mortgage lending as well as interest income from bank lending and deposits. The corresponding item in the income statement (page 46) includes all interest.

"Net fee income" comprising income from mortgage refinancing and mortgage lending, 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 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", which includes 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, including income from the sale of real estate.

"Net income relating to customer benefits programmes" comprising discounts etc, such as KundeKroner, ErhvervsKroner and MineMål granted to the Group's customers. The amount includes contributions received. The change is aimed at presenting the earnings of the individual business areas excluding the impact of the Group's 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. Comparative figures have been restated. The income statement and balance sheet on pages 46 and 48 have not been impacted by the change.

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 % of average business capital (ROAC).

The return target appearing from the table in the financial highlights shows profit (loss) for the year relative to average business capital. Profit corresponds to net profit or loss less interest expenses for Additional Tier 1 capital, which is treated as dividend in the Financial Statements. Business capital corresponds to a capital target of 16% of the risk exposure amount.

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

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 for the period 1 January – 31 December 2019 of Nykredit Realkredit A/S and the Nykredit Realkredit Group.

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

In our opinion, the Consolidated Financial Statements and the Financial Statements give a true and fair view of the Group's and the Parent's assets, liabilities, equity and financial position at 31 December 2019 and of the results of the Group's and the Parent's operations and the Group's cash flows for the financial year 2019.

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

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

Copenhagen, 5 February 2020

Executive Board

Michael Rasmussen
Group Chief Executive

Tonny Thierry Andersen
Group Managing Director

David Hellemann
Group Managing Director

Anders Jensen
Group Managing Director

Board of Directors

Steffen Kragh
Chairman

Merete Eldrup
Deputy Chairman

Nina Smith
Deputy Chairman

Helge Leiro Baastad

Olav Bredgaard Brusen*

Michael Demsitz

Per W. Hallgren

Marlene Holm*

Hans-Ole Jochumsen

Vibeke Krag

Allan Kristiansen*

Inge Sand*

Leif Vinther*

* Staff-elected member

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Nykredit Realkredit A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Nykredit Realkredit A/S for the financial year 1 January to 31 December 2019, 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 2019, and of its financial performance and cash flow for the financial year 1 January to 31 December 2019 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 2019 and of its financial performance for the financial year 1 January to 31 December 2019 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 Realkredit A/S for the first time on 1 August 1991 for the financial year 1991. We have been re-appointed annually by decision of the general meeting for a contiguous engagement period of 29 years up to and including the financial year 2019.

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 2019. 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 1,402,200 million at 31 December 2019 (DKK 1,292,286 million at 31 December 2018), and impairment charges therefor amount to DKK 994 million in 2019 (DKK 380 million in 2018) 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 judgements made by the management and subject to significant uncertainty. Due to the significance of such judgements 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, and Management has described the management of credit risks and the review for impairment in more detail in notes 16 and 51 to the consolidated financial statements.</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"> ■ Identification of credit-impaired exposures ■ Parameters and management judgements in the calculation model used to determine Stage 1 and Stage 2 expected losses ■ Valuation of collateral and future cash flows, including management judgement involved in determining Stage 3 expected losses. 	<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"> ■ Credit assessment of credit risk ■ Assessment and validation of input and assumptions applied in calculating Stage 1 and Stage 2 impairment charges ■ Determining management judgements in the model and Stage 3. <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"> ■ Reviewing, on a sample basis, exposures to ensure timely identification of credit-impaired loans and advances ■ Challenging the parameters and significant assumptions applied in the calculation models and reviewing the staging methodology and the data used ■ Challenging the procedures and methodologies applied for the areas involving the highest level of management judgement by using our industry knowledge and experience ■ Challenging management judgements in the calculation model used with special focus on management consistency and bias, including documentation of the adequacy of management judgements ■ Reviewing, on a sample basis, credit-impaired loans and advances, including checking for adequate impairment charges.
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 20,832 million (DKK 17,438 million at 31 December 2018) and DKK 12,462 million (DKK 10,668 million at 31 December 2018) for positive and negative fair values at 31 December 2019.</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 47 and 49 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"> ■ Assessment of customers' ability to pay ■ Practice for methodologies applied in the valuation of swaps. 	<p>Our audit comprised a review of relevant business procedures, test of key controls and analysis of valuations.</p> <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"> ■ Assessing the model applied to calculate the risk of customers' non-payment by using our industry knowledge and experience ■ Assessing the changes in the assumptions against sector trends and historical observations ■ Performing a risk-based test of valuation of swaps with customers.

Acquisition of Sparinvest and LR Realkredit	How the matter was addressed in our audit
<p>On 30 August 2019, Nykredit acquired 75% of the shares in Sparinvest for DKK 2,192 million, refer to note 55, and also on 30 December 2019, Nykredit acquired 100% of the shares in LR Realkredit for DKK 2,737 million, refer to note 55.</p> <p>In accordance with the requirements of IFRS and the Danish Executive Order on Financial Reports, Management has prepared purchase price allocations in which it has measured the assets and liabilities acquired at fair value. Determining the purchase price allocations is subject to significant uncertainty and is highly based on judgements made by the management. Due to the significance of such judgements and the impact on profit and loss and the balance sheet, auditing the acquisition of shares in Sparinvest and LR Realkredit is a key audit matter.</p> <p>The areas involving the highest level of judgements made by the management, thus requiring greater audit attention, are:</p> <ul style="list-style-type: none"> ■ Determining the fair value of customer relationships and assets acquired. 	<p>Based on our risk assessment, we have examined the purchase price allocations and evaluated the methodology applied and the assumptions made according to the description of the key audit matter.</p> <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"> ■ Challenging Management's determination of customer relationships in relation to the purchase price allocations for Sparinvest and assessing in this respect whether the assumptions underlying the determination, including run-off, give a true and fair view of the value of the customer relationships. ■ Challenging Management's determination of fair value of assets acquired in relation to the purchase price allocations for LR Realkredit and assessing in this respect whether the assumptions underlying the determination give a true and fair view of the value of the assets acquired and the recognised goodwill.

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 considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of

users taken on the basis of these consolidated financial statements and these parent financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in 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.

Copenhagen, 5 February 2020

Deloitte
Statsautoriseret Revisionspartnerselskab
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

INCOME STATEMENTS

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group		
2018	2019		Note	2019	2018
INCOME STATEMENTS					
18,717	18,038	Interest income	7	23,334	23,652
-	-	Interest income based on the effective interest method	7	1,932	2,023
14,679	14,123	Interest expenses	8	14,229	14,805
4,038	3,916	Net interest income		11,038	10,869
145	162	Dividend on equities etc	9	169	150
734	682	Fee and commission income	10	3,623	2,570
240	504	Fee and commission expenses	11	4,056	3,058
4,678	4,256	Net interest and fee income		10,774	10,532
(390)	1,524	Value adjustments	12	2,130	709
15	-	Value adjustment relating to sale of branch	12	-	15
1,021	2,044	Other operating income	13	2,198	1,056
2,767	2,638	Staff and administrative expenses	14	4,830	4,609
93	278	Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	15	305	103
131	167	Other operating expenses		191	154
(37)	696	Impairment charges for loans, advances and receivables etc	16, 17	994	380
3,925	3,954	Profit (loss) from investments in associates and Group enterprises	18	5	(9)
6,295	7,998	Profit before tax		8,787	7,057
485	555	Tax	19	1,344	1,247
5,810	7,443	Profit for the year		7,443	5,810
Distribution of profit for the year					
5,577	7,210	Shareholder of Nykredit Realkredit A/S		7,210	5,577
-	-	Minority interests		(1)	-
233	233	Holders of Additional Tier 1 capital notes		233	233
5,810	7,443	Profit for the year		7,443	5,810
Proposal for the distribution of profit					
3,897	3,954	Statutory reserves			
(1,120)	(404)	Retained earnings			
2,800	3,660	Proposed dividend			
233	233	Additional Tier 1 capital			

STATEMENTS OF COMPREHENSIVE INCOME

Nykredit Realkredit A/S			DKK million	
2018	2019		2019	2018
5,810	7,443	Profit for the year	7,443	5,810
		OTHER COMPREHENSIVE INCOME		
		Items that cannot be reclassified to profit or loss:		
(9)	28	Actuarial gains/losses on defined benefit plans	28	(9)
2	(6)	Tax on actuarial gains/losses on defined benefit plans	(6)	2
(7)	22	Total items that cannot be reclassified to profit or loss	22	(7)
(7)	22	Other comprehensive income	22	(7)
5,803	7,466	Comprehensive income for the year	7,465	5,803
		Distribution of comprehensive income		
5,570	7,232	Shareholder of Nykredit Realkredit A/S	7,232	5,570
-	-	Minority interests	(1)	-
233	233	Holders of Additional Tier 1 capital notes	233	233
5,803	7,466	Comprehensive income for the year	7,465	5,803

BALANCE SHEETS

		DKK million		
Nykredit Realkredit A/S			Nykredit Realkredit Group	
2018	2019	Note	2019	2018
ASSETS				
276	49	Cash balances and demand deposits with central banks	7,210	8,861
37,485	64,330	Receivables from credit institutions and central banks	52,413	20,829
1,223,721	1,355,452	Loans, advances and other receivables at fair value	1,287,610	1,193,975
229	270	Loans, advances and other receivables at amortised cost	114,590	98,311
34,026	31,042	Bonds at fair value	108,555	93,622
5,587	6,487	Equities etc	7,135	5,821
32	29	Investments in associates	43	38
49,714	59,123	Investments in Group enterprises	-	-
257	307	Intangible assets	2,181	281
Land and buildings				
21	14	Owner-occupied properties	75	86
-	661	Leased properties	662	-
21	675	Total	736	86
101	145	Other property, plant and equipment	156	108
90	135	Current tax assets	252	343
-	-	Deferred tax assets	115	125
141	22	Assets in temporary possession	32	160
6,481	5,870	Other assets	28,742	24,966
378	400	Prepayments	567	463
1,358,540	1,524,337	Total assets	1,610,336	1,447,991

BALANCE SHEETS

DKK million

Nykredit Realkredit A/S				Nykredit Realkredit Group	
2018	2019		Note	2019	2018
LIABILITIES AND EQUITY					
1,094	2,562	Payables to credit institutions and central banks	32	13,914	15,692
10,500	11,950	Deposits and other payables	33	100,677	93,191
1,229,273	1,374,671	Bonds in issue at fair value	34	1,336,414	1,196,229
17,179	30,029	Bonds in issue at amortised cost	35	33,810	22,590
3	-	Other non-derivative financial liabilities at fair value	36	4,523	5,592
-	-	Current tax liabilities	38	78	47
9,177	9,125	Other liabilities	37	24,388	23,020
-	-	Deferred income		14	10
1,267,226	1,428,337	Total payables		1,513,818	1,356,371
Provisions					
129	57	Provisions for pensions and similar obligations	40	62	130
183	215	Provisions for deferred tax	39	389	338
47	34	Repayable reserves in pre-1972 series	41	34	47
-	-	Provisions for losses under guarantees	42	137	117
62	357	Other provisions	43	515	100
420	663	Total provisions		1,136	731
11,011	11,016	Subordinated debt	44	11,004	11,011
Equity					
1,182	1,182	Share capital		1,182	1,182
Accumulated value adjustments					
-	-	- revaluation reserves		5	5
Other reserves					
18,526	22,217	- statutory reserves		-	-
36,575	48,871	- series reserves		48,871	36,575
-	-	- non-distributable reserve fund		4,849	1,646
17,023	4,613	- retained earnings		21,975	33,898
2,800	3,660	- proposed dividend		3,660	2,800
76,106	80,543	Shareholder of Nykredit Realkredit A/S		80,543	76,106
-	-	Minority interests		57	-
3,777	3,778	Holders of Additional Tier 1 capital		3,777	3,772
79,883	84,321	Total equity		84,378	79,878
1,358,540	1,524,337	Total liabilities and equity		1,610,336	1,447,991
OFF-BALANCE SHEET ITEMS					
-	-	Contingent liabilities	45	6,616	5,913
7,392	11,594	Other commitments		28,206	16,948
7,392	11,594	Total		34,822	22,861

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Realkredit Group

	Share capital ¹	Revaluation reserves	Accumulated value adjustment of equities available for sale	Series reserves	Non-distributable reserve fund ²	Retained earnings	Proposed dividend	Shareholder of Nykredit Realkredit A/S	Minority interests	Additional Tier 1 capital ³	Total equity
2019											
Equity, 1 January	1,182	5	-	36,575	1,646	33,898	2,800	76,106	-	3,772	79,878
Profit (loss) for the year	-	-	-	-	-	3,550	3,660	7,210	(1)	233	7,443
Total other comprehensive income	-	-	-	-	-	22	-	22	-	-	22
Total comprehensive income	-	-	-	-	-	3,572	3,660	7,232	(1)	233	7,465
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	-	-	(233)	(233)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	-	(1)	-	(1)	-	1	-
Tax on Additional Tier 1 capital	-	-	-	-	-	0	-	0	-	-	0
Additions relating to acquisition of Group enterprise	-	-	-	-	3,203	(3,203)	-	-	166	-	166
Distributed dividend and adjustments	-	-	-	-	-	-	(2,800)	(2,800)	(108)	-	(2,908)
Adjustment pursuant to capital adequacy rules	-	-	-	12,296	-	(12,296)	-	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	-	-	12	-	12	-	-	12
Adjustment relating to subsidiaries	-	0	-	-	-	(7)	-	(6)	-	-	(6)
Change in own portfolio	-	-	-	-	-	-	-	-	-	4	4
Equity, 31 December	1,182	5	-	48,871	4,849	21,975	3,660	80,543	57	3,777	84,378
2018											
Equity, end-2017, see the Annual Report	1,182	19	973	38,038	1,646	29,124	4,100	75,082	-	3,765	78,847
Transferred to equities measured at fair value through profit or loss	-	-	(973)	-	-	973	-	-	-	-	-
Changes in impairment charges owing to implementation of IFRS 9	-	-	-	-	-	(566)	-	(566)	-	-	(566)
Changes in taxes due owing to implementation of IFRS 9	-	-	-	-	-	125	-	125	-	-	125
Equity, 1 January	1,182	19	-	38,038	1,646	29,655	4,100	74,641	-	3,765	78,406
Profit for the year ⁴	-	-	-	-	-	2,777	2,800	5,577	-	233	5,810
Total other comprehensive income	-	-	-	-	-	(7)	-	(7)	-	-	(7)
Total comprehensive income	-	-	-	-	-	2,770	2,800	5,570	-	233	5,803
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	-	-	(233)	(233)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	-	(11)	-	(11)	-	11	-
Tax on Additional Tier 1 capital ⁴	-	-	-	-	-	5	-	5	-	-	5
Distributed dividend	-	-	-	-	-	-	(4,100)	(4,100)	-	-	(4,100)
Adjustment pursuant to capital adequacy rules	-	-	-	(1,463)	-	1,463	-	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	-	-	1	-	1	-	-	1
Realised from the sale of properties	-	(14)	-	-	-	14	-	-	-	-	-
Change in own portfolio	-	-	-	-	-	-	-	-	-	(4)	(4)
Equity, 31 December	1,182	5	-	36,575	1,646	33,898	2,800	76,106	-	3,772	79,878

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

² A non-distributable reserve fund in Totalkredit A/S and LR Realkredit A/S.

³ Additional Tier 1 (AT1) capital is perpetual, and payment of principal and interest is discretionary. For accounting purposes, the AT1 capital is consequently treated as equity. On 26 February 2015, Nykredit issued EUR 500 million (nominal) of AT1 capital, which may be redeemed from 26 October 2020. AT1 capital carries an interest rate of 6.25% pa up to 26 October 2020, after which date the interest rate will be fixed every five years. If the Common Equity Tier 1 (CET1) capital ratio of Nykredit Realkredit A/S, the Nykredit Realkredit Group or the Nykredit Group falls below 7.125%, the loan will be written down.

⁴ Profit for the year has changed by DKK 51.2 million relative to the Annual Report for 2018, as taxes relating to interest expenses for the Additional Tier 1 capital must be recognised in the income statement following the amendments to IAS 12. "Tax on Additional Tier 1 capital" has been adjusted correspondingly. This is solely a reclassification of taxes, and therefore total equity remains unchanged.

Pursuant to the Danish Financial Business Act, the subsidiaries Nykredit Bank A/S, LR Realkredit A/S and Totalkredit A/S are subject to a number of restrictions including regulatory capital requirements which determine the scope for distributing dividend of such companies to the parent.

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Realkredit A/S

	Share capital ¹	Statutory reserves ²	Series reserves	Retained earnings	Proposed dividend	Shareholder of Nykredit Realkredit A/S	Additional Tier 1 capital ³	Total equity
2019								
Equity, 1 January	1,182	18,526	36,575	17,023	2,800	76,106	3,777	79,883
Profit (loss) for the year	-	3,954	-	(404)	3,660	7,210	233	7,443
Total other comprehensive income	-	-	-	22	-	22	-	22
Total comprehensive income	-	3,954	-	(382)	3,660	7,232	233	7,466
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	(233)	(233)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	(1)	-	(1)	1	-
Tax on Additional Tier 1 capital	-	-	-	0	-	0	-	0
Distributed dividend	-	-	-	-	(2,800)	(2,800)	-	(2,800)
Dividend from associates	-	(2)	-	2	-	-	-	-
Dividend from Group enterprises	-	(255)	-	255	-	-	-	-
Other movements concerning equity investments	-	(6)	-	-	-	(6)	-	(6)
Adjustment pursuant to capital adequacy rules	-	-	12,296	(12,296)	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	12	-	12	-	12
Equity, 31 December	1,182	22,217	48,871	4,613	3,660	80,543	3,778	84,321
2018								
Equity, end-2017, see the Annual Report	1,182	15,239	38,038	16,523	4,100	75,082	3,765	78,847
Changes in impairment charges owing to implementation of IFRS 9	-	(566)	-	-	-	(566)	-	(566)
Changes in taxes due owing to implementation of IFRS 9	-	125	-	-	-	125	-	125
Equity, 1 January	1,182	14,797	38,038	16,523	4,100	74,641	3,765	78,406
Profit (loss) for the year ⁴	-	3,897	-	(1,120)	2,800	5,577	233	5,810
Total other comprehensive income	-	-	-	(7)	-	(7)	-	(7)
Total comprehensive income	-	3,897	-	(1,127)	2,800	5,570	233	5,803
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	(233)	(233)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	(11)	-	(11)	11	-
Tax on Additional Tier 1 capital ⁴	-	-	-	5	-	5	-	5
Distributed dividend	-	-	-	-	(4,100)	(4,100)	-	(4,100)
Dividend from associates	-	(23)	-	23	-	-	-	-
Dividend from Group enterprises	-	(414)	-	414	-	-	-	-
Other movements concerning equity investments	-	(39)	-	39	-	-	-	-
Adjustment pursuant to capital adequacy rules	-	-	(1,463)	1,463	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	1	-	1	-	1
Other reserves transferred to retained earnings	-	308	-	(308)	-	-	-	-
Equity, 31 December	1,182	18,526	36,575	17,023	2,800	76,106	3,777	79,883

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

² The item relates to a transfer to reserves for net revaluation according to the equity method. The item includes a non-distributable reserve fund of DKK 1,646 million in Totalkredit A/S and DKK 3,203 million in LR Realkredit A/S.

³ Additional Tier 1 (AT1) capital is perpetual, and payment of principal and interest is discretionary. For accounting purposes, the bonds are consequently treated as equity. On 26 February 2015, Nykredit issued EUR 500 million (nominal) of AT1 capital, which may be redeemed from 26 October 2020. AT1 capital carries an interest rate of 6.25% pa up to 26 October 2020, after which date the interest rate will be fixed every five years. If the Common Equity Tier 1 (CET1) capital ratio of Nykredit Realkredit A/S, the Nykredit Realkredit Group or the Nykredit Group falls below 7.125%, the loan will be written down.

⁴ Profit for the year has changed by DKK 51.2 million relative to the Annual Report for 2018, as taxes relating to interest expenses for the Additional Tier 1 capital must be recognised in the income statement following the amendments to IAS 12. "Tax on Additional Tier 1 capital" has been adjusted correspondingly. This is solely a reclassification of taxes, and therefore total equity remains unchanged.

Dividend policy

Nykredit's long-term ambition is to provide its owners with a competitive return in the form of dividend of around 50% profit for the year taking into account Nykredit's capital policy. Based on profit for the full year 2019 and Nykredit's strong capital position, the Board of Directors will recommend for approval by the Annual General Meeting that a cash dividend of DKK 3,660 million be distributed.

CASH FLOW STATEMENT

DKK million

Nykredit Realkredit Group	2019	2018
Profit for the year	7,443	5,810
Adjustments		
Net interest income	(11,038)	(10,869)
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	305	103
Profit (loss) from investments in associates	(5)	9
Impairment charges for loans, advances and receivables etc	994	380
Prepayments/deferred income, net	(101)	69
Tax on profit for the year	1,344	1,247
Other adjustments	(1,861)	377
Total	(2,919)	(2,874)
Change in operating capital		
Loans, advances and other receivables	(88,280)	(44,663)
Deposits and payables to credit institutions	5,708	19,651
Bonds in issue	127,525	16,193
Other operating capital	(3,588)	(14,654)
Total	38,446	(26,347)
Interest income received	26,740	27,022
Interest expenses paid	(16,151)	(16,442)
Corporation tax paid, net	(1,186)	(980)
Cash flows from operating activities	47,849	(16,746)
Cash flows from investing activities		
Acquisition of enterprises	(3,020)	-
Acquisition of associates	(4)	(1)
Sale of associates	-	36
Dividend received from associates	5	23
Purchase and sale of bonds and equities, net	(11,822)	2,384
Purchase of intangible assets	(138)	(131)
Sale of intangible assets	15	15
Purchase of property, plant and equipment	(77)	(52)
Sale of property, plant and equipment	4	241
Payment of lease liabilities	(136)	-
Total	(15,173)	2,515
Cash flows from financing activities		
Distributed dividend	(2,850)	(4,100)
Purchase and sale of self-issued bonds	(12)	-
Total	(2,861)	(4,100)
Total cash flows for the year	29,814	(18,332)
Cash and cash equivalents, beginning of year	29,691	48,031
Foreign currency translation adjustment of cash	118	(9)
Total cash flows for the year	29,814	(18,332)
Cash and cash equivalents, year-end	59,623	29,691
Cash and cash equivalents, year-end:		
Cash balances and demand deposits with central banks	7,210	8,861
Receivables from credit institutions and central banks	52,413	20,829
Total	59,623	29,691

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7. Interest income	74	41. Repayable reserves in pre-1972 series	114
8. Interest expenses	74	42. Provisions for losses under guarantees	114
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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 2019

Nykredit Realkredit A/S acquired LR Realkredit A/S with accounting effect as at 30 December 2019. Profit (loss), comprehensive income, assets, liabilities and equity of LR Realkredit A/S have been included in the Management Commentary and the Financial Statements for 2019.

In a number of instances, time has not permitted the integration of LR Realkredit A/S's accounting figures in the notes etc of the Nykredit Realkredit Group.

This concerns in particular notes and tables, which require the entry of detailed data into Nykredit's systems, for instance, calculations which are based on the characteristics of the individual loans and advances, or where LR Realkredit uses a different calculation method than Nykredit. This means, for example that LR Realkredit data have not been incorporated into the tables and notes of these Financial Statements that include ratings. This has also been stated in the relevant tables and notes.

CHANGE IN ACCOUNTING POLICIES

IFRS 16 "Leases" and annual improvements to IFRS standards 2015-2017 implemented as at 1 January 2019.

IFRS 16 implies capitalisation of Nykredit's rights-of-use to leased assets, including owner-occupied property, and the recognition of liabilities arising from the lease. The change has increased the Group's assets and liabilities by around DKK 0.8 billion as at 1 January 2019. The rental expense presented so far as administrative expenses will now be recognised as depreciation of the leased asset and interest expense on the lease liability. The impact on the Group's equity, profit after tax and comprehensive income comprises an additional charge of DKK 6 million in 2019.

The standard was implemented with effect from 1 January 2019.

Reference is made to the description provided under "Leases" in these accounting policies.

- The amendment following from the annual improvement of IFRS standards 2015-2017 has led to an amendment of IAS 12 "Income Taxes" which implies that taxes relating to interest expenses for Additional Tier 1 capital presented as equity, will be recognised in profit or loss from and including 1

January 2019. The tax effect was previously recognised directly in equity together with the interest expense. Tax, profit and comprehensive income for the period were positively impacted by DKK 51 million for 2019 and DKK 51 million for 2018. Comparative figures have been restated. Total equity is unchanged.

The earnings presentation in financial highlights and note 3, business areas, has been changed, see "Alternative performance measures". In addition, the presentation of business areas has been changed to reflect the organisational adjustment in H1/2019 and the internal reporting. This does not affect the profit, balance sheet or equity. Comparative figures have been restated in connection with the new presentation.

Other new and amended standards and interpretations

Implementation of new or amended standards and interpretations in force and effective for the financial year beginning on 1 January 2019:

Amendment to IFRS 9 "Financial Instruments". The amendment implies that the criteria for measurement at amortised cost is met, also in the event where reasonable compensation in case of loan prepayment constitutes payment to the party that triggers the early termination of the contract (amended standard) (approved for use in the EU).

IAS 28 "Long-Term Interests in Associates and Joint Ventures" (amended standard) (approved for use in the EU).

IFRIC 23 "Uncertainty over Income Tax Treatments". Issued on 7 June 2017 (approved for use in the EU).

The implementation has not significantly impacted Nykredit's profit, comprehensive income, balance sheet or equity.

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 accounting policies are otherwise unchanged compared with the Annual Report for 2018.

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 2019:

Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", relating to minor amendments regarding the definition of materiality (approved for use in the EU, effective from 1 January 2020).

Amendment to IFRS 3 "Business Combinations" relating to the definition of a business (not approved for use in the EU, effective from 1 January 2020).

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

Change to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform" (not approved for use in the EU, effective from 1 January 2020). In Management's view, the implementation of the above standards and amendments to standards will have only an immaterial impact on Nykredit's Financial Statements.

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 Nykredit's 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.

Note 47 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. Valuation of unlisted derivative financial instruments changes continuously, and Nykredit is closely monitoring market practice to ensure that the valuation of unlisted derivative financial instruments is consistent with market practice.

The valuation is based on yield curves, volatilities and market prices on which data is usually obtained through providers such as Reuters, Bloomberg and market makers. Market practice for the valuation of unlisted derivatives moreover includes increasing use of market inputs in the valuation, including CVA (Credit Valuation Adjustment). For further details, please refer to note 47. The fair value of unlisted derivative financial instruments was 0.5% of the Group's assets at end-2019 (0.5% at end-2018).

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 86.1% and 0.3%, respectively, of the Group's balance sheet total at end-2019 for financial assets (89.5% and 0.3% at end-2018), and 2.0% and 0.0%, respectively, for financial liabilities (1.3% and 0.0% at end-2018).

The fair value of financial instruments for which no listed prices in an active market are available accounted for 93% of the Group's assets at end-2019 (95% at end-2018).

Measurement of loans and advances etc – impairments

Credit risk reflects the risk of loss resulting from Nykredit'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. This does not apply to loans and advances measured at fair value, as these are recognised at fair value under IFRS 13. 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 reasons may be changes in agricultural settlement prices due to changed economic trends and/or changed export opportunities as well as financial and legal conditions in the real estate sector that 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-2018).

Recognition

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

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

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

Initially, financial instruments are recognised at fair value 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 47.

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 selling the asset (hold to collect and sell business model). Measured at fair value with changes recognised through other comprehensive income with reclassification to the income statement on realisation of the assets. Nykredit had no financial instruments in this category in 2018 and 2019.
- 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 financial liabilities at amortised cost

Receivables from and payables to credit institutions and central banks, the Group's bank lending, corporate bonds in issue, a part of the senior debt in issue and subordinated debt as well as deposits and other payables are included in this category.

Loans, advances and receivables as well as liabilities 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, 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.

Mortgage loans are measured at fair value. The same applies to the liabilities that are issued for the purpose of funding these loans, ie covered bonds and senior secured debt.

Generally, mortgage loans are not transferred during their term, and the business model is based on holding the portfolio in order to collect the cash flows. However, for mortgage loans and inherent liabilities Nykredit applies the fair value measurement option allowed under the accounting rules with value adjustment through profit or loss.

This should be viewed in the context of mortgage loans granted in accordance with Danish mortgage legislation are funded by issuing listed covered bonds of uniform terms.

Such mortgage loans may be prepaid by delivering the underlying bonds, and the Group buys and sells self-issued covered bonds on a continuing basis as they constitute a significant part of the Danish money market. If mortgage loans and covered bonds in issue were measured at amortised cost, the purchase and sale of self-issued covered bonds would lead to a timing difference between the recognition of gains and losses in the Financial Statements. Thus, the purchase price of the portfolio would not equal the amortised cost of the bonds in issue. If the portfolio of self-issued covered bonds was subsequently sold, the new amortised cost of the "new issue" would not equal the amortised cost of the matching mortgage loans, and the difference would be amortised over the remaining time-to-maturity.

In order to prevent a mismatch in profit or loss, mortgage loans are measured at fair value involving an adjustment for the market risk based on the value of the underlying bonds and an adjustment for credit risk based on the impairment need.

The Group's equity and bond portfolio is 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.

Equity instruments are not based on cash flows which comprise payments of principal and interest. Therefore, these instruments are measured at fair value with value adjustment through profit or loss.

Derivative financial instruments (derivatives), which are assets or liabilities, are measured at fair value through profit or loss. In Nykredit, 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 47.

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.

For loans and advances measured at fair value, initial impairment is assumed to be almost nil, as the value of the loan at the time of recognition is based on fair value in accordance with IFRS 13. Subsequently, impairments will be increased equal to 12-month expected credit losses based on analysis of the distribution of credit losses throughout the life of the loan.

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 mortgage customer's payment of a significant amount is 75 days past due and at the time when Nykredit Bank sends a third reminder. Both scenarios are shorter 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 coordinating 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 macro scenarios is significant to total impairments which are very sensitive to choice of scenarios and probability-weights.

Generally, three scenarios apply:

- scenario reflecting Nykredit's best estimate (baseline)
- scenario reflecting higher expected credit losses
- scenario with lower expected credit losses to cover an appropriate number of likely losses based on Nykredit's best estimate. Due to the currently favourable economic trends and the financial strength of our customers, the baseline scenario and a more positive scenario currently seem to coincide. In case of changed economic trends, a scenario with an improved future outlook will be part of the calculation method.

The calculation of macro-economic scenarios is based on the assumptions of eg interest rates and property prices used to determine the internal capital adequacy requirement. The baseline scenario is considered best estimate and is included in the transaction matrices. The slightly weaker scenario which leads to high expected credit losses corresponds to a "mild" stress in the capital model (used to determine the internal capital adequacy requirement).

Stage 3 impairment

Nykredit Realkredit 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.

Model-based impairment is subject to management judgement, which is supplemented with an assessment of an improved/worsened macroeconomic scenario for the long-term Probability of Default (PD).

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.

Impairment of mortgage lending measured at fair value

IFRS 9 does not comprise provisions governing impairment of mortgage lending measured at fair value. Value adjustment of financial assets measured at fair value is thus subject to IFRS 13 and the Danish Executive Order on Financial Reports.

In accordance with the Danish Executive Order on Financial Reports with guidance notes issued by the Danish Financial Supervisory Authority (Danish FSA), Nykredit records impairments of mortgage lending applying the same principles as are used for impairment of loans and advances at amortised cost (see IFRS 9) provided that the impairments are recorded within the framework of IFRS 13.

When calculating impairment of mortgage loans measured at fair value certain adjustments are made compared with the calculation of impairment of loans measured at amortised cost. However, in the assessment of stage 1 impairment, an analysis of the distribution of credit losses over the loan period is made, and on this basis it is assessed whether interest/administration margin income has been received in the financial period, which is expected to cover any expected credit losses in the following periods. If this is the case, stage 1 impairment of lending measured at fair value is made in the financial period.

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".

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

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

The Group applies derivative financial instruments (interest rate swaps) to hedge interest rate risk on loans and advances, subordinated debt and bonds in issue measured at amortised cost.

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

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

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

Offsetting

Financial assets and liabilities are offset and 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 Realkredit A/S (the Parent) and the enterprises in which Nykredit Realkredit 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 Realkredit A/S and its subsidiaries are collectively referred to as the Nykredit Realkredit Group.

Enterprises in which the Nykredit Realkredit 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. Nykredit has few business activities outside Denmark.

The income statement format of the financial highlights on page 5 and the business areas in note 3 reflect the internal management reporting. 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 net administration margin income from mortgage lending as well as interest income from bank lending and deposits. The corresponding item in the income statement (page 46) includes all interest.

"Net fee income" comprising income from mortgage refinancing and mortgage lending, 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.

"Net income relating to customer benefits programmes" comprising discounts etc in the form of KundeKroner, ErhvervsKroner and MineMål granted to the Group's customers. The amount includes contributions received. The item is included in Group Items to illustrate the earnings of the individual business areas excluding the impact of the Group's customer benefits programmes whilst also presenting the impact on income of the programmes in a separate item.

"Trading, investment portfolio and other income" comprising eg 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, including income from the sale of real estate.

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 Nykredit 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.

This is a new practice, as IFRS 16 "Leases" has been implemented as at 1 January 2019. The implementation has implied recognition of a calculated liability in the Group of about DKK 0.8 billion (approximately 0.1% of the balance sheet total) as at 1 January 2019, corresponding to the present value of expected rents and capitalisation of a leased asset corresponding to the liability. The lease term used to determine the rental obligation corresponds to the period in which Nykredit 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 is about 3 years on average.

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 Nykredit's 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, or as badwill if the price paid for an acquisition is less than the net assets.

Please refer to note 55.

INCOME STATEMENT

Interest income and expenses etc

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

Interest income comprises administration margin income on mortgage lending, 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 if they are measured at amortised cost. 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 "Interest income", and negative interest expenses are recognised in "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 lease income, contributions from Forenet Kredit, badwill as well as gain on the sale of investment and owner-occupied properties.

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. Termination benefits as well as holiday pay/allowance obligations are recognised successively.

Administrative expenses comprise IT and marketing costs as well as leasehold rent.

Other operating expenses

"Other operating expenses" comprises operating expenses not attributable to other income statement items, including contributions to guarantee and resolution schemes for mortgage banks as well as one-off expenses.

Tax

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

Current tax liabilities and current tax assets are recognised in the balance sheet as tax calculated on taxable income for the year adjusted for tax paid on account. The current tax for the year is calculated on the basis of the tax rates and rules prevailing on the balance sheet date. The Danish tax of the jointly taxed companies is payable in accordance with the scheme for payment of tax on account.

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 Group's Danish companies are jointly taxed with Forenet Kredit. Current corporation tax payable is distributed among the jointly taxed Danish 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 Realkredit 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 notes 27a and 55.

Other intangible assets

Fixed-term rights are recognised at cost less accumulated amortisation. Fixed-term rights are amortised on a straight-line basis over their remaining terms. Fixed-term rights lapse after a period of 5-10 years.

Costs relating to development projects are recognised as intangible assets provided that there is sufficient certainty that the value in use of future earnings will cover the development costs.

Capitalised development projects comprise salaries and other costs directly attributable to the Group's development activities.

Other development costs are recognised as costs in the income statement as incurred.

Capitalised development costs are measured at cost less accumulated amortisation. Capitalised development costs are amortised on completion of the development project on a straight-line basis over the period in which it is expected to generate economic benefits. The amortisation period is 3-5 years.

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 3-7 years.

Other intangible assets are written down to the recoverable amount where objective evidence of impairment (OEI) is identified.

Land and buildings including leased properties

Owner-occupied properties

Owner-occupied properties are properties which the Group uses for administration, sales and customer contact centres or for other service activities.

Owner-occupied properties where Nykredit acts as lessee are described under "Leases".

On acquisition, owner-occupied properties are recognised at cost and subsequently measured at a reassessed value, equal to the fair value at the revaluation date less subsequent accumulated depreciation and impairment charges. Revaluations are made annually to prevent the carrying amounts from differing significantly from the values determined using the fair value on the balance sheet date. Please also refer to note 28 a.

Subsequent costs are recognised in the carrying amount of the asset concerned or as a separate asset where it is probable that costs incurred will lead to future economic benefits for the Group, and the costs can be measured reliably. The costs of ordinary repair and maintenance are recognised in the income statement as incurred.

Positive value adjustments less deferred tax are added to revaluation reserves under equity via "Other comprehensive income". Impairment charges offsetting former revaluation of the same property are deducted from revaluation reserves via "Other comprehensive income", while other impairment charges are recognised through profit or loss.

When the asset is ready for its intended use, it is depreciated on a straight-line basis over the estimated useful life of 10-50 years, allowing for the expected scrap value at the expiry of the expected useful life. Land is not depreciated.

Gains and losses on divested assets are determined by comparing sales proceeds with carrying amounts and are recognised in the income statement under "Other operating income" or "Other operating expenses". On divestment of revalued assets, revaluation amounts contained in the revaluation reserves are transferred to "Retained earnings" under equity without recognition in the income statement.

Other property, plant and equipment

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 pensions and similar obligations

The Group has entered into pension agreements with the majority of its staff.

The agreements may be divided into two main types of plans:

- Defined contribution plans according to which the Group makes fixed contributions to staff pension plans on a current basis. The Group is under no obligation to make further contributions. The contributions to defined contribution plans are recognised in the income statement for the period concerned, and any contributions payable are recognised in "Other payables" in the balance sheet.
- Defined benefit plans under which the Group is obliged to pay certain benefits in connection with retirement. Defined benefit plans are subject to an annual actuarial calculation (the projected unit credit method) of the value in use of future benefits payable under the plans.

The value in use of defined benefit plans is based on assumptions of the future development in eg wages, interest rates, inflation and mortality. Discounting is based on an interest rate determined in accordance with IAS 19. The value in use is only calculated for benefits to which staff members have become entitled through their employment with the Group.

The fair value of assets relating to defined benefit plans less the actuarial value in use of the pension obligations is recognised in the balance sheet under "Other assets" or "Other liabilities". Actuarial gains and losses are recognised in "Other comprehensive income" in the year in which they arose.

A number of the Group's staff members are entitled to receive a bonus on attaining retirement age and when having been employed by the Group for 25 and 40 years. Up to and including 2018 the obligations were recognised successively up to the date when the staff member is entitled to receive the benefit. The measurement of the size of the obligation allows for actuarial conditions, including the probability of staff members retiring before the benefit vests and therefore losing entitlement to the benefit. The obligations are recognised at present value using a zero-coupon rate plus a risk margin. The annual change in the present value prompted by changes to the discount rate is recognised in "Other interest income" or "Other interest expenses". Other changes in the present value are recognised in "Staff and administrative expenses".

Repayable reserves in pre-1972 series

Repayable reserves include reserves in pre-1972 series repayable after full or partial redemption of mortgage loans in compliance with the articles of association of the series concerned.

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.

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. Subordinated debt is measured at fair value on initial recognition and subsequently at amortised cost.

Nykredit has raised subordinated debt in the form of bonds in issue which are subject to permanent write-down through profit or loss if Nykredit's Common Equity Tier 1 capital ratio drops to 7% or less. Until this level is reached, Nykredit is obliged to pay interest to bondholders.

Equity

Share capital

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

Revaluation reserves

Revaluation reserves include positive value adjustment of owner-occupied properties less deferred tax on the value adjustment. Increases in the reassessed value of properties are recognised directly in this item unless the increase cancels out a decrease previously recognised in the income statement. The item is adjusted for any impairment fully or partially cancelling out previously recognised value gains. The item is also adjusted on divestment of properties.

Series reserves

Series reserves include series reserves where there is no obligation to repay the borrowers.

Non-distributable reserve fund

Includes a reserve fund in Totalkredit A/S and LR Realkredit A/S established when former mortgage banks were converted into limited companies. The reserves are non-distributable.

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.

Additional Tier 1 capital

Perpetual Additional Tier 1 capital with discretionary payment of interest and principal is recognised as equity for accounting purposes. Correspondingly, interest expenses relating to the issue are recorded as dividend for accounting purposes. Interest is deducted from equity at the time of payment. Tax attributable to interest expenses will be recognised in profit or loss.

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 as well as holders of Additional Tier 1 capital.

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 REALKREDIT A/S

The Financial Statements of the Parent Nykredit Realkredit 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

Compared with the Annual Report for 2018, the accounting policies have been changed following the implementation of the leases standard, which has led to the capitalisation of the rights-of-use for a number of leases and the liabilities arising from such leases. Furthermore, tax credits attributable to interest on Additional Tier 1 capital will be recognised in profit or loss. The tax effect was previously recognised directly in equity. Reference is made to the Group's accounting policies.

No other amendments to the Danish Executive Order on Financial Reports have affected the Parent's accounting policies for 2019.

Other ordinary income

The item "Other operating expenses" contains a large share of income from administrative services, etc, provided by the Parent to the other Group companies, for which settlement is made on the basis of intercompany agreements. In addition, the item contains other operating income not attributable to other income statement items, including income relating to gains on the sale of investment and owner-occupied properties as well as other non-current assets.

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 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.

The non-distributable reserve fund concerns the reserve fund of Totalkredit A/S and LR Realkredit A/S.

NOTES

Nykredit Realkredit A/S			DKK million	
2018	2019		2019	2018
		2. CAPITAL AND CAPITAL ADEQUACY		
79,883	84,321	Equity for accounting purposes	84,378	79,878
-	-	Minority interests not included	(57)	-
(3,777)	(3,778)	Carrying amount of Additional Tier 1 capital recognised in equity	(3,777)	(3,772)
76,106	80,543	Equity excluding Additional Tier 1 capital	80,543	76,106
(2,800)	(3,660)	Proposed dividend	(3,660)	(2,800)
(24)	(41)	Prudent valuation adjustment	(78)	(57)
-	-	Minority interests	35	-
(200)	(240)	Intangible assets excluding deferred tax liabilities	(2,114)	(221)
(98)	-	Provisions for expected credit losses in accordance with IRB approach	(40)	-
(327)	(343)	Other additions/deductions	(343)	(327)
(3,449)	(4,283)	Common Equity Tier 1 capital deductions	(6,199)	(3,405)
72,657	76,259	Common Equity Tier 1 capital	74,344	72,701
3,734	3,735	Additional Tier 1 capital	3,741	3,729
(25)	-	Additional Tier 1 capital deductions	(48)	(28)
3,709	3,735	Total Additional Tier 1 capital after deductions	3,692	3,702
76,365	79,994	Tier 1 capital	78,036	76,403
10,828	10,831	Tier 2 capital	10,823	10,828
(44)	446	Tier 2 capital additions/deductions	1,224	453
87,149	91,272	Own funds	90,083	87,683
389,503	450,960	Credit risk	324,627	291,637
12,762	13,389	Market risk	29,336	27,390
12,910	12,175	Operational risk	25,499	25,709
415,175	476,523	Total risk exposure amount	379,462	344,736
		Financial ratios		
17.5	16.0	Common Equity Tier 1 capital ratio, %	19.5	21.0
18.3	16.7	Tier 1 capital ratio, %	20.5	22.1
20.9	19.1	Total capital ratio, %	23.7	25.4

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.

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 the Nykredit Realkredit Group. To this should be added the permanent buffer requirement of 2.5% and the countercyclical buffer of 1% in Denmark which must also be met with Common Equity Tier 1 capital.

2. CAPITAL AND CAPITAL ADEQUACY (CONTINUED)

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

The determination takes into account the business objectives and capital policy targets by allocating capital for all relevant risks, including calculation uncertainties.

The Boards of Directors of Nykredit's individual companies determine at least annually the required own funds and internal capital adequacy requirement (ICAAP result) of their respective companies.

Stress tests and capital projection

Nykredit applies model-based stress tests and capital projections to determine the required own funds in different macroeconomic scenarios. The results are applied at Group and company level and included in the annual assessment by the individual Boards of Directors of the internal capital adequacy requirement and in the continuous capital planning. In determining the capital requirements, the stress tests are not the only element, but are included in an overall assessment along with the company's capital policy, risk profile and capital structure.

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

The most important macroeconomic factors identified are:

- Property prices
- Interest rates
- Unemployment
- GDP growth.

Nykredit generally operates with three macroeconomic scenarios: a baseline scenario, a slightly weaker economic climate and a severe recession.

Nykredit Realkredit Group

Stress scenarios for determination of capital requirement

	2020	2021	2022
Baseline scenario			
Property prices, growth	(0.3)%	(0.3)%	(0.3)%
Interest rates ¹	3.8%	3.1%	3.2%
Unemployment	2.0%	1.9%	1.2%
GDP growth	5.2%	5.1%	5.1%
Slightly weaker economic climate (scenario applied under Pillar II)			
Property prices, growth	(0.6)%	(0.4)%	(0.4)%
Interest rates ¹	(3.0)%	(3.0)%	(2.0)%
Unemployment	1.0%	0.5%	0.1%
GDP growth	5.9%	6.5%	7.1%
Severe recession (scenario applied for capital policy)			
Property prices, growth	(0.6)%	(0.4)%	(0.4)%
Interest rates ¹	(12.0)%	(10.0)%	(5.0)%
Unemployment	(3.0)%	(2.0)%	0.0%
GDP growth	7.1%	8.7%	9.4%

¹ Average of 3-month money market rates and 10-year government bond yields.

The capital requirement for credit risk builds primarily 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.

The scenarios operate with the impacts of both rising and falling interest rates. The capital charge is calculated based on the most severe scenario.

Other stress scenarios are used as required for Nykredit Bank and Totalkredit, and/or the scenarios are supplemented with assessments of factors that may have an adverse impact on the companies' risk exposures or capital.

Baseline scenario

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

Stress scenario: Slightly weaker economic climate

The stress scenario is designed to illustrate a slightly weaker economic climate relative to the baseline scenario. The capital charge is calculated on the basis of rising interest rates, which is the more severe of the two scenarios. The capital charge reflects how much Nykredit's capital requirement would increase if this scenario occurred. The results are included in the determination of the internal capital adequacy requirement.

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 rising 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.

Other stress scenarios

As part of the Group's capital policy, in addition to calculating its own stress scenarios, Nykredit also assesses the stress scenarios prepared by the Danish FSA. The results are compared regularly.

Again in 2020 Nykredit will participate in the stress test exercises of the European Banking Authority (EBA). The most recent results have confirmed Nykredit's strong capital position under the current capital requirements.

The Boards of Directors will reassess the ICAAP results if any major unexpected events occur. The determination of the internal capital adequacy requirements of the individual companies by the Boards of Directors is based on a number of stress tests as well as an assessment of the company's business model, risk profile and capital structure.

Furthermore, the Board Risk Committee and the Group Risk Committee closely monitor the development in the internal capital adequacy requirements of the individual companies and are briefed at least quarterly. The Asset/Liability Committee monitors and coordinates the capital, funding and liquidity of the Group and the individual Group companies. The report Risk and Capital Management 2019, available at nykredit.com/reports, contains a detailed description of the determination of required own funds and internal capital adequacy requirement of Nykredit as well as all Group companies. The report is not audited.

3. BUSINESS AREAS

The business areas reflect Nykredit's organisation and internal reporting. In March 2019 the business areas were reorganised, now comprising Banking, Totalkredit Partners and Wealth Management. 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.

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

RESULTS**2019****RESULTS BY BUSINESS AREA**

	Personal Banking	Business Banking	Total Retail	Corporates & Institutions	Total Banking	Totalkredit Partners	Wealth Management	Group Items	Total
Net interest income	1,872	2,837	4,710	1,620	6,330	2,879	129	6	9,344
Net fee income	714	744	1,458	612	2,070	657	36	(24)	2,739
Wealth management income	346	143	490	124	614	-	984	12	1,610
Net interest from capitalisation	(66)	(151)	(217)	(119)	(336)	(182)	(9)	175	(352)
Net income relating to customer benefits programmes ¹	-	-	-	-	-	0	-	(358)	(358)
Trading, investment portfolio and other income	20	176	196	330	526	24	23	1,099	1,672
Income	2,887	3,750	6,636	2,568	9,204	3,378	1,163	911	14,655
Costs	2,074	1,140	3,215	628	3,843	651	666	166	5,326
Business profit before impairment charges	812	2,609	3,421	1,940	5,361	2,726	497	745	9,329
Impairment charges for loans and advances	248	667	915	132	1,047	(69)	11	5	994
Business profit	564	1,942	2,506	1,808	4,314	2,796	486	740	8,335
Legacy derivatives	(1)	(92)	(92)	(21)	(113)	-	0	-	(112)
Badwill	-	-	-	-	-	-	-	564	564
Profit before tax	564	1,851	2,414	1,787	4,201	2,796	486	1,304	8,787
Of which transactions between the business areas	617	66	683	748	1,431	2,179	3,610	5,790	13,011
Average allocated business capital	5,683	16,902	22,585	12,965	35,550	13,630	1,015	7,885	58,081
Business profit as % of average business capital ²	9.9	11.5	11.1	13.9	12.1	20.5	47.8		13.9

BALANCE SHEET**Assets**

Mortgage loans etc at fair value	177,837	233,106	410,943	234,099	645,042	632,786	9,542	-	1,287,370
Reverse repurchase lending								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
Assets by business area	189,522	257,044	446,566	259,893	706,459	632,786	13,484	48,854	1,401,584
Unallocated assets									208,751
Total assets									1,610,336

Liabilities and equity

Repo deposits								15,281	15,281
Bank deposits and other payables at amortised cost	35,379	21,059	56,438	9,495	65,933	-	16,121	3,496	85,549
Liabilities by business area	35,379	21,059	56,438	9,495	65,933	-	16,121	18,777	100,831
Unallocated liabilities									1,425,128
Equity									84,378
Total liabilities and equity									1,610,336

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

² In the determination of "Business profit as % of average business capital", the business profit corresponds to profit for accounting purposes less interest expenses for Additional Tier 1 capital.

Geographical markets

Income from international lending came to DKK 540 million (2018: DKK 489 million). The international loan portfolio totalled DKK 65 billion at end-2019 (2018: DKK 59 billion).

3. BUSINESS AREAS (CONTINUED)

	Personal Banking	Business Banking	Total Retail	Corporates & Institutions	Total Banking	Totalkredit Partners	Wealth Management	Group Items	Total
RESULTS									
2018									
Results by business area									
Net interest income	1,913	2,892	4,805	1,549	6,354	2,754	120	(1)	9,226
Net fee income	555	476	1,032	454	1,485	478	24	(37)	1,950
Wealth management income	361	147	508	122	630	-	714	16	1,361
Net interest from capitalisation	(72)	(159)	(231)	(112)	(343)	(177)	(8)	173	(356)
Net income relating to customer benefits programmes ¹	-	-	-	-	-	-	-	(248)	(248)
Trading, investment portfolio and other income	6	308	313	327	641	14	13	(579)	89
Income	2,763	3,664	6,427	2,340	8,767	3,070	863	(676)	12,023
Costs	2,047	1,074	3,121	608	3,729	554	471	111	4,865
Business profit (loss) before impairment charges	715	2,590	3,306	1,732	5,037	2,515	392	(787)	7,157
Impairment charges for loans and advances	85	46	131	117	248	122	18	(9)	380
Business profit (loss)	630	2,544	3,174	1,615	4,789	2,393	374	(778)	6,777
Legacy derivatives	1	176	177	104	280	-	(0)	-	280
Profit (loss) before tax	631	2,720	3,351	1,719	5,069	2,393	373	(778)	7,057
Of which transactions between the business areas	358	63	421	(231)	190	(35)	(432)	277	-
Average allocated business capital	5,814	16,417	22,230	11,672	33,902	12,558	837	7,504	54,801
Business profit as % of average business capital ²	10.8	15.5	14.3	13.8	14.1	19.1	44.6		11.9
BALANCE SHEET									
Assets									
Mortgage loans etc at fair value	175,954	234,560	410,514	197,027	607,541	577,298	8,828	-	1,193,667
Reverse repurchase lending								37,427	37,427
Loans and advances at amortised cost	11,507	21,236	32,743	23,342	56,085	-	3,955	526	60,566
Assets by business area	187,461	255,796	443,257	220,370	663,626	577,298	12,783	37,953	1,291,660
Unallocated assets									156,331
Total assets									1,447,991
Liabilities and equity									
Repo deposits								16,245	16,245
Bank deposits and other payables at amortised cost	30,332	19,055	49,388	11,708	61,096	-	12,090	3,787	76,974
Liabilities by business area	30,332	19,055	49,388	11,708	61,096	-	12,090	20,033	93,219
Unallocated liabilities									1,274,894
Equity									79,878
Total liabilities and equity									1,447,991

¹ The item comprises contributions and discounts relating to Nykredit's benefits programmes, see "Alternative performance measures". Comparative figures for income and profit from the business areas for 2018 have been restated as follows: Personal Banking increased by DKK 37.6 million, Business Banking by DKK 27.9 million, Totalkredit Partners by DKK 176.6 million and Corporates & Institutions by DKK 3.1 million. Total profit was not impacted. This amount was previously recognised in "Net interest income".

² In the determination of "Business profit as % of average business capital", the business profit corresponds to profit for accounting purposes less interest expenses for Additional Tier 1 capital.

In addition, comparative figures for 2018 have been restated to reflect the reorganisation, which took effect on 21 March 2019.

4. RECONCILIATION OF INTERNAL AND REGULATORY INCOME STATEMENT	2019			2018		
	Earnings presentation in Management Commentary	Reclassification	Income statement	Earnings presentation in Management Commentary	Reclassification	Income statement
Net interest income	9,344	1,694	11,038	9,226	1,643	10,869
Dividend on equities etc		169	169		150	150
Fee and commission income, net	2,739	(3,171)	(433)	1,950	(2,438)	(487)
Net interest and fee income		(1,309)	10,774		(645)	10,532
Wealth management income	1,610	(1,610)	-	1,361	(1,361)	-
Net interest from capitalisation	(352)	352	-	(356)	356	-
Net income relating to customer benefits programmes	(358)	358	-	(248)	248	-
Trading, investment portfolio and other income	1,672	(1,672)	-	89	(89)	-
Value adjustments		2,130	2,130		724	724
Other operating income		2,198	2,198		1,056	1,056
Total income	14,655			12,023		
Costs	5,326	-	5,326	4,865	-	4,865
Business profit before impairment charges	9,329			7,157		
Impairment charges for loans and advances etc	994	-	994	380	-	380
Profit (loss) from investments in associates and Group enterprises		5	5		(9)	(9)
Business profit	8,335			6,777		
Legacy derivatives	(112)	112	-	280	(280)	-
Badwill	564	(564)	-	-	-	-
Profit before tax	8,787	-	8,787	7,057	-	7,057

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 three main items in the internal presentation: "Income", including sub-items, and "Legacy derivatives" as well as "Badwill". The sum of these items thus corresponds to "Net interest and fee income", "Value adjustments" and "Other operating income" and "Profit from investments in associates and Group enterprises" 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.

Nykredit Realkredit Group

	2019	2018
5. INCOME		
Revenue from contracts with customers (IFRS 15)		
Fees:		
- fees from asset management activities and other fiduciary activities	1,503	1,175
- other fees	2,121	1,396
Revenue from contracts with customers (IFRS 15) by business area		
Retail	749	859
Corporates & Institutions	314	300
Banking, total	1,063	1,159
Totalkredit Partners	943	454
Wealth Management	1,541	894
Group Items	76	64
Total	3,623	2,570

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 to the business divisions serving the customers on a net basis, 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 (2019) / IAS 17 (2018) "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 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 Realkredit Group

6. NET INTEREST INCOME ETC AND VALUE ADJUSTMENTS

2019	Interest income	Interest expenses	Net interest income	Dividend on equities	Value adjustments	Total
Financial portfolios at amortised cost						
Receivables from and payables to credit institutions and central banks	(9)	93	(102)	-	-	(102)
Lending and deposits	1,942	(51)	1,993	-	8	2,002
Repo transactions and reverse repurchase lending	(235)	(98)	(138)	-	-	(138)
Subordinated debt	-	359	(359)	-	-	(359)
Other financial instruments	161	111	50	-	-	50
Total	1,858	414	1,444	-	8	1,453

Financial portfolios at fair value and financial instruments at fair value

Mortgage loans and bonds in issue ¹	23,043	13,815	9,229	-	8	9,237
- of which administration margin income	8,971	-	8,971	-	-	8,971
Bonds	394	-	394	-	1,069	1,463
Equities etc	-	-	-	169	1,205	1,374
Derivative financial instruments	(29)	-	(29)	-	(246)	(275)
Total	23,408	13,815	9,594	169	2,036	11,798
Foreign currency translation adjustment					85	85
Net interest income etc and value adjustments	25,266	14,229	11,038	169	2,130	13,336

KundeKroner and ErhvervsKroner discounts are offset against interest income and for the period amounted to

1,328

2018**Financial portfolios at amortised cost**

Receivables from and payables to credit institutions and central banks	1	50	(49)	-	-	(49)
Lending and deposits	1,996	(25)	2,021	-	27	2,047
Repo transactions and reverse repurchase lending	(167)	(130)	(37)	-	-	(37)
Subordinated debt	-	358	(358)	-	-	(358)
Other financial instruments	96	78	18	-	-	18
Total	1,927	332	1,595	-	27	1,621

Financial portfolios at fair value and financial instruments at fair value

Mortgage loans and bonds in issue ¹	23,482	14,473	9,009	-	127	9,136
- of which administration margin income	8,956	-	8,956	-	-	-
Bonds	470	-	470	-	70	540
Equities etc	-	-	-	150	(340)	(190)
Derivative financial instruments	(204)	-	(204)	-	735	531
Total	23,748	14,473	9,275	150	591	10,016
Foreign currency translation adjustment					107	107
Net interest income etc and value adjustments	25,675	14,805	10,869	150	724	11,744

KundeKroner and ErhvervsKroner discounts are offset against interest income and for the period amounted to

1,099

¹ Recognised at fair value under the fair value option.

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018

NOTES

Nykredit Realkredit A/S		DKK million		Nykredit Realkredit Group	
2018	2019		2019	2018	
		9. DIVIDEND ON EQUITIES ETC			
145	162	Dividend	169	150	
145	162	Total	169	150	
		10. FEE AND COMMISSION INCOME			
-	-	Fees etc relating to financial instruments measured at amortised cost	202	197	
-	-	Fees from asset management activities and other fiduciary activities	1,503	1,175	
734	682	Other fees	1,919	1,198	
734	682	Total	3,623	2,570	
		11. FEE AND COMMISSION EXPENSES			
-	-	Fees etc relating to financial instruments measured at amortised cost	28	18	
-	-	Fees from asset management activities and other fiduciary activities	-	62	
240	504	Other fees	4,028	2,977	
240	504	Total	4,056	3,058	
		12. VALUE ADJUSTMENTS			
		Assets measured at fair value through profit or loss			
(1,626)	1,829	Mortgage loans, a)	5,509	(3,217)	
(1,530)	3,760	Totalkredit mortgage loan funding, a)	-	-	
(16)	(12)	Other loans, advances and receivables at fair value, a)	8	27	
(68)	890	Bonds, a)	1,069	70	
(376)	1,114	Equities etc, a)	1,205	(340)	
-	-	Investment properties	-	-	
21	(18)	Foreign exchange ¹	85	107	
(65)	(457)	Foreign exchange, interest rate and other contracts as well as derivative financial instruments ² , a)	(298)	730	
-	-	Other assets	52	5	
		Liabilities measured at fair value through profit or loss			
1,753	(1,821)	Bonds in issue, a)	(5,501)	3,344	
1,530	(3,760)	Other liabilities	-	-	
(375)	1,524	Total	2,130	724	
		¹ Of which value adjustment of assets and liabilities recognised at amortised cost	(908)	(371)	
		² Of which value adjustment of interest rate swaps	58	584	
		a) Financial assets and liabilities classified at fair value on initial recognition. Value adjustments mainly relate to financial assets, financial liabilities and derivative financial instruments included in the Group's trading activities.			
		Of which value adjustment relating to fair value hedging for accounting purposes			
-	-	Fair value hedging	(1)	(3)	
		13. OTHER OPERATING INCOME			
168	533	Distributed by Forenet Kredit f.m.b.a.	1,482	920	
-	-	Badwill	564	-	
-	-	Income from leasing	84	89	
853	1,511	Other income	68	46	
1,021	2,044	Total	2,198	1,056	

NOTES

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2018	2019		2019	2018
14. STAFF AND ADMINISTRATIVE EXPENSES				
53	51	Remuneration of Board of Directors and Executive Board	51	53
1,869	1,877	Staff expenses	3,109	2,856
845	711	Other administrative expenses	1,670	1,699
2,767	2,638	Total	4,830	4,609
Remuneration of Board of Directors and Executive Board				
Board of Directors				
4	4	Fees etc	4	4
Executive Board				
40	38	Base salaries	39	40
5	4	Pension	4	5
4	4	Variable remuneration	4	4
53	51	Total	51	53

Terms and conditions applying to the Board of Directors

The 13 members of the Board of Directors receive fixed fees and a refund of any costs incurred in connection with board meetings.

Fees paid to the Board of Directors

2019	Nykredit Realkredit A/S	Nykredit Realkredit A/S	Nykredit Realkredit Group	Nykredit A/S	Nykredit Group	Forenet Kredit f.m.b.a. ¹	Forenet Kredit Group ¹
Fees (DKK '000)	Fees paid to the Board of Directors	Joint Committees	Total	Fees paid to the Board of Directors	Total	Fees paid to the Board of Directors	Total
Steffen Kragh	404	200	604	837	1,441	-	1,441
Merete Helene Eldrup	269	456	725	558	1,283	-	1,283
Nina Smith	269	100	369	558	927	195	1,122
Helge Leiro Baastad	135	163	297	279	576	-	576
Olav Bredgaard Brusen	135	25	160	279	439	75	514
Michael Demnitz	135	163	297	279	576	130	706
Per W. Hallgren	135	356	491	279	770	75	845
Marlene Helle Holm	135	-	135	279	414	-	414
Hans-Ole Jochumsen	135	163	297	279	576	-	576
Vibeke Krag	135	163	297	279	576	75	651
Allan Kristiansen ²	135	-	135	279	414	-	414
Inge Sand	135	-	135	279	414	75	489
Leif Brian Vinther	135	25	160	279	439	75	514
Total	2,287	1,813	4,099	4,743	8,842	700	9,542

¹ As Forenet Kredit and the Nykredit Group are consolidated companies and due to the requirement pursuant to the Danish Financial Business Act, information regarding total fees paid to the Board of Directors of the Nykredit Group and the Forenet Kredit Group is included.

² In addition Allan Kristiansen has received a fee as staff-elected member of the Board of Directors of Nykredit Bank A/S of DKK 60 thousand.

Nykredit Realkredit Group

14. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)**Annual fees, end-2019 (applicable from 1 July 2019)**

Fees paid to the Board of Directors	Independent member	Member	Deputy Chairman	Chairman
Nykredit Realkredit A/S		136	272	408
Nykredit A/S		282	564	846
Forenet Kredit	200	75	130	195
Fees paid to Board Committee members	Board Audit Committee	Board Risk Committee	Board Nomination Committee	Board Remuneration Committee
Chairman	263	263	100	100
Other members	175	175	50	50

For the Board Audit and Board Risk Committees specifically, fees are reduced by DKK 50 thousand if directors join both committees. Members of the Committee of Representatives of Forenet Kredit f.m.b.a. receive fees of DKK 30 thousand.

No agreements have been made for pension plans, bonus schemes or special termination benefits for members of the Board of Directors elected by the General Meeting.

Fees paid to the Board of Directors

2018	Nykredit Realkredit A/S	Nykredit Realkredit A/S and Nykredit A/S	Nykredit Realkredit Group	Nykredit A/S	Nykredit Group	Forenet Kredit f.m.b.a. ²	Forenet Kredit Group ²
Fees (DKK '000)	Fees paid to the Board of Directors	Joint Committees	Total	Fees paid to the Board of Directors	Total	Fees paid to the Board of Directors	Total
Steffen Kragh	395	200	595	819	1,414	-	1,414
Merete Eldrup	263	425	688	546	1,234	-	1,234
Nina Smith	263	100	363	546	909	195	1,104
Hans Bang-Hansen ¹	33	-	33	68	100	33	133
Olav Bredgaard Brusen	132	-	132	273	405	75	480
Helge Leiro Baastad	132	150	282	273	555	-	555
Michael Demsitz	132	150	282	273	555	116	671
Per W. Hallgren	132	325	457	273	730	75	805
Marlene Holm	132	-	132	273	405	-	405
Hans-Ole Jochumsen ¹	99	113	212	206	417	-	417
Vibeke Krag	132	113	244	273	517	34	551
Allan Kristiansen ³	132	-	132	273	405	-	405
Bent Naur ¹	33	63	95	68	163	-	163
Erling Bech Poulsen ¹	33	-	33	68	100	-	100
Inge Sand	132	-	132	273	405	75	480
Leif Vinther	132	50	182	273	455	75	530
Total	2,301	1,688	3,988	4,776	8,764	678	9,442

¹ Hans-Ole Jochumsen joined Nykredit A/S and Nykredit Realkredit A/S in 2018, and Hans Bang-Hansen, Bent Naur and Erling Bech Poulsen left Nykredit A/S and Nykredit Realkredit A/S in 2018.

² As Forenet Kredit and the Nykredit Group are consolidated companies and due to the requirement pursuant to the Danish Financial Business Act, information regarding total fees paid to the Board of Directors of the Nykredit Group and the Forenet Kredit Group is included.

³ In addition Allan Kristiansen has received a fee as staff-elected member of the Board of Directors of Nykredit Bank A/S of DKK 60 thousand.

14. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

2019

	Michael Rasmussen	Kim Duus ⁴	Søren Holm ⁴	Anders Jensen	David Hellemann	Tonny Thierry Andersen ³	Total
Ordinary remuneration of the Executive Board							
Contractual salary	11,299	3,263	3,263	6,677	6,677	4,638	35,817
Pension contributions ¹	2,616	-	-	1,536	1,536	1,067	6,754
Total	13,915	3,263	3,263	8,213	8,213	5,704	42,571
Various benefits ²	18	6	6	22	10	4	67

¹ In addition to their contractual salaries, Michael Rasmussen, Anders Jensen, David Hellemann and Tonny Thierry Andersen receive a pension contribution of 23% for a pension plan of their own choice. Kim Duus and Søren Holm are covered by defined benefit pension plans.

² In addition to the ordinary salary the members of the Executive Board may receive various benefits. Group Managing Directors may also choose to acquire a company car as part of Nykredit's company car scheme. Expenses incurred for a company car are deducted from the contractual salaries.

³ Tonny Thierry Andersen joined the Executive Board on 1 June 2019.

⁴ Kim Duus and Søren Holm left the Executive Board at 30 June 2019.

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 been concluded with Michael Rasmussen, Anders Jensen and David Hellemann, see the table below.

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

	Michael Rasmussen	Anders Jensen	David Hellemann	Tonny Thierry Andersen
Retention and termination benefits				
Retention terms ^{1,2}	1 year's salary excl pensions	1 year's salary excl pensions	1 year's salary excl pensions	
Termination benefit	23 mths	12 mths	12 mths	6 mths
Notice of termination by the member of the Executive Board	6 mths	6 mths	6 mths	12 mths
Notice of termination by Nykredit	6 mths	6 mths	6 mths	12 mths

¹ 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 5.1 million for Michael Rasmussen (2018: DKK 3.1 million) was charged to the income statement in 2019.

² 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 one year's 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. Retention payments of DKK 2.1 million and DKK 2.1 million (2018: DKK 2.1 million and DKK 2.1 million), respectively, for Anders Jensen and David Hellemann were charged to the income statement in 2019.

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

14. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

2018

	Michael Rasmussen	Kim Duus	Søren Holm	Anders Jensen	David Hellemann	Total
Ordinary remuneration of the Executive Board						
Contractual salary	11,045	6,527	6,527	6,527	6,527	37,153
Pension contributions ¹	2,557	-	-	1,501	1,501	5,559
Total	13,602	6,527	6,527	8,028	8,028	42,712
Defined benefit plans for a maximum of five years	-	852	852	-	-	1,703
Total	13,602	7,379	7,379	8,028	8,028	44,416
Various benefits ²	17	13	14	19	16	79

¹ In addition to their contractual salaries, Michael Rasmussen, Anders Jensen and David Hellemann receive a pension contribution of 23% for a pension plan of their own choice. Kim Duus and Søren Holm are covered by defined benefit pension plans.

² In addition to the ordinary salary the members of the Executive Board may receive various benefits. Group Managing Directors may also choose to acquire a company car as part of Nykredit's company car scheme. Expenses incurred for a company car are deducted from the contractual salaries.

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DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2018	2019		2019	2018
		14. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)		
		Staff expenses		
1,437	1,459	Salaries	2,438	2,229
169	171	Pensions	266	245
247	230	Payroll tax	382	363
15	17	Other social security expenses	23	19
1,869	1,877	Total	3,109	2,856
138	119	In addition to the Board of Directors and Executive Board, Nykredit has designated the following number (average) of staff whose activities significantly affect Nykredit's risk profile (material risk takers). The average number:	220	158
		Details of Nykredit's remuneration policy appear from page 36 of the Management Commentary under Remuneration and at nykredit.com.		
		Remuneration of material risk takers is included in "Staff expenses" and breaks down into:		
142	154	Base salaries	265	210
20	28	Variable remuneration	78	56
162	182	Total	343	266
		Material risk takers are only offered defined contribution pension plans. Variable remuneration comprises variable remuneration components in the financial year as well as bonus provided for at the end of the financial year. The final bonus is determined during the first quarter of the following financial year. The difference between the bonus provided for and the final bonus is recognised in "Adjustment of variable remuneration provided for in previous years".		
		Number of staff		
2,403	2,383	Average number of staff for the financial year, full-time equivalent	3,515	3,382
		Fees to auditor appointed by the General Meeting		
12	5	Deloitte	14	17
		Total fees include:		
3	2	Statutory audit of the Financial Statements	8	6
0	1	Other assurance engagements	2	1
0	1	Tax advice	1	0
9	2	Other services	4	10
12	5	Total	14	17

Fees for non-auditing services provided by Deloitte Chartered Accountant Company to the Group such as advice relating to IT platform, the acquisition of Sparinvest and LR Realkredit, consulting services with respect to governance, data analysis, sundry statements, review in connection with ongoing recognition of earnings and general accounting, regulatory and tax advice.

NOTES

Nykredit Realkredit A/S		Nykredit Realkredit Group		DKK million
2018	2019		2019	2018
		15. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES FOR PROPERTY, PLANT AND EQUIPMENT AS WELL AS INTANGIBLE ASSETS		
		Intangible assets		
44	60	- amortisation	75	46
16	12	- impairment charges	12	16
		Property, plant and equipment		
33	37	- depreciation	49	40
-	5	- impairment charges	8	0
-	-	- reversal of impairment charges	-	-
		Leased properties		
-	164	- depreciation	162	-
93	278	Total	305	103

16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP)**16 a. Impairment charges for loans, advances and receivables etc**

	Loans and advances at fair value	Loans and advances at fair value	Loans and advances at amortised cost	Loans and advances at amortised cost	Credit institutions	Credit institutions	Guarantees etc ²	Guarantees etc ²	Total	Total
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Total impairment provisions										
Beginning of year	5,025	5,567	2,767	2,290	21	-	117	58	7,930	7,916
Impact following implementation of IFRS 9		-		506		3		62	-	571
Balance, 1 January	5,025	5,567	2,767	2,796	21	3	117	120	7,930	8,486
New impairment provisions as a result of additions and change in credit risk	2,721	2,957	936	1,278	7	21	86	82	3,750	4,338
Releases as a result of redemptions and change in credit risk	2,091	2,990	799	1,059	0	3	67	84	2,957	4,136
Impairment provisions written off	329	511	434	249	-	-	0	-	762	759
Other adjustments and interest from impaired facilities	51	-	56	-	-	-	0	-	107	-
Transferred to "Impairment provisions for properties acquired by foreclosure"	13	(1)	-	-	-	-	-	-	13	(1)
Total impairment provisions	5,365	5,025	2,526	2,767	28	21	137	117	8,056	7,930
Earnings impact										
Change in impairment provisions for loans and advances (stages 1-3)	630	(32)	137	219	7	18	20	(3)	794	201
Write-offs for the year, not previously written down for impairment	473	377	115	94	-	-	-	-	588	470
Recoveries on claims previously written off	(98)	(72)	(36)	(48)	-	-	-	-	(134)	(119)
Total	1,005	272	217	265	7	18	20	(3)	1,248	552
Value adjustment of assets in temporary possession	(45)	24	-	-	-	-	-	-	(45)	24
Value adjustment of claims previously written off	(19)	(12)	(26)	3	-	-	-	-	(45)	(10)
Losses offset, in accordance with partnership agreement ¹	(164)	(186)	-	-	-	-	-	-	(164)	(186)
Earnings impact	777	98	191	268	7	18	20	(3)	994	380

¹ According to the partnership agreement with the partner banks Totalkredit A/S has a right of set-off against commission in connection with write-offs on lending.

The contractual amounts outstanding on financial assets written off in 2019 and still sought to be recovered totalled DKK 913 million at 31 December 2019 (2018: DKK 1,030 million).

Of total impairment provisions for mortgage lending determined under IFRS 9, 1.04% or DKK 0.1 billion was attributable to customers who are in serious financial difficulty but not in arrears. Of total impairment provisions for mortgage lending determined under IFRS 9, 2.82% or DKK 0.2 billion was attributable to customers who have gone bankrupt, are undergoing bankruptcy proceedings or compulsory dissolution, or who are deceased.

Of total impairment provisions for bank lending to business customers determined under IFRS 9 of DKK 1.6 billion (2018: DKK 1.8 billion), approximately DKK 0.2 billion or 13% (2018: DKK 0.4 billion or 24%) was attributable to exposures to customers whose financial circumstances 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 also taken into consideration.

16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 b: Total impairment provisions by stage**

2019	Loans and advances at fair value			Loans and advances at amortised cost			Guarantees etc			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Total, beginning of year	953	1,626	2,447	326	187	2,274	36	29	53	7,930
Transfer to stage 1	515	(457)	(58)	110	(53)	(56)	17	(6)	(11)	-
Transfer to stage 2	(27)	200	(174)	(12)	133	(121)	(5)	9	(5)	-
Transfer to stage 3	(4)	(182)	187	(3)	(20)	22	(0)	(1)	2	-
Impairment provisions for new loans and advances (additions)	257	75	143	61	8	37	8	6	6	602
Additions as a result of change in credit risk	721	623	902	163	108	565	23	19	23	3,148
Releases as a result of change in credit risk	849	657	584	221	165	414	27	18	22	2,957
Previously written down for impairment, now written off	-	-	341	0	0	434	-	-	0	775
Other adjustments and interest from impaired facilities	22	9	20	-	-	56	-	-	-	107
Total impairment provisions, year-end	1,589	1,235	2,542	425	199	1,930	52	38	46	8,056
Total, year-end	5,365			2,554			137			8,056
Impairment provisions, year-end, are moreover attributable to:										
Credit institutions				28	-	-				28
Earnings impact, 2019	129	40	461	4	(48)	188	5	8	7	794

2018	Loans and advances at fair value			Loans and advances at amortised cost			Guarantees etc			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Impairment provisions as at 1 January 2018 determined according to IFRS 9 principles	975	1,791	2,801	463	177	2,160	36	25	59	8,486
Transfer to stage 1	599	(335)	(264)	40	(18)	(22)	0	(0)	(0)	-
Transfer to stage 2	(81)	230	(149)	(75)	230	(155)	(4)	14	(10)	-
Transfer to stage 3	(34)	(343)	377	(12)	(46)	58	(0)	(9)	9	-
Impairment provisions for new loans and advances (additions)	40	75	107	37	17	161	4	1	10	453
Additions as a result of change in credit risk	724	862	1,150	167	117	800	24	24	20	3,886
Releases as a result of change in credit risk	1,269	655	1,065	294	289	479	24	26	35	4,137
Previously written down for impairment, now written off	-	-	510	-	-	249	-	-	-	758
Other adjustments and interest from impaired facilities	-	-	-	-	-	-	-	-	-	-
Total impairment provisions, year-end	953	1,626	2,447	326	187	2,274	36	29	53	7,930
Total, year-end	5,025			2,787			117			7,930
Impairment provisions, year-end, are moreover attributable to:										
Credit institutions				21	-	-				21
Earnings impact, 2018	(506)	282	192	(91)	(155)	483	4	(2)	(5)	201

The principles of impairment are described in detail in the accounting policies (note 1) of the Annual Report for 2019.

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. For loans and advances at fair value the initial impairment was calculated at DKK 0.

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.

16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 c: Loans, advances and guarantees etc by stage**

2019	Stage 1	Stage 2	Stage 3	Total
Loans and advances at fair value, gross				
Loans and advances at fair value, gross	1,246,256	35,597	11,123	1,292,975
Total impairment provisions, year-end	1,589	1,235	2,542	5,365
Value, year-end	1,244,667	34,362	8,581	1,287,610
Loans and advances at amortised cost excluding credit institutions, gross				
Loans and advances at amortised cost excluding credit institutions, gross	109,982	4,574	2,560	117,116
Total impairment provisions, year-end	396	199	1,930	2,526
Value, year-end	109,586	4,374	630	114,590
Guarantees etc				
Guarantees etc	30,021	1,094	241	31,356
Total impairment provisions, year-end	52	38	46	137
Value, year-end	29,969	1,056	195	31,219
2018				
	Stage 1	Stage 2	Stage 3	Total
Loans and advances at fair value, gross				
Loans and advances at fair value, gross	1,154,152	34,769	10,079	1,199,000
Total impairment provisions, year-end	953	1,626	2,447	5,025
Value, year-end	1,153,199	33,143	7,633	1,193,975
Loans and advances at amortised cost excluding credit institutions, gross				
Loans and advances at amortised cost excluding credit institutions, gross	94,216	3,853	3,009	101,078
Total impairment provisions, year-end	305	187	2,274	2,767
Value, year-end	93,910	3,666	735	98,311
Guarantees etc				
Guarantees etc	39,923	481	218	40,622
Total impairment provisions, year-end	36	29	53	117
Value, year-end	39,887	452	165	40,505

16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 d: Financial assets, gross, at fair value by stage**

2019	Stage 1	Stage 2	Stage 3	Total
Gross lending etc, 1 January 2019	1,154,152	34,769	10,079	1,199,000
Transfer to stage 1	7,169	(6,974)	(194)	-
Transfer to stage 2	(14,495)	14,914	(420)	-
Transfer to stage 3	(1,845)	(1,217)	3,062	-
Other movements	80,856	(7,674)	(1,886)	71,296
Total, 31 December 2019	1,225,837	33,817	10,642	1,270,296
LR Realkredit A/S, total	20,419	1,779	481	22,679
Total provisions	1,589	1,235	2,542	5,365
Carrying amount	1,244,667	34,362	8,581	1,287,610
2018	Stage 1	Stage 2	Stage 3	Total
Gross lending etc, 1 January 2018	1,108,740	54,532	6,606	1,169,878
Transfer to stage 1	9,703	(9,053)	(650)	-
Transfer to stage 2	(8,656)	8,841	(186)	-
Transfer to stage 3	(926)	(507)	1,433	-
Other movements	45,291	(19,045)	2,876	29,122
Total, 31 December 2018	1,154,152	34,769	10,079	1,199,000
Total provisions	953	1,626	2,447	5,025
Carrying amount	1,153,199	33,144	7,633	1,193,975

16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 d: Financial assets, gross, at amortised cost excluding credit institutions by stage**

2019	Stage 1	Stage 2	Stage 3	Total
Gross lending etc, 1 January 2019	94,216	3,853	3,009	101,078
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	17,173	(240)	(895)	16,038
Total, 31 December 2019	109,982	4,574	2,560	117,116
Total provisions	396	199	1,930	2,526
Carrying amount	109,586	4,374	630	114,590

2018	Stage 1	Stage 2	Stage 3	Total
Gross lending etc, 1 January 2018	85,852	1,625	3,248	90,725
Transfer to stage 1	443	(339)	(104)	-
Transfer to stage 2	(2,967)	3,100	(133)	-
Transfer to stage 3	(461)	(153)	614	-
Other movements	11,349	(380)	(616)	10,353
Total, 31 December 2018	94,216	3,853	3,009	101,078
Total provisions	305	187	2,274	2,767
Carrying amount	93,911	3,666	735	98,311

16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 d. Gross guarantees by stage**

2019	Stage 1	Stage 2	Stage 3	Total
Gross guarantees etc, 1 January 2019	39,923	481	218	40,622
Transfer to stage 1	304	(265)	(39)	-
Transfer to stage 2	(441)	455	(14)	-
Transfer to stage 3	(77)	(62)	140	-
Other movements	(9,687)	485	(64)	(9,266)
Total, 31 December 2019	30,021	1,094	241	31,356
Total provisions	52	38	46	137
Carrying amount	29,969	1,056	195	31,219

2018	Stage 1	Stage 2	Stage 3	Total
Gross guarantees etc, 1 January 2018	6,791	174	90	7,055
Transfer to stage 1	15	(15)	-	-
Transfer to stage 2	(86)	103	(17)	-
Transfer to stage 3	(43)	(38)	82	-
Other movements	33,246	257	63	33,567
Total, 31 December 2018	39,923	481	218	40,622
Total provisions	36	29	53	117
Carrying amount	39,887	452	165	40,505

16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 e. Financial assets, gross, by stage**

	Financial assets, gross				of which financial assets excluding impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2019								
Financial assets at fair value	1,246,256	35,597	11,123	1,292,975	-	-	-	-
Financial assets at amortised cost	109,982	4,574	2,560	117,116	48,749	-	-	48,749
Balances with credit institutions	11,524	-	-	11,524	-	-	-	-
Guarantees	5,419	1,094	241	6,754	-	-	-	-
Bank loan commitments	24,602	-	-	24,602	-	-	-	-
Mortgage loan commitments	10,244	-	-	10,244	10,244	-	-	10,244
Total, 31 December 2019	1,408,027	41,265	13,924	1,463,215	58,993	-	-	58,993
	Financial assets, gross				of which financial assets excluding impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
2018								
Financial assets at fair value	1,154,152	34,769	10,079	1,199,000	-	-	-	-
Financial assets at amortised cost	94,216	3,853	3,009	101,078	37,541	16	11	37,568
Balances with credit institutions	7,770	-	-	7,770	-	-	-	-
Guarantees	5,811	70	32	5,913	-	-	-	-
Bank loan commitments	16,657	201	91	16,948	-	-	-	-
Mortgage loan commitments	17,455	210	95	17,761	17,455	210	95	17,761
Total, 31 December 2018	1,296,061	39,103	13,306	1,348,470	54,996	226	106	55,329

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

16 f. Mortgage loans at fair value by rating category

2019	Mortgage lending, gross			Total impairment provisions		
Rating category	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
10	295,099	336	-	225	3	-
9	253,194	386	-	217	6	-
8	232,173	700	-	232	19	-
7	183,627	488	-	229	27	-
6	126,043	1,045	-	188	21	-
5	59,918	1,244	-	138	18	-
4	33,041	1,836	-	76	15	-
3	21,689	2,311	-	56	16	-
2	18,075	4,374	-	94	237	-
1	2,976	4,603	-	112	251	-
0	-	7,023	-	-	188	-
Exposures in default	-	9,471	10,642	-	423	2,521
Total	1,225,837	33,817	10,642	1,569	1,224	2,521
LR Realkredit A/S, total	20,419	1,779	481	22	9	20
Total	1,246,256	35,597	11,123	1,591	1,233	2,541

2018	Mortgage lending, gross			Total impairment provisions		
Rating category	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
10	110,293	449	-	47	1	
9	142,941	113	-	81	5	-
8	280,537	271	-	145	11	-
7	253,346	397	-	157	15	-
6	153,863	674	-	120	11	-
5	74,461	405	-	82	6	-
4	62,798	412	-	69	7	-
3	35,599	580	-	43	6	-
2	28,439	2,523	-	105	77	-
1	11,875	9,251	-	105	759	-
0	-	11,489	252	-	256	-
Exposures in default	-	8,203	9,827	-	472	2,447
Total	1,154,152	34,769	10,079	953	1,626	2,447

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

16 f. Bank lending at amortised cost by rating category

2019	Bank loans and advances, gross			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Rating category						
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

2018	Bank loans and advances, gross			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Rating category						
10	13,505	33	-	28	2	-
9	15,063	57	-	26	3	-
8	8,880	64	-	50	4	-
7	9,364	80	-	54	3	-
6	29,250	539	-	62	9	-
5	9,752	488	-	33	18	-
4	4,543	703	-	32	31	-
3	2,312	383	-	8	20	-
2	815	528	-	7	20	-
1	265	544	-	5	53	-
0	-	310	-	0	19	-
Exposures in default	-	273	3,010	-	5	2,274
Total	93,750	4,001	3,010	305	187	2,274

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

16 g: Mortgage lending and total impairment provisions by property category

2019	Mortgage lending			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Owner-occupied dwellings	784,130	18,745	3,414	720	816	897
Private rental	104,857	2,282	959	175	58	234
Industry and trades	23,281	537	183	25	11	51
Office and retail	115,800	3,845	1,479	161	74	343
Agricultural property	79,695	6,522	3,293	374	221	655
Public housing	70,244	588	145	47	2	42
Cooperative housing	34,301	987	1,072	52	35	252
Other	13,529	311	98	16	6	48
Fair value	1,225,837	33,817	10,642	1,569	1,224	2,521
LR Realkredit A/S, total	20,419	1,779	481	22	9	20
Total	1,246,256	35,597	11,123	1,591	1,233	2,541

2018	Mortgage lending			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Owner-occupied dwellings	728,755	20,586	2,383	52	319	538
Private rental	94,629	2,506	921	41	55	214
Industry and trades	20,786	667	185	8	14	38
Office and retail	112,280	3,449	1,204	45	71	355
Agricultural property	80,995	5,773	3,824	405	182	726
Public housing	68,583	522	138	345	829	228
Cooperative housing	34,333	1,001	1,296	14	31	282
Other	13,791	264	128	43	124	67
Fair value	1,154,152	34,769	10,079	953	1,626	2,447

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

16 h. Bank loans and advances, reverse repurchase lending and guarantees etc and total impairment provisions by sector

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
Total business customers	112,363	3,856	2,270	335	179	1,559
Personal customers	32,020	1,811	531	114	59	417
Total	144,383	5,668	2,801	449	238	1,976
- of which intercompany guarantees	29,358	-	-			

2018 ¹	Bank loans, advances and guarantees			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Public sector	640	0	2	1	0	1
Agriculture, hunting, forestry and fishing	3,156	138	163	17	10	98
Manufacturing, mining and quarrying	7,209	238	307	24	9	240
Energy supply	1,365	6	19	9	0	8
Construction	2,506	96	188	12	6	153
Trade	5,407	262	547	22	17	296
Transport, accommodation and food service activities	6,164	119	75	16	5	40
Information and communication	3,219	69	47	12	5	28
Finance and insurance	40,979	719	469	47	21	175
Real estate	12,378	816	608	59	23	393
Other	6,866	527	268	52	31	365
Total business customers	89,250	2,992	2,691	271	126	1,795
Personal customers	25,744	1,551	533	68	90	531
Total	115,634	4,543	3,227	340	216	2,328
- of which intercompany guarantees	16,154	387	73			

¹ Comparative figures for 2018 have been restated as a result of customer segmentation, which led to reclassification of a number of customer groups.

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17. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (PARENT)**17 a. Impairment charges for loans, advances and receivables etc**

	Loans and advances at fair value	Loans and advances at fair value	Credit institutions	Credit institutions	Total	Total
	2019	2018	2019	2018	2019	2018
Total impairment provisions						
Beginning of year	3,493	4,004	5	-	3,498	4,004
Impact following implementation of IFRS 9		-		-	-	-
Balance, 1 January 2019	3,493	4,004	5	-	3,498	4,004
New impairment provisions as a result of additions and change in credit risk	1,675	1,926	1	5	1,676	1,931
Releases as a result of redemptions and change in credit risk	1,123	2,146	-	-	1,123	2,146
Impairment provisions written off	195	296	-	-	195	296
Transferred to "Impairment provisions for properties acquired by foreclosure"	4	(5)	-	-	4	(5)
Total impairment provisions	3,845	3,493	6	5	3,851	3,498
Earnings impact						
Change in impairment provisions for loans and advances (stages 1-3)	552	(220)	1	5	553	(215)
Write-offs for the year, not previously written down for impairment	253	180	-	-	253	180
Recoveries on claims previously written off	(66)	(49)	-	-	(66)	(49)
Total	740	(89)	1	5	741	(84)
Value adjustment of assets in temporary possession	(43)	33	-	-	(43)	33
Value adjustment of claims previously written off	(2)	14	-	-	(2)	14
Earnings impact	695	(42)	1	5	696	(37)

The contractual amounts outstanding on financial assets written off in 2019 and still sought to be recovered totalled DKK 451 million at 31 December 2019 (2018: DKK 550 million).

17. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (PARENT) (CONTINUED)**17 b: Total impairment provisions by stage**

2019	Loans and advances			Total
	Stage 1	Stage 2	Stage 3	
Total, 1 January 2019	589	673	2,236	3,498
Transfer to stage 1	138	(85)	(53)	-
Transfer to stage 2	(19)	173	(154)	-
Transfer to stage 3	(4)	(90)	94	-
Impairment provisions for new loans and advances (additions)	181	43	128	352
Additions as a result of change in credit risk	352	264	708	1,324
Releases as a result of change in credit risk	303	321	499	1,123
Previously written down for impairment, now written off	-	-	200	200
Total impairment provisions, year-end	933	658	2,261	3,851
Impairment provisions, year-end, are moreover attributable to:				
Credit institutions	6	-	-	6
Earnings impact, 2019	230	(13)	337	553

2018	Loans and advances			Total
	Stage 1	Stage 2	Stage 3	
Impairment provisions as at 1 January 2018 determined according to IFRS 9 principles	528	951	2,524	4,004
Transfer to stage 1	455	(192)	(263)	-
Transfer to stage 2	(45)	180	(135)	-
Transfer to stage 3	(34)	(289)	323	-
Impairment provisions for new loans and advances (additions)	15	48	40	103
Additions as a result of change in credit risk	517	326	984	1,827
Releases as a result of change in credit risk	848	351	947	2,146
Previously written down for impairment, now written off	-	-	291	291
Total impairment provisions, year-end	589	673	2,236	3,498
Impairment provisions, year-end, are moreover attributable to:				
Credit institutions	5	-	-	5
Earnings impact, 2018	(316)	23	78	(215)

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. For loans and advances at fair value the initial impairment was calculated at DKK 0.

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.

17. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (PARENT) (CONTINUED)**17 c. Loans and advances etc by stage**

2019	Stage 1	Stage 2	Stage 3	Total
Loans and advances at fair value etc, gross				
Loans and advances etc at fair value, gross	486,008	20,667	9,041	515,717
Total impairment provisions, year-end	927	658	2,261	3,845
Loans and advances, carrying amount	485,081	20,010	6,781	511,872

2018	Stage 1	Stage 2	Stage 3	Total
Loans and advances at fair value etc, gross				
Loans and advances etc at fair value, gross	484,494	19,200	9,231	512,925
Total impairment provisions, year-end	584	673	2,236	3,493
Loans and advances, carrying amount	483,910	18,527	6,995	509,433

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

17 d: Financial assets, gross, at fair value by stage

	Stage 1	Stage 2	Stage 3	Total
Gross lending etc, 1 January 2019	484,494	19,200	9,231	512,925
Transfer to stage 1	1,784	(1,652)	(132)	-
Transfer to stage 2	(7,247)	7,457	(210)	-
Transfer to stage 3	(986)	(609)	1,595	-
Other movements	7,964	(3,729)	(1,444)	2,792
Total, 31 December 2019	486,008	20,667	9,041	515,717
Total provisions	927	658	2,261	3,845
Carrying amount	485,081	20,010	6,781	511,872

	Stage 1	Stage 2	Stage 3	Total
Gross lending etc, 1 January 2018	495,975	22,442	5,603	524,020
Transfer to stage 1	5,736	(5,108)	(629)	-
Transfer to stage 2	(4,328)	4,421	(93)	-
Transfer to stage 3	(749)	(253)	1,003	-
Other movements	(12,140)	(2,301)	3,347	(11,095)
Total, 31 December 2018	484,494	19,200	9,231	512,925
Total provisions	584	673	2,236	3,493
Carrying amount	483,910	18,527	6,995	509,433

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018

NOTES

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2018	2019		2019	2018
20. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS				
9,635	23,044	Receivables from central banks	40,889	12,823
21,161	30,128	Receivables from credit institutions	8,038	6,365
-	-	Reverse repurchase lending to central banks	-	236
6,689	11,158	Reverse repurchase lending to credit institutions	3,486	1,405
37,485	64,330	Total	52,413	20,829
9,635	23,044	of which as collateral security for the Danish central bank and foreign clearing centres, certificate of deposit have been deposited of a total market value of	23,044	9,635
Receivables from credit institutions and central banks by time-to-maturity				
2,846	2,926	On demand	9,066	5,110
16,063	37,597	Up to 3 months	43,331	15,719
4,865	9,507	Over 3 months and up to 1 year	16	-
11,711	8,565	Over 1 year and up to 5 years	-	-
2,000	5,735	Over 5 years	-	-
37,485	64,330	Total	52,413	20,829
21. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE				
509,225	511,722	Mortgage loans	1,287,370	1,193,667
208	149	Arrears and outlays	240	308
1,689	956	Loans to Totalkredit serving as collateral in capital centres	-	-
712,600	842,624	Totalkredit mortgage loan funding	-	-
1,223,721	1,355,452	Total	1,287,610	1,193,975
-	-	Of which genuine purchase and resale transactions	-	-
21 a. Mortgage loans				
508,622	499,304	Balance, beginning of year, nominal value	1,171,449	1,138,109
-	-	Additions from LR Realkredit A/S	21,877	-
65,385	113,438	New loans	404,162	206,869
258	156	Indexation	156	258
(823)	(393)	Foreign currency translation adjustment	(393)	(823)
(14,019)	(14,369)	Ordinary principal payments	(28,412)	(25,942)
(60,118)	(97,615)	Prepayments and extraordinary principal payments	(306,151)	(147,023)
499,304	500,522	Balance, year-end, nominal value	1,262,689	1,171,449
(50)	(5)	Loans transferred relating to properties in temporary possession	(7)	(72)
499,255	500,517	Total	1,262,681	1,171,376
13,333	14,935	Adjustment for interest rate risk etc	29,889	27,167
(15)	-	- of which adjustment relating to sold foreign portfolio	-	(15)
Adjustment for credit risk				
(3,364)	(3,730)	Impairment	(5,200)	(4,876)
509,225	511,722	Balance, year-end, fair value	1,287,370	1,193,667

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018
21. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE (CONTINUED)			
As collateral for loans and advances, Nykredit has received mortgages over real estate and:			
37,348	47,784	Supplementary guarantees totalling	97,887 74,117
376	466	Interim loan guarantees totalling	23,903 20,554
2,464	4,677	Mortgage registration guarantees etc totalling	58,209 19,847
Mortgage loans at nominal value by property category:			
Loans and advances as %, year-end			
13	11	Owner-occupied dwellings	59 60
1	1	Holiday homes	3 3
20	20	Public housing	9 8
19	21	Private residential rental properties	9 8
4	5	Industry and trades properties	2 2
23	23	Office and retail properties	9 10
18	18	Agricultural properties etc	7 8
3	3	Properties used for social, cultural or educational purposes	2 1
100	100	Total	100 100
For more details on mortgage lending by loan type and property category, please refer to page 32 of the Management Commentary.			
21 b. Arrears and outlays			
277	212	Arrears before impairment provisions	350 403
61	53	Outlays before impairment provisions	55 53
(129)	(116)	Individual impairment provisions for arrears and outlays	(165) (148)
208	149	Total	240 308
Mortgage loans, arrears and outlays as well as other loans and advances by time-to-maturity			
4,392	5,544	Up to 3 months	11,385 8,713
12,994	12,997	Over 3 months and up to 1 year	33,488 24,950
83,904	90,373	Over 1 year and up to 5 years	181,478 157,000
408,142	402,958	Over 5 years	1,061,258 1,003,311
509,433	511,872	Total	1,287,610 1,193,975
The breakdown by time-to-maturity is based on mortgage loans at fair value, arrears and outlays as well as other loans and advances after impairment provisions.			

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018
21. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE (CONTINUED)			
21 c. Loans to Totalkredit serving as collateral in capital centres			
Loans to Totalkredit serving as collateral in capital centres by time-to-maturity			
717	-	-	-
971	956	-	-
1,689	956	-	-
21 d. Totalkredit mortgage loan funding			
672,888	699,285	-	-
Balance, beginning of year – nominal value			
213,245	364,583	-	-
(18,195)	(11,208)	-	-
(168,654)	(223,756)	-	-
699,285	828,905	-	-
Balance, year-end, nominal value			
13,315	13,719	-	-
712,600	842,624	-	-
Balance, year-end, fair value			
Totalkredit mortgage loan funding by time-to-maturity			
27,453	84,829	-	-
77,727	59,010	-	-
306,915	331,179	-	-
300,505	367,606	-	-
712,600	842,624	-	-
Total			
The breakdown by time-to-maturity is based on Totalkredit mortgage loan funding at fair value			
22. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST			
-	-	67,992	63,333
13	10	-	-
-	-	10	12
-	-	48,749	37,427
217	260	366	305
229	270	117,116	101,078
Balance, year-end			
Adjustment for credit risk			
-	-	(2,526)	(2,767)
229	270	114,590	98,311
Balance after impairment, year-end			
-	-	-	-
229	270	114,590	98,311
Total			
The Nykredit Group hedges the interest rate risk of fixed-rate bank loans and advances on a current basis using derivatives. This enables the Group to manage its overall interest rate sensitivity taking into consideration expected interest rate developments.			
The bank loan portfolio has been fair value adjusted through profit or loss as a result of the use of hedge accounting.			

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018
	22. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (CONTINUED)		
	Loans, advances and other receivables at amortised cost by time-to-maturity		
-	- On demand	8,989	4,536
2	3 Up to 3 months	56,012	48,072
6	7 Over 3 months and up to 1 year	11,492	7,232
36	46 Over 1 year and up to 5 years	27,136	26,727
186	215 Over 5 years	10,961	11,744
229	270 Total	114,590	98,311
	The breakdown by time-to-maturity is based on loans and advances after impairment and after set-off of self-issued securities.		
	22 a. Bank loans and advances		
	Non-accrual loans or loans carrying a reduced interest rate		
-	- Non-accrual loans	65	115
-	- Loans carrying a reduced interest rate	2	0
	Bank loans, advances and guarantee debtors by sector		
%	% Loans and advances as %, year-end	%	%
-	- Public sector	1	1
	Business customers		
-	- Agriculture, hunting, forestry and fishing	3	3
-	- Manufacturing, mining and quarrying	6	4
-	- Energy supply	2	2
-	- Construction	2	2
-	- Trade	5	4
-	- Transport, accommodation and food service activities	4	4
-	- Information and communication	2	2
-	- Finance and insurance	36	44
-	- Real estate	9	9
-	- Other	7	10
-	- Total business customers	78	85
-	- Personal customers	22	15
-	- Total	100	100
	The sector distribution is based on the official Danish activity codes.		

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2018	2019		2019	2018
		22. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (CONTINUED)		
		22 a. Bank loans and advances (continued)		
		Finance leases		
		Of total loans and advances at amortised cost, finance leases represent		
-	-	Balance, beginning of year	5,521	5,055
-	-	Additions	2,850	2,618
-	-	Disposals	(2,456)	(2,153)
-	-	Balance, year-end	5,915	5,521
-	-	Impairment provisions for finance leases represent	86	76
		Finance leases by time-to-maturity		
-	-	Up to 3 months	625	581
-	-	Over 3 months and up to 1 year	1,321	1,161
-	-	Over 1 year and up to 5 years	3,774	3,595
-	-	Over 5 years	194	183
-	-	Total	5,915	5,521
		Where loans and advances under finance leases are concerned, amortised cost represents their fair value. The leases comprise equipment as well as real estate. The leases have been concluded on an arm's length basis. The term of the leases is generally 3 to 6 years, but may be up to 20 years for leased properties.		
		Gross investments in finance leases		
		Gross investments in finance leases by time-to-maturity		
-	-	Up to 1 year	1,998	1,804
-	-	Over 1 year and up to 5 years	3,947	3,789
-	-	Over 5 years	477	435
-	-	Total	6,422	6,028
-	-	Non-earned income	507	507
		23. BONDS AT FAIR VALUE		
31,369	31,792	Self-issued SDOs	93,305	63,427
14,121	8,523	Self-issued ROs	16,437	22,661
-	-	Self-issued corporate bonds	178	175
274	310	Self-issued senior debt	310	274
22,948	23,801	Other covered bonds	95,718	79,174
7,643	4,479	Government bonds	8,564	8,656
3,434	2,762	Other bonds	4,273	5,792
79,789	71,668	Total	218,786	180,160
(31,356)	(31,782)	Set-off of self-issued SDOs against "Bonds in issue at fair value" – note 34	(93,295)	(63,415)
(13)	(10)	Set-off of self-issued SDOs against "Bonds in issue at amortised cost" – note 35	(10)	(13)
(14,121)	(8,523)	Set-off of self-issued ROs against "Bonds in issue at fair value" – note 34	(16,437)	(22,661)
-	-	Set-off of self-issued corporate bonds against "Bonds in issue at amortised cost" – note 35	(178)	(175)
(197)	-	Set-off of self-issued senior debt against "Bonds in issue at fair value" – note 34	-	(197)
(77)	-	Set-off of self-issued senior unsecured debt against "Bonds in issue at fair value" – note 34	-	(77)
-	(310)	Set-off of self-issued senior unsecured debt against "Bonds in issue at amortised cost" – note 35	(310)	-
34,026	31,042	Total	108,555	93,622

NOTES

		DKK million	
Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018
23. BONDS AT FAIR VALUE (CONTINUED)			
Of bonds at fair value before set-off of self-issued bonds:			
-	-	1,290	377
3,488	4,876	7,918	4,061
<p>Redeemed bonds</p> <p>As collateral security for the Danish central bank and foreign clearing centres, bonds have been deposited of a total market value of</p> <p>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 days.</p> <p>Collateral security was provided on an arm's length basis.</p> <p>As the majority – around DKK 109 billion – of the Group's bond portfolio is included in the Group's trading activities, the actual maturities of these bonds are expected to be less than one year. Of the bond portfolio, bonds of approximately DKK 19 billion are expected to have a maturity of up to five years.</p>			
24. EQUITIES ETC			
5,587	6,487	7,135	5,821
5,587	6,487	7,135	5,821
24 a. Equities measured at fair value through profit or loss			
2,401	2,644	2,677	2,469
311	1,388	1,388	325
2,874	2,455	3,070	3,027
5,587	6,487	7,135	5,821
25. INVESTMENTS IN ASSOCIATES			
107	15	12	111
5	-	4	5
(98)	-	-	(104)
15	15	16	12
35	17	26	39
2	(1)	2	5
(23)	(2)	(2)	(23)
3	-	-	3
17	14	27	26
32	29	43	38

NOTES

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018
26. INVESTMENTS IN GROUP ENTERPRISES			
31,938	31,248		
-	5,715	-	-
(691)	-	-	-
31,248	36,963	-	-
15,161	18,466		
3,895	3,955	-	-
(224)	(65)	-	-
266	-	-	-
(632)	(196)	-	-
18,466	22,160	-	-
49,714	59,123	-	-
49,325	58,288	-	-
4,000	4,000	-	-
1,621	963	1,550	2,001
5,621	4,963	1,550	2,001

NOTES

			DKK million	
Nykredit Realkredit A/S			Nykredit Realkredit Group	
2018	2019		2019	2018
		27. INTANGIBLE ASSETS		
-	-	Goodwill	1,699	14
-	0	Fixed-term rights	7	10
28	207	Software	212	28
229	101	Development projects in progress	101	229
-	-	Customer relationships	162	-
257	307	Total	2,181	281
		27 a. Goodwill		
-	-	Cost, beginning of year	14	14
-	-	Additions	1,686	-
-	-	Cost, year-end	1,699	14
-	-	Balance, year-end	1,699	14
		27 b. Customer relationships		
110	110	Cost, beginning of year	110	145
-	-	Additions	170	-
-	-	Disposals	-	-
110	110	Cost, year-end	280	145
(110)	(110)	Amortisation and impairment, beginning of year	(110)	(145)
-	-	Amortisation for the year	(8)	-
(110)	(110)	Amortisation and impairment, year-end	(118)	(145)
-	-	Balance, year-end	162	-
-	-	Customer relationships etc are amortised over 3-13 years.		
-	-	Residual amortisation period at 31 December (average number of years)	7	-

Goodwill is allocated to the Nykredit Realkredit Group's business area Wealth Management which is subject to internal management control, reporting to Management and equals the value at which goodwill is continuously assessed.

Goodwill is tested for impairment once a year and is determined 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. As no events etc have changed the present value calculations underlying the investment in Sparinvest in August, goodwill in connection with this investment has not been reassessed.

The recoverable amount is calculated as the present value of the expected cash flows from the unit to which allocation of goodwill is made.

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% until the end of the terminal period. The discounting is based on a return requirement of 11%, or 8.5% after tax. This corresponds to the return requirement, which formed the basis for the investment in Sparinvest. An increased return requirement of 1pp would not lead to impairment.

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.

NOTES

			DKK million	
Nykredit Realkredit A/S			Nykredit Realkredit Group	
2018	2019		2019	2018
		28. LAND AND BUILDINGS		
14	14	Owner-occupied properties	74	78
7	0	Property under construction	0	7
-	661	Leased properties	662	-
21	675	Total	736	86
		28 a. Owner-occupied properties		
15	15	Cost, beginning of year	82	275
-	-	Additions, including improvements	3	1
-	-	Disposals	(3)	(164)
15	15	Cost, year-end	82	113
-	-	Revaluations, beginning of year	2	20
-	-	Additions for the year recognised in "Other comprehensive income"	0	0
-	-	Reversal of revaluations	-	(12)
-	-	Revaluations, year-end	2	8
1	1	Depreciation and impairment, beginning of year	6	73
0	0	Depreciation for the year	1	1
-	-	Impairment for the year	3	-
-	-	Reversal of depreciation and impairment	(0)	(31)
1	1	Depreciation and impairment, year-end	10	43
14	14	Balance, year-end	74	78
-	-	Owner-occupied properties are depreciated over a period of 20-50 years.		
-	-	Residual depreciation period at 31 December (average number of years)	11	11
		The latest revaluation of owner-occupied properties was made at end-2019.		
		The valuations were carried out by an internal valuer based on the return method. In 2019 the required rate of return ranged between 6.0% and 7.5% (6.6% on average) depending on the nature, location and state of repair of the owner-occupied property.		
-	-	If no revaluations had been made, the carrying amount of owner-occupied properties would have been:	83	88
		28 b. Property under construction		
-	7	Cost, beginning of year	7	-
7	-	Additions, including improvements	-	7
-	7	Disposals	7	-
7	0	Cost, year-end	0	7

NOTES

DKK million

	Nykredit Realkredit Group		Nykredit Realkredit A/S	
	2019	2018	2019	2018
28. LAND AND BUILDINGS (CONTINUED)				
28 c. Leased properties				
Cost, beginning of year	-	-	-	-
Additions, see IFRS 16	800	-	826	-
Additions	24	-	-	-
Cost, year-end	824	-	826	-
Depreciation and impairment, beginning of year	-	-	-	-
Depreciation for the year	162	-	164	-
Depreciation and impairment, year-end	162	-	164	-
	-	-	-	-
Balance, year-end	662	-	661	-

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. Property taxes payable by Nykredit are also excluded from the lease value.

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.

The leases include, for example, income from sublet parking spaces, which came in at DKK 4 million.

In addition to leases at the beginning of 2019, the item includes an addition of about DKK 24 million from the acquisition of Sparinvest A/S.

Moreover, the Group has a number of minor non-capitalised leases. Discounted lease payments amounted to about DKK 6 million and about DKK 3 million in 2019.

In the Annual Report for 2018 Nykredit's rental obligations were DKK 0.7 billion (note 44 b). In the Financial Statements for 2019 the asset and the liability have been recognised at about DKK 0.8 billion as at 1 January. The difference is that the amount recognised is based on the time horizon in which Nykredit expects to use the leases, which in some cases derogate from the contractual minimum period.

Nykredit has entered into a lease of new owner-occupied properties in the Copenhagen (Nordhavn) expected to be ready in 2022 or 2023. The leases concluded have 15-year lease terms.

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018

NOTES

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2018	2019		2019	2018
32. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS				
414	253	Payables to credit institutions	8,496	5,203
-	-	Payables to central banks	3,121	6,685
681	2,309	Repo transactions with credit institutions	2,297	3,568
-	-	Repo transactions with central banks	-	236
1,094	2,562	Total	13,914	15,692
Payables to credit institutions and central banks by time-to-maturity				
414	253	On demand	8,195	4,565
681	2,309	Up to 3 months	4,221	9,325
-	-	Over 3 months and up to 1 year	1,498	1,802
1,094	2,562	Total	13,914	15,692
33. DEPOSITS AND OTHER PAYABLES				
-	-	On demand	76,994	66,692
-	-	At notice	5	176
-	-	Time deposits	5,087	7,092
-	-	Special deposits	3,310	2,986
10,500	11,950	Repo deposits	15,281	16,245
10,500	11,950	Total	100,677	93,191
Deposits and other payables by time-to-maturity				
-	-	On demand	77,240	66,279
7,000	8,450	Up to 3 months	17,128	20,785
3,500	3,500	Over 3 months and up to 1 year	3,671	3,709
-	-	Over 1 year and up to 5 years	724	617
-	-	Over 5 years	1,914	1,801
10,500	11,950	Total	100,677	93,191
34. BONDS IN ISSUE AT FAIR VALUE				
139,935	131,593	ROs	162,763	147,490
1,126,449	1,282,248	SDOs	1,282,248	1,126,449
4,900	1,135	Senior secured debt	1,135	4,900
3,740	-	Senior unsecured debt	-	3,740
1,275,024	1,414,977	Total before set-off	1,446,146	1,282,579
(45,751)	(40,305)	Offsetting of self-issued bonds	(109,732)	(86,350)
1,229,273	1,374,671	Total	1,336,414	1,196,229

Changes in the fair values of covered bonds (ROs and SDOs) and senior debt issues attributable to the Nykredit Group's own credit risk can be determined relative to changes in option-adjusted yield spreads (OAS) against government bonds or relative to changes in yield spreads against equivalent bonds from other Danish mortgage lenders.

Determined relative to other Danish mortgage lenders, the fair value has not been subject to changes attributable to the Nykredit Group's own credit risk in 2019 or since the issue, as there are no measurable price differences between bonds with identical properties issued by different lenders.

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2018	2019		2019	2018
		34. BONDS IN ISSUE AT FAIR VALUE (CONTINUED)		
		Yield spreads between government bonds and senior debt issues were unchanged in 2019, whereas spreads between government bonds and ROs/SDOs widened. The yield spread movements in 2019 caused a fall in the fair value of bonds in issue of about DKK 16 billion (2018: DKK 10 billion), which is attributable to Nykredit's own credit risk. Since 2007 spread widening between government bonds and ROs/SDOs has resulted in a fair value decline of approximately DKK 4 billion (2018: DKK 11 billion) attributable to Nykredit's own credit risk, whereas spread tightening between government bonds and senior debt issues has resulted in a fair value increase of senior debt in issue of approximately DKK 0 billion (2018: DKK 0 billion).		
		Equity and profit/loss have not been affected by the changes in fair value for ROs and SDOs, as the value of mortgage lending has changed correspondingly.		
		The determination allows for both maturity and nominal holding, but is to some extent based on estimates.		
		34 a. ROs		
131,773	122,473	ROs at nominal value	152,406	138,809
8,162	9,120	Fair value adjustment	10,357	8,681
139,935	131,593	ROs at fair value	162,763	147,490
(14,121)	(8,523)	Self-issued ROs, see note 23	(16,437)	(22,661)
125,814	123,070	Total outstanding ROs at fair value	146,326	124,828
478	42	Of which pre-issuance	320	478
4,353	5,729	ROs redeemed and maturing at next creditor payment date	7,447	4,686
		34 b. SDOs		
1,107,963	1,262,714	SDOs at nominal value	1,262,714	1,107,963
18,486	19,534	Fair value adjustment	19,534	18,486
1,126,449	1,282,248	SDOs at fair value	1,282,248	1,126,449
(31,356)	(31,782)	Self-issued SDOs, see note 23	(93,295)	(63,415)
1,095,093	1,250,467	Total outstanding SDOs at fair value	1,188,954	1,063,034
5,867	6,836	Of which pre-issuance	6,836	5,867
55,200	121,423	SDOs redeemed and maturing at next creditor payment date	121,423	55,200
		34 c. Senior secured debt		
4,704	934	Senior secured debt at nominal value	934	4,704
195	201	Fair value adjustment	201	195
4,900	1,135	Senior secured debt at fair value	1,135	4,900
(197)	-	Self-issued senior secured debt, see note 23	-	(197)
4,703	1,135	Total outstanding senior secured debt at fair value	1,135	4,703
-	-	Senior secured debt maturing at next creditor payment date	-	-

NOTES

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2018	2019		2019	2018
		34. BONDS IN ISSUE AT FAIR VALUE (CONTINUED)		
		34 d. Senior unsecured debt		
3,734	-	Senior unsecured debt at nominal value	-	3,734
7	-	Fair value adjustment	-	7
3,740	-	Total	-	3,740
(77)	-	Self-issued senior unsecured debt, see note 23	-	(77)
3,663	-	Total outstanding senior unsecured debt	-	3,663
-	-	Senior unsecured debt redeemed at next creditor payment date	-	-
		Bonds in issue at fair value by time-to-maturity		
53,678	124,444	Up to 3 months	101,010	45,311
176,122	156,561	Over 3 months and up to 1 year	152,676	174,513
571,008	590,601	Over 1 year and up to 5 years	563,199	546,527
428,465	503,065	Over 5 years	519,529	429,877
1,229,273	1,374,671	Total	1,336,414	1,196,229
		Bonds in issue by time-to-maturity are stated at fair value after set-off against self-issued bonds.		
		35. BONDS IN ISSUE AT AMORTISED COST		
-	-	Corporate bonds	3,959	5,585
13	11	SDOs	11	13
17,152	30,306	Senior unsecured debt	30,306	17,152
27	33	Other securities	33	27
17,192	30,350	Total	34,308	22,777
-	-	Self-issued corporate bonds, see note 23	(178)	(175)
(13)	(321)	Self-issued SDOs, see note 23	(321)	(13)
17,179	30,029	Total outstanding bonds in issue at amortised cost	33,810	22,590
		Bonds in issue at amortised cost by time-to-maturity		
3,734	-	Up to 3 months	2,670	6,783
4	-	Over 3 months and up to 1 year	337	275
13,442	26,294	Over 1 year and up to 5 years	26,547	15,532
-	3,735	Over 5 years	4,255	-
17,179	30,029	Total	33,810	22,590
		Bonds in issue by time-to-maturity are stated at amortised cost after set-off against self-issued bonds.		
		35 a. Corporate bonds		
		Issues		
-	-	EMTN issues*	774	2,339
-	-	ECP issues*	3,185	3,237
-	-	Other issues*	-	10
-	-	Total	3,959	5,585

* Listed on Nasdaq Copenhagen or the Luxembourg Stock Exchange.

NOTES

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2018	2019		2019	2018
		36. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE		
3	-	Negative securities portfolios	4,523	5,592
3	-	Total	4,523	5,592
		Other non-derivative financial liabilities by time-to-maturity		
3	-	Up to 3 months	4,523	5,592
3	-	Total	4,523	5,592
		37. OTHER LIABILITIES		
6,608	6,075	Interest and commission payable	7,252	7,773
1,328	1,208	Negative market value of derivative financial instruments etc	13,057	11,731
1,241	1,842	Other	4,079	3,516
9,177	9,125	Total	24,388	23,020
		The following lease payments (2018: non-cancellable leases) are recognised in "Other":		
171	155	Up to 1 year	154	171
435	461	Over 1 year and up to 5 years	476	435
52	53	Over 5 years	41	52
658	669	Total	671	658

Lease payments comprise Nykredit's rental obligations.

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018
40. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS			
135	129	130	141
-	-	4	-
(12)	(4)	(4)	(12)
11	(21)	(21)	6
(4)	(46)	(46)	(4)
129	57	62	130
41. REPAYABLE RESERVES IN PRE-1972 SERIES			
51	47	47	51
(4)	(15)	(15)	(4)
0	2	2	0
47	34	34	47
Repayable reserves in pre-1972 series stem from loan agreements under which the borrowers on full or partial repayment of their outstanding amounts are paid their share of the series reserve fund in compliance with the terms of the series concerned. This obligation will be gradually reduced up until 2033 as the borrowers repay their loans.			
42. PROVISIONS FOR LOSSES UNDER GUARANTEES			
-	-	117	58
-	-	-	62
-	-	86	82
-	-	(67)	-
-	-	-	84
-	-	137	117
43. OTHER PROVISIONS			
81	62	100	153
(48)	(3)	(32)	(16)
30	298	447	(6)
-	-	(2)	(32)
62	357	515	100

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018
44. 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.			
Subordinated debt is included in Nykredit's own funds etc in accordance with the EU's Capital Requirements Regulation.			
Subordinate loan capital			
Nominally EUR 600 million. The loan matures on 3 June 2036, but may be redeemed at par (100) from 3 June 2021. The loan carries a fixed interest rate of 4.0% pa up to 3 June 2021, after which date the interest rate will be fixed every five years. If the Common Equity Tier 1 capital ratio of Nykredit Realkredit, the Nykredit Realkredit Group or the Nykredit Group falls below 7%, the loan will be written down			
4,586	4,555	4,555	4,586
Nominally EUR 800 million. The loan matures on 17 November 2027, but may be redeemed at par (100) from 17 November 2022. The loan carries a fixed interest rate of 2.75% pa up to 17 November 2022, after which date the interest rate will be fixed for the next five years			
6,052	6,087	6,087	6,052
Nominally EUR 50 million. The loan matures on 28 October 2030. The loan carries a fixed interest rate of 4% pa for the first two years after issuance. In the remaining loan term, the interest rate will be fixed every six months			
373	373	373	373
11,011	11,016	11,016	11,011
Total subordinate loan capital			
-	-	(12)	-
11,011	11,016	11,004	11,011
Total subordinated debt			
10,828	10,831	10,823	10,828
-	-	-	-
-	-	-	-
Hedge accounting			
The exposure to fair value changes in the price of the bonds as a result of changes in market rates is hedged. The Nykredit Group has countered this risk by entering into interest rate swaps:			
0	0	0	0
119	82	82	119
95	124	124	95
450	413	413	450
4,659	4,720	4,720	4,659
6,202	6,337	6,337	6,202
11,525	11,675	11,675	11,525
Total			

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018
45. OFF-BALANCE SHEET ITEMS			
Guarantees and warranties provided, irrevocable credit commitments and similar obligations not recognised in the balance sheets are presented below.			
-	-	6,616	5,913
7,392	11,594	28,206	16,948
7,392	11,594	34,822	22,861
45 a. Contingent liabilities			
-	-	322	391
-	-	64	106
-	-	6,230	5,416
-	-	6,616	5,913
"Other contingent liabilities" chiefly comprises purchase price and payment guarantees.			
Contingent liabilities by remaining terms			
-	-	3,981	3,557
-	-	1,373	1,227
-	-	1,262	1,128
-	-	6,616	5,913
Remaining terms are partly based on estimates as not all guarantees have a fixed term and as it may depend on delays in registration etc.			
45 b. Other commitments			
5,965	10,544	26,897	15,282
1,427	1,050	1,309	1,666
7,392	11,594	28,206	16,948

"Other" under "Other commitments" comprises obligations to and charges in favour of securities depositaries as well as investment commitments to private equity funds.

45. OFF-BALANCE SHEET ITEMS (CONTINUED)

Additional contingent liabilities

Owing to its size and business scope, the Nykredit Group is continuously involved in legal proceedings and litigation. The cases are subject to ongoing review, and necessary provisions are made based on an assessment of the risk of loss. Pending cases are not expected to have a significant effect on the Nykredit Group's financial position.

Nykredit participates in the mandatory Danish deposit guarantee scheme. A new scheme was introduced in 2015, as the Danish Guarantee Fund took over the activities and assets of the Danish Guarantee Fund for Depositors and Investors on 1 June 2015. The purpose of the Danish Guarantee Fund is to provide cover for depositors and investors of failing institutions included in the Fund's scheme. The scheme includes both natural and legal persons, and deposits are covered by an amount equivalent to EUR 100,000 per depositor and EUR 20,000 per investor.

Nykredit also participates in the Danish Resolution Fund scheme, which is a resolution finance scheme that was also established on 1 June 2015. The Danish Resolution Fund is funded by annual contributions from participating banks, mortgage lenders and investment companies and, as from 31 December 2024, the assets of the scheme must make up 1% of the sector's covered deposits.

Participating institutions make annual contributions to cover any losses incurred by the Danish Resolution Fund in connection with the resolution of failing institutions.

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.

Nykredit Realkredit A/S is jointly taxed 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.

Nykredit Realkredit A/S is liable for the obligations of the pension fund Nykredits Afviklingspensionskasse (CVR no 24 25 62 19).

46. RELATED PARTY TRANSACTIONS AND BALANCES

Forenet Kredit, the Parent Nykredit A/S, Group enterprises and associates of Nykredit Realkredit A/S as stated in the Group structure as well as Nykredit Realkredit A/S's Board of Directors, Executive Board and related parties thereof are regarded as related parties.

No unusual related party transactions occurred in 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, sales commission, tasks relating to IT support and IT development projects, payroll and staff administration as well as other administrative tasks.

Intercompany trading in goods and services took place on an arm's length, cost reimbursement or profit split basis.

Significant related party transactions prevailing/entered into in 2019 include:

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

As part of the Group's joint funding activities, Nykredit Realkredit A/S has funded mortgage loans granted by its subsidiary Totalkredit A/S on an ongoing basis.

Totalkredit A/S funds its lending by issuing a master bond for each capital centre with Nykredit Realkredit A/S as the only creditor. The master bond constitutes security for Nykredit Realkredit A/S's issuance of covered bonds (ROs and SDOs) and serves to ensure that Totalkredit A/S transfers all payments to bondholders under the loans and advances granted by Totalkredit A/S to Nykredit Realkredit A/S, not later than at the same time as Nykredit Realkredit A/S makes payments to bondholders. The bondholders therefore enjoy the same security as if the Totalkredit loans had been granted directly from Nykredit Realkredit A/S's own balance sheet.

Nykredit Realkredit A/S has granted loans, see section 15 of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, to Totalkredit A/S serving as supplementary collateral in Totalkredit A/S's capital centres. The loans amounted to DKK 1.0 billion as at 31 December 2019. The loans constitute secondary preferential claims and rank after the master bond in respect of the assets in Totalkredit A/S's capital centres.

An agreement has been made to hedge market risk relating to collateral, including investments, in Totalkredit's capital centres.

Agreement on the distribution of mortgage loans to personal customers via Totalkredit A/S (this agreement was concluded on the same terms as apply to other business partners, including commission payments).

Nykredit Realkredit A/S has granted loans of DKK 2.0 billion to Totalkredit A/S in the form of subordinated debt and DKK 4.0 billion in the form of Additional Tier 1 capital.

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.

Nykredit Realkredit has granted loans of DKK 2.0 billion to Nykredit Bank A/S in the form of Tier 2 capital.

In Q3/2019, Nykredit Realkredit made an equity contribution of DKK 2 billion to Nykredit Bank A/S.

Agreements between Nykredit Realkredit and other Group companies

Nykredit Realkredit and Nykredit Bank have transferred equities of a total fair value of DKK 500 million to Ejendomselskabet Kalvebod 1. Of this amount, DKK 414 million has been contributed as new equity.

46. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	Transactions with subsidiaries		Transactions with parents		Transactions with associates		Transactions with the Board of Directors		Transactions with the Executive Board		Related parties of the Executive Board or Board of Directors	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Nykredit Realkredit Group												
Income statement												
Interest income	-	-	-	0	(0)	-	-	-	-	-	-	-
Interest expenses	-	-	9	(0)	-	-	-	-	-	-	-	-
Other operating income	-	-	949	751	-	-	-	-	-	-	-	-
Staff and administrative expenses	-	-	-	-	-	180	-	-	-	-	-	-
Balance sheet items												
Loans, advances and other receivables at fair value	-	-	-	-	-	-	21	19	6	23	2	8
Loans, advances and other receivables at amortised cost	-	-	-	0	-	-	-	-	-	-	-	-
Other assets	-	-	6	7	-	0	-	-	-	-	-	-
Deposits and other payables	-	-	32	72	1	-	25	14	18	12	2	1
Bonds in issue at fair value	-	-	862	753	-	-	-	-	-	-	-	-
Nykredit Realkredit A/S												
Income statement												
Interest income	9,511	9,488	-	0	-	-	0	0	-	-	-	-
Interest expenses	101	65	9	2	-	-	-	-	-	-	-	-
Fee and commission income	315	500	-	-	-	-	-	-	-	-	-	-
Fee and commission expenses	158	163	-	-	-	-	-	-	-	-	-	-
Value adjustments	3,776	(1,554)	-	-	-	-	-	-	-	-	-	-
Other operating income	65	56	533	168	-	-	-	-	-	-	-	-
Staff and administrative expenses	(1,056)	(1,001)	(6)	(6)	-	176	-	-	-	-	-	-
Balance sheet items												
Receivables from credit institutions and central banks	37,869	26,540	-	-	-	-	-	-	-	-	-	-
Loans, advances and other receivables at fair value	956	1,689	-	-	-	-	3	3	-	-	-	-
Totalkredit mortgage loan funding	842,624	712,600	-	-	-	-	-	-	-	-	-	-
Loans, advances and other receivables at amortised cost	10	13	-	-	-	-	-	-	-	-	-	-
Bonds at fair value	284	332	-	-	-	-	-	-	-	-	-	-
Other assets	3,556	3,828	28	27	-	0	-	-	-	-	-	-
Payables to credit institutions and central banks	2,309	476	-	-	-	-	-	-	-	-	-	-
Bonds in issue at fair value	62,894	35,595	862	753	-	-	-	-	-	-	-	-
Other liabilities	645	544	-	-	-	-	-	-	-	-	-	-

The facilities of related parties were granted on standard business terms. Rates applying to ordinary loans range between 4.00% and 13.5% (2018: between 0.35% and 9.50%), and deposit rates were between 0.00% and 1.06%.

Facilities granted to the Executive Board, the Board of Directors or related parties thereof have not given rise to provisions for impairment.

47. FAIR VALUE DISCLOSURES

Valuation principles

Financial instruments are measured at fair value or amortised cost in the balance sheet. The tables in notes 47 a. and 47 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 46 a shows the fair value of the financial instruments measured at amortised cost and the instances where the fair value does not correspond to the carrying amount.

Listed prices

The Group's assets and liabilities at fair value are to the widest extent possible recognised at listed prices or prices quoted in an active market or authorised market place.

Bonds at fair value are recognised at listed prices if external prices have been updated within the past three trading days prior to the balance sheet date. If no listed prices have been observed during this time span, the portfolio is recognised at observable 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 three trading days belong to this category. The valuation is based on the most recent observed price, and adjustments are made for subsequent changes in market conditions, eg by including transactions in similar instruments (matrix pricing). Redeemed bonds are transferred to this category, as there is no access to official prices in active markets.

Further, the valuation of derivatives implies the use of Credit Valuation Adjustment (CVA), thus including counterparty credit risk in the valuation. The CVA of derivatives with positive market value is primarily based on external credit curves such as Itraxx Main, but also on internal data as regards customers without 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 527 million at 31 December 2019 against DKK 588 million at end-2018.

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 2019, the non-amortised minimum margin amounted to DKK 135 million against DKK 147 million at end-2018. With regard to liquidity and credit risk, DKK 182 million for end-2019 and DKK 201 million for 2018 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 the 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 1,033 million at 31 December 2019. Credit value adjustments came to DKK 2,301 million at 31 December 2019 (2018: DKK 2,308 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 76 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 2019, the proportion was thus 0.3% compared with 0.4% at end-2018. The proportion of financial liabilities was 0.0% against 0.0% at end-2018.

Valuation, notably of instruments classified as unobservable inputs, is subject to some uncertainty. Of total assets and liabilities, DKK 4.1 billion (2018: DKK 4.6 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 412 million at 31 December 2019 (0.49% of equity at 31 December 2019). The earnings impact for 2018 was estimated at DKK 460 million (0.58% of equity at 31 December 2018).

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 2019 and 2018, 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 2019 financial assets of DKK 1.4 billion were transferred from Listed prices to Observable inputs and DKK 0.8 billion from Observable inputs to Listed prices. Financial liabilities of DKK 0.2 billion were transferred from Listed prices to Observable inputs and DKK 0.1 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 2019, the amount was DKK 0.6 billion against DKK 0.1 billion at end-2018.

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

47. FAIR VALUE DISCLOSURES (CONTINUED)

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

47 a. Fair value disclosures of assets and liabilities recognised at amortised cost				Fair value calculated on the basis of		
2019	Carrying amount	Fair value	Balance	Listed prices	Observable inputs	Unobserva- ble inputs
Assets						
Loans, advances and other receivables at amortised cost	114,591	114,782	191	-	10	114,772
Total	114,591	114,782	191	-	10	114,772
Liabilities						
Bonds in issue at amortised cost	33,809	34,012	(202)	-	33,978	34
Subordinated debt	11,004	11,663	(659)	-	11,675	(12)
Total	44,813	45,675	(862)	-	45,653	22
Transfer from assets			191			
Total balance			(671)			
2018						
Assets						
Loans, advances and other receivables at amortised cost	98,310	98,582	272	-	12	98,570
Total	98,310	98,582	272	-	12	98,570
Liabilities						
Bonds in issue at amortised cost	22,590	22,571	19	-	17,102	5,468
Subordinated debt	11,011	11,524	(513)	-	11,524	-
Total	33,601	34,095	(493)	-	28,626	5,468
Transfer from assets			272			
Total balance			(221)			
Transfer from assets			272			
Total balance			(221)			

47. FAIR VALUE DISCLOSURES (CONTINUED)**47 b. Fair value of assets and liabilities recognised at fair value (IFRS hierarchy)****31 December 2019**

	Listed prices	Observable inputs	Unobserva- ble inputs	Total fair value
Financial assets:				
- bonds at fair value	30,488	78,065	2	108,555
- equities etc	4,121	-	3,014	7,135
- positive fair value of derivative financial instruments	45	20,422	1,033	21,500
- mortgage loans, arrears and outlays ³	-	1,287,610	-	1,287,610
- owner-occupied properties	-	-	75	75
Total	34,655	1,386,096	4,124	1,424,874
Percentage	2.4	97.3	0.3	100.0

Financial liabilities:				
- other non-derivative financial liabilities at fair value	2,052	2,472	-	4,523
- negative fair value of derivative financial instruments	42	13,016	-	13,057
- bonds in issue at fair value ³	1,323,953	12,461	-	1,336,414
Total	1,326,047	27,948	-	1,353,995
Percentage	97.9	2.1	-	100.0

Assets and liabilities measured on the basis of unobservable inputs	Real estate	Bonds	Equities	Derivatives	Total
Fair value, beginning of year, assets	86	65	2,956	1,495	4,601
Value adjustment recognised through profit or loss	(3)	1	248	(119)	127
Purchases for the year	3	-	200	-	203
Sales for the year	(3)	(64)	(391)	(162)	(619)
Transferred from Listed prices and Observable inputs ¹	-	-	-	388	388
Transferred to Listed prices and Observable inputs ²	-	-	-	(569)	(569)
Reclassification to "Other assets"	(7)	-	-	-	(7)
Fair value, year-end, assets	74	2	3,014	1,033	4,124

¹ Transfers from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.² 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.³ Recognised at fair value under the fair value option.

47. FAIR VALUE DISCLOSURES (CONTINUED)

47 b. Fair value of assets and liabilities recognised at fair value (IFRS hierarchy)
(continued)

31 December 2018

	Listed prices	Observable inputs	Unobserva- ble inputs	Total fair value
Financial assets:				
- bonds at fair value	8,308	85,250	64	93,622
- equities etc	2,865	-	2,956	5,821
- positive fair value of derivative financial instruments	63	16,899	1,495	18,457
- mortgage loans, arrears and outlays ³	-	1,193,975	-	1,193,975
- owner-occupied properties	-	-	86	86
- investment properties	-	-	-	-
Total	11,236	1,296,124	4,601	1,311,961
Percentage	0.9	98.8	0.4	100

Financial liabilities:

- other non-derivative financial liabilities at fair value	2,574	3,018	-	5,592
- negative fair value of derivative financial instruments	62	11,669	-	11,731
- bonds in issue at fair value ³	1,192,143	4,085	-	1,196,229
Total	1,194,779	18,772	-	1,213,552
Percentage	98.5	1.5	-	100

Assets and liabilities measured on the basis of unobservable inputs

	Real estate	Bonds	Equities	Derivatives	Total
Fair value, beginning of year, assets	273	22	2,623	1,104	4,022
Value adjustment recognised through profit or loss	41	18	261	377	697
Purchases for the year	-	51	182	-	234
Sales for the year	(229)	(27)	(110)	(57)	(422)
Transferred from Listed prices and Observable inputs ¹	-	-	-	(493)	(493)
Transferred to Listed prices and Observable inputs ²	-	-	-	564	564
Fair value, year-end, assets	86	65	2,956	1,495	4,601

¹ Transfers from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.² 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.³ Recognised at fair value under the fair value option.

48. OFFSETTING

	Gross amounts	Financial instruments offset	Carrying amount after offsetting	Further offsetting, master netting agreements	Collateral	Net amounts
2019						
Financial assets:						
Derivatives with a positive fair value	34,945	13,445	21,500	8,247	3,047	10,206
Reverse repo transactions	54,372	2,137	52,235	-	52,157	78
Total	89,317	15,582	73,735	8,247	55,204	10,284
Financial liabilities:						
Derivatives with a negative fair value	26,502	13,445	13,057	8,247	4,626	184
Repo transactions	19,715	2,137	17,578	-	17,525	53
Total	46,217	15,582	30,635	8,247	22,151	237
2018						
Financial assets:						
Derivatives with a positive fair value	27,096	8,639	18,457	7,663	2,663	8,131
Reverse repo transactions	40,800	1,732	39,068	-	38,885	183
Total	67,897	10,371	57,526	7,663	41,548	8,314
Financial liabilities:						
Derivatives with a negative fair value	20,370	8,639	11,731	7,663	3,927	141
Repo transactions	21,782	1,732	20,050	-	20,043	6
Total	42,151	10,371	31,781	7,663	23,970	147

In the balance sheet, reverse repo transactions are classified as receivables from credit institutions or loans, advances and other receivables at amortised cost. In the balance sheet, repo transactions are classified as payables to credit institutions as well as deposits and other payables,

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.

49. 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	
2019								
Foreign exchange contracts								
Forward contracts/futures, purchased	(169)	15	(11)	-	102	268	(165)	54,956
Forward contracts/futures, sold	161	(9)	12	-	268	104	164	49,962
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
Interest rate contracts								
Forward contracts/futures, purchased	(23)	2	-	-	18	38	(21)	40,274
Forward contracts/futures, sold	15	1	-	-	43	27	16	99,652
Forward rate agreements, purchased	7	2	-	-	9	0	9	26,514
Forward rate agreements, sold	(8)	(2)	-	-	0	10	(10)	26,764
Swaps	(3)	(34)	717	7,570	20,613	12,362	8,250	723,428
Options, purchased	-	0	9	86	119	24	96	32,317
Options, written	-	(0)	(62)	(11)	-	73	(73)	15,759
Equity contracts								
Forward contracts/futures, purchased	0	-	-	-	0	0	0	1
Forward contracts/futures, sold	11	-	-	-	11	0	11	18
Unsettled spot transactions	48	-	-	-	96	48	48	43,891
Total	39	(25)	750	7,679	21,500	13,057	8,444	

49. 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	
2018								
Foreign exchange contracts								
Forward contracts/futures, purchased	39	8	3	-	148	99	50	32,070
Forward contracts/futures, sold	(63)	(13)	(3)	-	68	147	(79)	25,684
Swaps	-	10	88	48	194	48	145	4,329
Options, purchased	0	0	-	-	1	-	1	82
Options, written	(0)	(1)	-	-	-	1	(1)	101
Interest rate contracts								
Forward contracts/futures, purchased	49	2	-	-	60	9	51	20,063
Forward contracts/futures, sold	(86)	(0)	-	-	4	90	(86)	38,856
Forward rate agreements, purchased	5	0	-	-	5	0	5	23,079
Forward rate agreements, sold	(5)	(1)	-	-	0	5	(5)	23,812
Swaps	(180)	(37)	982	5,859	17,244	10,620	6,624	668,668
Options, purchased	524	(0)	14	126	702	38	665	36,556
Options, written	(534)	(0)	(86)	(31)	-	651	(651)	18,765
Equity contracts								
Forward contracts/futures, purchased	(0)	-	-	-	0	0	(0)	30
Forward contracts/futures, sold	6	-	-	-	6	0	6	22
Swaps	-	-	(0)	-	-	0	(0)	10
Credit contracts								
Swaps	-	0	-	-	0	-	0	10
Unsettled spot transactions	3	-	-	-	25	22	3	25,583
Total	(241)	(31)	998	6,001	18,457	11,730	6,727	

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018
50. REPO TRANSACTIONS AND REVERSE REPURCHASE LENDING			
The Nykredit Group applies repo transactions and reverse repurchase lending in its day-to-day business operations. All transactions were entered into using bonds as the underlying asset.			
Of the asset items below, reverse repurchase lending represents:			
6,689	11,158	3,486	1,641
(6,682)	(11,138)	(3,457)	(1,633)
7	20	29	8
Total less collateral			
-	-	50,886	39,159
-	-	(2,137)	(1,732)
-	-	48,749	37,427
Loans, advances and other receivables etc, net			
-	-	(48,700)	(37,251)
-	-	49	176
Total less collateral			
-	-	3,752	11,814
¹ Of which self-issued bonds			
Of the liability items below, repo transactions represent:			
681	2,309	2,297	3,804
688	2,306	2,287	3,813
Payables to credit institutions and central banks			
Bonds provided as collateral			
10,500	11,950	17,418	17,977
-	-	(2,137)	(1,732)
10,500	11,950	15,281	16,245
Other non-derivative financial liabilities etc, net			
10,556	11,935	15,238	16,293
(56)	15	43	(48)
Total less collateral			
3,098	3,872	5,648	4,658
¹ Of which self-issued bonds			

51. RISK MANAGEMENT

Risk profile

The business activities and the management of the investment portfolio involve credit, market, liquidity and operational risks, including IT and compliance risks.

As Nykredit mainly provides mortgage loans against mortgages on real estate, Nykredit's primary risk is credit risk. Nykredit's mortgage lending is governed by the balance principle, which provides limits to the financial risks Nykredit may assume in relation to lending and funding. This means that Nykredit incurs generally limited interest rate risk, foreign exchange risk and liquidity risk on its mortgage lending and the underlying funding. Liquidity and market risks are further reduced by the Danish act regulating refinancing risk, which provides for the refinancing of mortgage loans in special situations.

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. It describes Nykredit's risk and capital management in detail and contains a wide selection of risk key figures in accordance with the disclosure requirements of the Capital Requirements Regulation (CRR). The report is not audited.

Credit risk

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 Boards 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. Building long-term, financially sound customer relationships is an integral part of Nykredit's strategy. The credit policy lays down the Group's risk appetite.

All credit applications are assessed against the credit policy by financially trained staff. Specifically, they assess the willingness and ability of customers to meet their obligations to Nykredit and Totalkredit. The assessment is based on an overall evaluation of the customer's financial circumstances and other risk elements against Nykredit's total exposure to the customer. The assessment of a customer's creditworthiness is the core element, supported by any security provided, including mortgages on real estate.

Totalkredit's mortgage lending is based on a strategic alliance with 52 Danish local and regional banks undertaking the distribution of Totalkredit loans, customer advisory services, credit assessments and case processing. Totalkredit loans are subject always to final approval by Totalkredit.

The credit policy ensures that credit is granted in accordance with the risk appetite determined by the Board of Directors and the Totalkredit concept and with Danish mortgage legislation, the Danish Financial Business Act, good business practice and any other relevant rules and regulations.

The aggregate credit granting by the Group companies is undertaken within the credit policy limits for large exposures as well as limits for portfolio distribution by industry, geography and other risk types.

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 Executive Boards or the Boards of Directors.

Which level of the credit approval hierarchy determines the credit applications of personal customers of Nykredit depends on a combination of the size of the exposure and any credit circumstances requiring particular attention (policy rules). The level of the credit approval hierarchy determines whether credit applications are processed by the customer centres or centrally by Group Credits.

Which level of the credit approval hierarchy determines a mortgage loan application in Totalkredit depends on the value of the property serving as security for the loan. As regards credit applications of business customers of Totalkredit, the level is determined by the size of the exposure, in the same way as for customers of Nykredit.

Customers are divided into ordinary exposures and weak exposures, where weak exposures are identified on the basis of the customers' ratings and ability to meet their payment obligations. All weak exposures are reviewed at least once a year. Banking exposures are reviewed quarterly. As a minimum, the review must include an assessment of whether the customer rating is appropriate, and it must be checked that the strategy designed for the customer is adhered to.

The largest exposures are presented to the Boards of Directors of the Group companies for approval/granting or briefing on a current basis. The Boards of Directors are also presented with the largest exposures as part of the annual asset review, and they are briefed quarterly on the levels of write-offs and impairments.

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 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 risk exposure amount (REA) remains more stable throughout an economic cycle than if the calculations had exclusively reflected the current economic climate.

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 expected loss rate of an exposure in case of the 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 credit exposures factoring in the risk relating to the individual customer. REA is calculated by risk-weighting credit exposures. The risk weighting is calculated on the basis of PD and LGD levels.
Default	An exposure is deemed to be in default where a significant amount has been in arrears for 75 days (mortgage loans) or at the time of sending the third reminder (bank loans). Exposures for which impairment provisions have been made under certain circumstances are also considered in default. This 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. Moreover, exposures for which a direct loss has been incurred are also considered in default.

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.

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

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.

A subcommittee of the Group Risk Committee monitors and manages the Group's model risks. This includes assessing all models, model changes and results of model validation. The overall validation conclusions are reported to the Group Risk Committee and the Board Risk Committee.

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%

Credit exposure

The Nykredit Realkredit Group's maximum credit exposure constitutes DKK 1,462 billion. The credit exposure primarily arises from mortgage loans (loans, advances and other receivables at fair value), which amount to DKK 1,194 billion.

Loans and advances by rating category, property type and sector

84.9% of Nykredit's mortgage and bank customers make timely payments, while possessing solid financial strength. Exposures to these customers are considered "ordinary exposures" (ratings 6-10).

Overall, 10.0% of Nykredit's exposures are considered "ordinary exposures with minor signs of weakness" (ratings 3-5). These customers also make timely payments, but their financial strength is lower than that of "ordinary exposures".

The rest of Nykredit's exposures are weak exposures (ratings 0-2) and exposures in default, making up 3.4% of exposures.

Weak exposures are exposures where customers:

- have not made timely payments
- have a negative net worth or negative equity
- have low or negative earnings
- have objective evidence of credit impairment.

Mortgage loans were primarily granted for the financing of private residential housing, comprising 62.9% of total lending. The portfolio of business loans mainly comprises loans to the private residential rental and agricultural sectors, which make up 62.1% of the total portfolio of business loans.

Bank lending mainly comprises loans to business customers, which account for 77% of total lending, and loans to personal customers, accounting for 22%.

Large exposures

Nykredit has no large exposures to non-financial counterparties that exceed 10% of eligible capital. Nykredit's largest exposure to a non-financial counterparty amounted to DKK 7.0 billion at end-2019, equivalent to 8% of eligible capital.

Nykredit's 20 largest exposures to non-financial counterparties totalled DKK 90.0 billion before deductions according to the rules on large exposures, equivalent to just under 100% of eligible capital at end-2019 (determined according to the CRR). At end-2018 the 20 largest exposures to non-financial counterparties represented 75% of eligible capital. The vast majority of these exposures are mortgage loans with underlying security.

Nykredit has 28 non-financial counterparties the exposure to which represents over 2% of eligible capital (large exposures). The majority of these have good ratings.

DKK million

Nykredit Realkredit Group

	2019	2018
Credit exposure		
The Group's maximum credit exposure comprises selected balance sheet and off-balance sheet items.		
Total credit exposure		
Balance sheet items	Net	Net
Demand deposits with central banks	6,582	8,486
Receivables from credit institutions and central banks	52,413	20,829
Loans, advances and other receivables at fair value	1,287,610	1,193,975
Loans, advances and other receivables at amortised cost	114,590	98,311
Bonds at fair value	108,555	93,622
Other assets	28,956	25,102
Off-balance sheet items		
Contingent liabilities	6,616	5,913
Irrevocable credit commitments	24,115	15,282
Total	1,629,436	1,461,521

51. RISK MANAGEMENT (CONTINUED)

Mortgage lending by property and rating category, nominal value

The rating illustrates the customer's ability to pay, but not the probability of loss. Substantial security is usually provided for mortgage loans, which mitigates or minimises the risk of loss – regardless of customer ratings.

2019

Rating category	Owner-occupied dwellings	Private rental	Industry and trades	Office and retail	Agricultural property	Public housing	Other	Total
10	243,553	16,110	13,211	10,628	2,272	4,726	225	290,725
9	209,661	10,691	2,281	13,415	6,510	4,843	2,165	249,566
8	127,003	22,937	2,598	26,616	9,888	30,634	6,217	225,892
7	82,766	31,207	1,574	29,372	12,205	18,913	2,961	178,997
6	53,511	29,103	2,136	21,819	14,528	2,453	1,287	124,838
5	27,601	12,956	716	4,690	10,238	415	496	57,112
4	15,237	6,882	335	3,298	8,181	127	200	34,259
3	9,037	6,511	109	3,294	4,288	234	66	23,539
2	7,208	1,407	249	1,656	11,518	43	25	22,105
1	4,587	618	76	447	1,469	172	36	7,407
0	1,270	797	255	1,213	3,160	131	74	6,901
Exposures in default	8,948	3,151	251	2,244	4,607	144	126	19,470
Total	790,381	142,369	23,791	118,693	88,864	62,836	13,876	1,240,811
LR Realkredit A/S, total	-	-	-	-	-	-	-	21,877
Total	790,381	142,369	23,791	118,693	88,864	62,836	13,876	1,262,689

2018

Rating category	Owner-occupied dwellings	Private rental	Industry and trades	Office and retail	Agricultural property	Public housing	Other	Total
10	66,406	14,266	10,382	10,688	2,555	3,571	279	108,148
9	103,487	11,406	2,158	10,770	7,626	4,115	405	139,967
8	182,420	18,974	4,029	21,556	11,561	28,867	6,068	273,476
7	142,034	25,204	1,951	36,428	15,561	21,669	4,993	247,840
6	87,473	28,184	1,068	15,674	14,491	3,906	958	151,754
5	43,159	12,333	452	6,385	9,664	435	388	72,816
4	35,325	10,638	525	6,101	8,736	248	457	62,029
3	20,809	4,761	144	1,520	8,197	144	98	35,673
2	24,983	1,532	180	1,819	1,905	40	43	30,501
1	18,632	612	61	450	968	28	18	20,770
0	4,261	1,215	327	1,867	3,624	136	108	11,539
Exposures in default	6,690	3,229	254	1,774	4,688	148	156	16,937
Total	735,678	132,353	21,531	115,033	89,575	63,309	13,970	1,171,449

51. RISK MANAGEMENT (CONTINUED)

Bank lending and reverse repurchase lending by sector and rating category at amortised cost determined before impairments

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

2019

Rating category	Manufacturing and construction	Credit and finance	Property management and trade etc	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
Total	14,203	53,815	10,862	12,499	14,309	11,052	116,741

2018

Rating category	Manufacturing and construction	Credit and finance	Property management and trade etc	Transport, trade and accommodation	Other trade and public	Personal customers	Total
10	1,516	6,600	730	1,064	2,207	1,420	13,538
9	410	8,888	694	2,987	1,053	1,088	15,120
8	1,534	906	2,509	1,837	1,170	987	8,943
7	1,208	1,101	2,201	1,700	2,149	1,086	9,444
6	3,108	17,180	1,912	1,958	3,069	2,562	29,789
5	1,604	4,115	1,212	918	720	1,672	10,240
4	484	833	640	277	1,331	1,683	5,246
3	65	1,372	251	137	208	662	2,694
2	154	16	185	175	205	608	1,344
1	66	161	47	47	236	250	808
0	166	1	16	11	7	109	310
Exposures in default	683	56	693	671	475	705	3,283
Total	10,997	41,228	11,090	11,781	12,830	12,833	100,760

Risk exposure amount for credit risk

Nykredit's total REA for credit risk excluding counterparty risk was DKK 305 billion at end-2019 (2018: DKK 276 billion) and has risen compared with 2018. The rise is chiefly attributable to increased lending.

REA for credit risk is mainly calculated using the IRB approach and primarily comprises exposures to business and personal customers. REA calculated using the standardised approach primarily comprises credit institution and sovereign exposures.

Nykredit Realkredit Group

Risk exposure amount – credit risk

DKK million	2019	2018
Standardised approach	21,788	12,465
IRB approach	280,061	260,930
Assets with no counterparty	3,272	2,113
Total credit risk exposure	305,121	275,508

Security

Nykredit's main type of security provided for loans is mortgages on real estate. The security value is reassessed regularly relative to market trends.

In addition to mortgages on real estate, Nykredit accepts guarantees issued by public authorities or banks as security for loans. Guarantees issued by public authorities mitigate credit risk – mainly relating to mortgage lending for public housing. Mortgage lending guaranteed by public authorities amounted to DKK 44 billion at end-2019 (2018: DKK 39 billion).

The bank guarantees comprise guarantees for the registration of mortgages free from any adverse endorsements barring registration, guarantees for interim loans in connection with new building and loss guarantees.

Totalkredit and the partner banks share the risk on loans arranged via the individual partner banks, which provide security by way of a right of set-off and guarantees to Totalkredit. This security provides an incentive for the partner banks to carry out a thorough and comprehensive assessment of customer creditworthiness and the property value. Nykredit has the approval of the Danish FSA to apply a statistical model in the valuation of certain owner-occupied dwellings with no physical inspection. The statistical valuations are performed centrally and must be endorsed before use.

Statutory LTV limits for mortgage lending by property category

Owner-occupied dwellings for all-year habitation	80 ¹
Private cooperative housing	80 ¹
Private residential rental properties	80 ¹
Public housing	80 ¹
Youth housing	80 ¹
Senior housing	80 ¹
Properties used for social, cultural or educational purposes	60 ¹
Holiday homes	75 ¹
Agricultural and forestry properties, market gardens, etc ²	60 ¹
Office and retail properties	60 ¹
Industry and trades properties	60 ¹
Utilities	60 ¹
Other properties – including undeveloped land	40 ¹

¹ Some loan types offered for residential properties are subject to a lower LTV limit than 80%, but no additional security is required unless the LTV ratio subsequently exceeds 80%.

² The LTV limit may be extended up to 70% against additional security for the part in excess of 60%.

	2019				2018			
	Public sector	Personal customers	Business customers	Total	Public sector	Personal customers	Business customers	Total
Bank lending								
Unsecured lending	208	39,432	4,761	44,401	44	4,370	38,000	42,414
Lending secured by way of legal charge or other collateral security:								
Fully secured	296	51,426	2,621	54,343	385	3,206	41,532	45,123
Partially secured	149	14,132	3,716	17,998	212	5,355	7,656	13,223
Total lending before impairment	653	104,990	11,098	116,741	641	12,931	87,188	100,760

Loan-to-value ratios (LTVs)

The LTV ratio expresses the debt outstanding relative to the property value. At the time of granting, a mortgage loan must not exceed a certain proportion of the value of the mortgaged property pursuant to Danish legislation. After disbursement of a loan, the LTV ratio will change with the amortisation of the loan and/or as a result of changes in the market value of the property or the underlying covered bonds.

At end-2019, the LTV level of the Group's total loan portfolio was 61.8% (2018: DKK 62.3%), down 0.5 percentage points on end-2018. The table "Debt outstanding relative to estimated property values" shows the LTVs of Nykredit's mortgage lending by property type.

Nykredit closely monitors the development in LTV ratios. To ensure sustainable credit and capital policies in the long term, scenario analyses and stress tests are used to assess the effect of significant price decreases in the housing market.

Nykredit Realkredit Group

Debt outstanding relative to estimated property values

DKK million	LTV (loan-to-value) ²						LTV	
	0-40	40-60	60-80	80-90	90-100	>100	Total	average, %
Owner-occupied dwellings	509,137	190,081	102,168	5,695	1,657	1,546	810,283	66.5
Private rental ¹	111,105	37,763	13,109	1,169	542	453	164,140	62.3
Industry and trades	19,489	3,534	178	19	14	28	23,263	46.1
Office and retail	89,302	24,272	2,383	261	126	170	116,515	52.7
Agricultural property	59,552	20,172	6,981	785	348	607	88,445	62.2
Public housing	-	-	-	-	-	-	70,891	-
Other	11,000	2,089	647	34	21	41	13,833	50.2
Total, 2019	799,585	277,911	125,465	7,963	2,708	2,845	1,287,370	61.8
Total, 2018	737,623	253,159	117,982	8,880	3,477	3,334	1,193,667	62.3

¹ Including cooperative housing.

² Determined as the top part of the debt outstanding relative to estimated property values.

Note: The figures are actual LTV ratios including any co-financed costs. Public authority guarantees reduce the credit risk relating to subsidised housing, which forms part of lending to the public housing segment. For this reason, LTVs of public housing offer no relevant risk data and have been excluded. In the table, debt outstanding is distributed continuously by LTV category. Loans with security covering for example between 0% and 60% of the mortgageable value are distributed with two thirds of the debt outstanding in the LTV range 0-40% and one third in the LTV range 40-60%.

Nykredit Realkredit Group

Debt outstanding relative to estimated property values

%	LTV (loan-to-value) ²					
	0-40	40-60	60-80	80-90	90-100	>100
Owner-occupied dwellings	62.8	23.5	12.6	0.7	0.2	0.2
Private rental ¹	67.7	23.0	8.0	0.7	0.3	0.3
Industry and trades	83.8	15.2	0.8	0.1	0.1	0.1
Office and retail	76.6	20.8	2.0	0.2	0.1	0.1
Agricultural property	67.3	22.8	7.9	0.9	0.4	0.7
Public housing	-	-	-	-	-	-
Other	79.5	15.1	4.7	0.2	0.2	0.3
Total, 2019	65.7	22.8	10.3	0.7	0.2	0.2
Total, 2018	65.6	22.5	10.5	0.8	0.3	0.3

¹ Including cooperative housing.

² Determined as the top part of the debt outstanding relative to estimated property values.

Note: The figures are actual LTV ratios including any co-financed costs. Public authority guarantees reduce the credit risk relating to subsidised housing, which forms part of lending to the public housing segment. For this reason, LTVs of public housing offer no relevant risk data and have been excluded. In the table, debt outstanding is distributed continuously by LTV category. Loans with security covering for example between 0% and 60% of the mortgageable value are distributed with two thirds of the debt outstanding in the LTV range 0-40% and one third in the LTV range 40-60%.

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. 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 and credit risk.

The calculated value adjustment of derivatives 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 was DKK 19.5 billion at end-2019. Of this amount, derivatives represented DKK 17.7 billion and repo transactions DKK 0.5 billion. The remaining DKK 1.3 billion related to Credit Valuation Adjustment (CVA) and default fund contributions (CCP).

Value adjustment of derivatives

Nykredit makes fair value adjustments of derivatives in accordance with the International Financial Reporting Standards (IFRS), which includes both Credit and Funding Valuation Adjustment (CVA and FVA) for accounting purposes. 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 Nykredit's swap contracts with customers showing objective evidence of credit impairment are value adjusted in full. Objective evidence of credit impairment includes customers in default and customers with rating 0. Customers with rating 0 still make timely payments to Nykredit.

Market risk

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

All Nykredit's portfolios with market risk are assigned to the trading book or the banking book, depending on the purpose of the position. Portfolios with positions held for trading are thus placed in the trading book and mainly consist of covered bonds and credit bonds. Positions forming part of Nykredit's lending business and business-related assets are placed in the banking book.

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

Nykredit's market risk relates mainly to the management of equity and liquidity reserves. In addition, Nykredit Bank and Nykredit Realkredit incur market risk when trading bonds, swaps and other financial products with customers.

Nykredit's market risk is determined for two purposes:

- Day-to-day management of all positions involving market risk
- Determination of the risk exposure amount for market risk for use in the determination of capital adequacy.

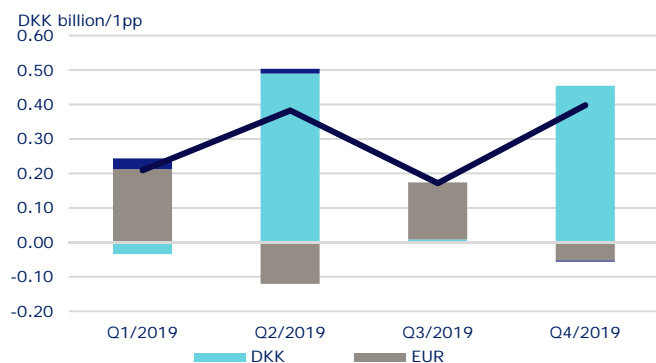
Market risk is generally managed through the Board of Directors' market risk policy and the accompanying guidelines, which include specific limits for the different types of risk in the trading as well as the banking book.

The main principle is that losses on exposures involving market risk in the trading book must not significantly affect Nykredit's total results. Market risk is managed by means of estimated losses in stress scenarios. Statistical as well as forward-looking stress scenarios are used to calculate estimated losses. In addition to the trading book, the market risk policy laid down by the Board of Directors defines a risk appetite for interest rate risk in the banking book.

The guidelines restrict the scope for assuming interest rate, equity price, foreign exchange, volatility and commodity risks. The guidelines permit eg the use of financial instruments if the risk involved can be measured and managed.

Compliance with the risk limits set out in the guidelines is monitored daily and independently of the acting entities. Any breaches are reported to the Asset/Liability Committee (ALCO), the Board of Directors of Nykredit Realkredit or other Boards of Directors depending on the nature of such breach.

Nykredit Realkredit Group Interest rate risk



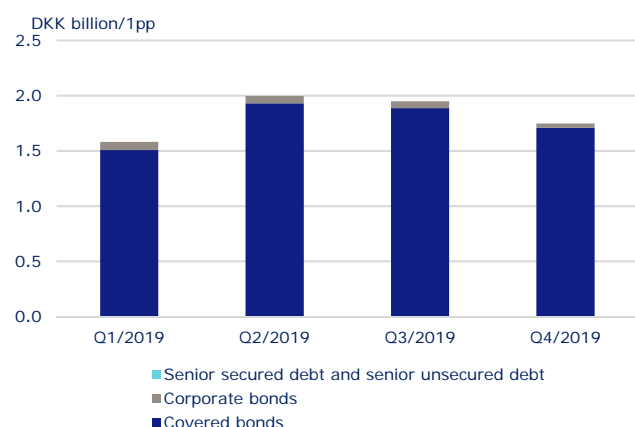
Day-to-day market risk management

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

The traditional risk measures, such as interest rate, equity price, foreign exchange and volatility risks, are monitored using sensitivity tests. They are used to calculate the effect on the value of a portfolio in case of changing market conditions. This could be a rise or fall in interest rates, equity prices or volatilities. Calculations are only made for one type of risk at a time. The traditional risk measures do not indicate how likely a particular event is to occur, but rather how much it would affect the value of a portfolio viewed separately.

A Value-at-Risk (VaR) model is used for measuring market risk on the total portfolio. The model is applied to calculate the maximum value decrease of a portfolio over a given period and at a given probability. VaR models allow for the effect and probability of several risks occurring at the same time.

Nykredit Realkredit Group Yield spread risk



Interest rate risk

Interest rate risk is the risk of loss as a result of interest rate changes. Nykredit's interest rate risk is measured as the change in market value caused by a general interest rate increase of 1 percentage point in respect of bonds and financial instruments.

Nykredit's interest rate exposure was DKK 489 million at end-2019, of which DKK 398 million in the trading book and DKK 91 million in the banking book. This means that Nykredit would lose DKK 489 million at a general interest rate rise of 1 percentage point.

Yield spread risk

Yield spread risk is the risk of spread widening between covered bond yields and swap rates. At end-2019 the yield spread risk was DKK 2.5 billion for the Group's total portfolio of covered bonds. The yield spread risk was DKK 1.7 million in the trading book and DKK 0.8 million in the banking book. The yield spread risk was DKK 0.04 billion on the credit bond portfolio and a negative DKK 0.08 billion on senior debt issues at end-2019.

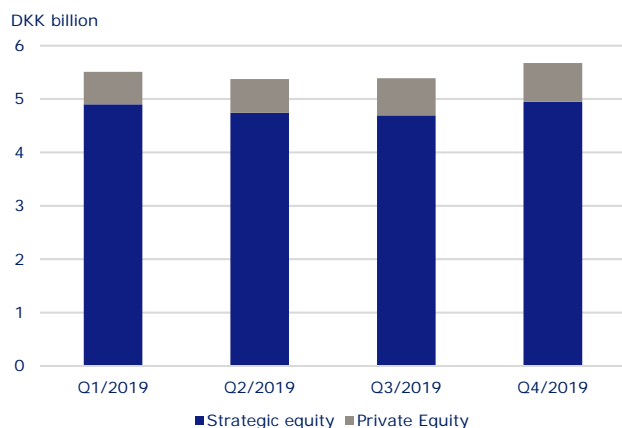
This means that the Group could lose DKK 2.5 billion overall on its investments in covered bonds if spreads between covered bond yields and swap rates widen by 1 percentage point.

Equity price risk

Equity price risk is the risk of loss as a result of changes in equity prices, and it is calculated as the market value of the portfolios. The Group's equity price exposure including private equity portfolios amounted to DKK 5.8 billion at end-2019.

The aggregate equity price risk includes both the trading book and the banking book, the latter containing sizeable strategic equity and private equity positions. The equity price exposure was DKK 0.2 billion in the trading book and DKK 5.6 billion in the banking book.

Nykredit Realkredit Group Market value of equity portfolios



Foreign exchange risk

Foreign exchange risk is measured as the gain/loss in a given currency resulting from a DKK appreciation of 10%. Foreign exchange risk is thus the risk of loss as a result of changes in exchange rates.

Nykredit hedges its foreign exchange risk except for some minor tactical foreign exchange positions held to achieve a gain. Therefore, the Group had only minor positions in currencies other than EUR in 2019.

Volatility risk

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

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

Risk exposure amount for market risk

Nykredit Realkredit A/S and Nykredit Bank A/S have the approval of the Danish FSA to apply a VaR model in determining 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. As the current conditions in financial markets do not always correspond to the historical conditions (for instance during a financial crisis), a stressed VaR is added to REA resulting from the current VaR calculation. Stressed VaR is also calculated for the trading book by means of the VaR model.

Total REA is determined as the sum of the individual calculations, which comprise general risk from the VaR model as well as specific risk and general risk under the standardised approach. Nykredit's total REA from VaR amounted to DKK 16.9 billion at end-2019, of which stressed VaR amounted to DKK 14.1 billion. Total REA for market risk came to DKK 29.3 billion at end-2019.

Nykredit Realkredit Group**Risk exposure amount – market risk**

DKK million	2019	2018
Internal models (VaR)	16,937	17,966
Standardised approach	12,398	9,421
Settlement risk	-	2
Total market risk exposure	29,335	27,390

Liquidity risk

Nykredit's liquidity risk is the risk that Nykredit 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 Nykredit from pursuing the adopted business model, or the risk that Nykredit's costs of raising liquidity become prohibitive.

The composition of liquidity and funding is much affected by regulatory requirements and rating criteria. Nykredit 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), Additional Loss-Absorbing Capacity (ALAC), debt buffer and Supervisory Diamond benchmarks.

The stock of liquid assets ensures that Nykredit has a sizeable liquidity buffer for cash flows driven by customer behaviour, loan arrears, current costs and maturing market funding. In addition, the stock of liquid assets ensures Nykredit's compliance with statutory liquidity requirements, including the LCR, and the requirement of Danish mortgage legislation for supplementary collateral in case of falling property prices in connection with covered bond (SDO) issuance, and fulfilment of credit rating agencies' criteria as a precondition for maintaining the high ratings.

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

The Board of Directors and Nykredit's Asset/Liability Committee oversee the liquidity of the Group companies. The individual Group companies manage 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 Nykredit 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 policy and liquidity management guidelines

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

One aim of the liquidity policy is to ensure that Nykredit's funding and liquidity management supports the mortgage lending business and ensures competitive prices for customers and Nykredit, regardless of the market conditions. Furthermore, the liquidity management framework must sustain Nykredit's ability to maintain high ratings and its status as issuer of covered bonds (SDOs).

In addition to the liquidity policy, Nykredit'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 Group companies through the Asset/Liability Committee (ALCO).

The guidelines provide limits for Nykredit's day-to-day liquidity management and for short-, medium- and long-term management. Limits have also been set for the composition of the stock of liquid assets, the LCR, stress tests, Nykredit Bank's deposits, the use and diversification of funding sources, leverage, MREL, the debt buffer, rating criteria as well as future regulatory requirements.

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.

Liquidity Coverage Ratio (LCR)

The LCR is used to assess Nykredit's short-term liquidity risk. The LCR reflects the ratio of liquid assets to net cash outflows over a 30-day period and must be at least 100%. Under this requirement, Nykredit must hold an adequate stock of liquid assets to withstand a liquidity stress for a period of at least 30 days.

At end-2019, Nykredit's LCR was 955% and the excess liquidity coverage was DKK 104.0 billion. The aggregate LCR of Nykredit's mortgage banks was 3,482%, while Nykredit Bank's LCR was 153%.

Liquid assets used to comply with the requirement of supplementary collateral in Nykredit Realkredit and Totalkredit are considered to be encumbered and consequently ineligible for the purpose of LCR determination.

The Danish FSA has granted Nykredit permission not to include mortgage lending in the calculation of LCR for Nykredit Realkredit and Totalkredit. The permission was motivated by the fact that match funding limits liquidity risk in relation to mortgage lending and its funding. The condition for the permission is that Nykredit must comply with a minimum LCR requirement. This means that the stock of liquid assets must make up at least 2.5% of Nykredit Realkredit's and Totalkredit's total mortgage lending. At end-2019, liquid assets eligible for meeting the minimum requirement amounted to 3.9%, or DKK 49.1 billion, against a requirement of DKK 31.6 billion.

The Danish FSA has introduced an additional liquidity requirement concerning foreign currencies. Under this requirement, Danish SIFIs must meet an LCR-like requirement in respect of selected significant currencies except for SEK and NOK. This is in addition to the regulatory LCR requirement, which applies at aggregate level across all currencies. The currency requirement contributes to ensuring a suitable currency match between liquid assets and cash flows. This requirement, which for Nykredit only concerns EUR, applies to the Nykredit Realkredit Group. The LCR in foreign currencies must be 100% or more. At end-2019, Nykredit's LCR in EUR was 483%.

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, IT, legal, 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.

Given its nature and characteristics, operational risk is best mitigated and managed in the first line of defence through the day-to-day business conduct. The responsibility for the day-to-day management of operational risks is therefore decentralised and lies with the individual business areas. Operational risk management activities are coordinated centrally to ensure coherence and consistency 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 area identifying and assessing its own significant risks on an ongoing basis. Nykredit's risk control function holds quarterly risk meetings with selected business areas for the purpose of reviewing the areas' operational risk and it is assessed whether the risks are adequately managed through controls and other risk-mitigating actions.

Moreover, all operational risk events including operational risk gain events, potential operational loss/gain events and events that did not lead to a 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.

Capital requirement for operational risk

Nykredit determines the capital requirement for operational risk using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings of the past three years. REA for operational risk was DKK 25.5 billion throughout 2019.

52. 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 items:

	Nykredit Realkredit A/S			Nykredit Realkredit Group		
	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes Accumulated	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes Accumulated
2019						
Assets						
Loans, advances and other receivables at amortised cost (interest rate risk)	-	-	-	569	577	8
Liabilities						
Deposits and other payables (interest rate risk)	-	-	-	112	133	(21)
Bonds in issue at amortised cost (interest rate risk)	27,451	27,345	72	28,213	28,129	50
Subordinated debt (interest rate risk)	10,437	10,642	(205)	10,437	10,642	(205)
Derivative financial instruments						
Interest rate swaps, loans, advances and other receivables (net)	-	-	-	112	22	22
Interest rate swaps, loans and advances as well as deposits and other payables (net)	-	-	-	584	(8)	(8)
Interest rate swaps, bonds in issue at amortised cost	27,451	(72)	(72)	28,247	(46)	(46)
Interest rate swaps, subordinated debt	10,458	205	205	10,458	205	205
Gain/loss for the year on hedging instruments		(11)			(26)	
Gain/loss for the year on hedged items		11			25	
Net gain/loss through profit or loss (ineffectiveness for the year)		-			(1)	
Maturity	Up to 1 year	1-5 years	over 5 years	Up to 1 year	1-5 years	over 5 years
Swaps hedging interest rate risk of financial assets	-	-	-	0	3	19
Swaps hedging interest rate risk of financial liabilities	4	158	(28)	4	180	(33)

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

It is Nykredit'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. Thus, cash flows have been changed from a fixed interest payment to a variable interest payment. The average fixed rate of derivatives hedging financial assets and liabilities, respectively, is 4.8% or 1.3%.

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). For bonds in issue measured at amortised cost in Nykredit Realkredit A/S, hedging is carried out at the time of issuance using interest rate swaps with the same interest rate and maturity profile.

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%. The most significant hedges (bonds in issue and subordinated debt) are nearly 100% effective. The hedges are not generally changed, but if the effectiveness test indicates undesired ineffectiveness or that a better hedge may be attained, 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 48 and 49 which show offsetting and maturities relating to derivative financial instruments as well as "Hedge accounting" in accounting policies.

52. EQUITY FOR ACCOUNTING PURPOSES (CONTINUED)

	Nykredit Realkredit A/S			Nykredit Realkredit Group		
	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes Accumulated	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes Accumulated
2018						
Assets						
Loans, advances and other receivables at amortised cost (interest rate risk)	-	-	-	693	701	8
Liabilities						
Deposits and other payables (interest rate risk)	-	-	-	285	307	(22)
Bonds in issue at amortised cost (interest rate risk)	14,942	14,911	30	15,766	15,770	(4)
Subordinated debt (interest rate risk)	10,424	10,638	(214)	10,424	10,638	(214)
Derivative financial instruments						
Interest rate swaps, loans, advances and other receivables (net)	-	-	-	597	23	23
Interest rate swaps, loans and advances as well as deposits and other payables (net)	-	-	-	1,044	(7)	(7)
Interest rate swaps, bonds in issue at amortised cost	14,942	(11)	(11)	15,897	27	27
Interest rate swaps, subordinated debt	10,454	214	214	10,454	214	214
Gain/loss for the year on hedging instruments		(6)			(55)	
Gain/loss for the year on hedged items		6			51	
Net gain/loss through profit or loss (ineffectiveness for the year)		-			(3)	

53. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	Financial items at amortised cost 2019	Financial items at fair value 2019	Financial items at amortised cost 2018	Financial items at fair value 2018
Assets				
Cash balances and receivables from credit institutions and central banks	59,623	-	29,691	-
Loans, advances and other receivables at fair value ¹	-	1,287,610	-	1,193,975
Loans and advances etc	114,590	-	98,311	-
Bonds	-	108,555	-	93,622
Positive market value of derivatives	-	21,500	-	18,457
Interest and administration margin income etc receivable	178	2,336	145	2,689
Total	174,391	1,420,001	128,147	1,308,743
Liabilities				
Payables to credit institutions and central banks	13,914	-	15,692	-
Deposits and other payables	100,677	-	93,191	-
Bonds in issue at fair value ²	-	1,336,414	-	1,196,229
Bonds in issue at amortised cost	33,810	-	22,590	-
Other non-derivative financial liabilities at fair value	-	4,523	-	5,592
Subordinated debt	11,004	-	11,011	-
Negative market value of derivatives	-	13,057	-	11,731
Interest etc payable	243	7,009	289	7,485
Total	159,648	1,361,003	142,773	1,221,037

¹ Loans, advances and other receivables at fair value include mortgage lending measured at fair value using the fair value option.

² Bonds in issue at fair value include bonds in issue funding mortgage lending. Bonds in issue are measured at fair value using the fair value option.

NOTES

		DKK million	
Nykredit Realkredit A/S		Nykredit Realkredit Group	
2018	2019	2019	2018
54. CURRENCY EXPOSURE			
By main currency, net			
(3)	2	USD	(1) 6
2	0	GBP	0 1
(2)	12	SEK	12 (1)
1	1	NOK	3 3
(1)	(1)	CHF	(4) (2)
0	0	CAD	(1) 0
0	0	JPY	(1) 1
3	123	EUR	347 (9)
0	0	Other	3 3
(1)	137	Total	359 1
6	138	Exchange Rate Indicator 1	367 14

Exchange Rate Indicator 1 is determined as the sum of the highest numerical value of assets (long position) or net payables. Exchange Rate Indicator 1 shows the overall foreign exchange risk.

Nykredit Realkredit Group

55. ACQUISITION OF GROUP ENTERPRISE

Sparinvest Holdings SE	Pre-acquisition balance sheet at 30 August 2019
Assets	
Cash balances and receivables from credit institutions	321
Bonds	39
Equities	57
Intangible assets	178
Owner-occupied properties, including leased properties	25
Other property, plant and equipment	5
Other assets and prepayments etc	248
Total assets	873
Liabilities	
Other payables	199
Provisions	2
Total liabilities	201
Equity (net assets)	673
Minority interests' share of equity (24.77%)	166
Equity excluding minority interests (Nykredit Bank's share)	506
Cash purchase price including previous holdings of 0.2%	2,192
Goodwill	1,686

The purchase price has been settled in cash. The Nykredit Group received DKK 321 million in cash in connection with the acquisition.

As from 30 August 2019 the subsidiary Nykredit Bank A/S has acquired about 75% of the capital and voting rights, and consequently obtained control of Sparinvest Holdings SE, Luxembourg. The acquisition of Sparinvest has increased the competitive power of Nykredit as well as the Totalkredit alliance.

The pre-acquisition balance sheet corresponds to the balance sheet of Sparinvest Holdings SE as at 30 August 2019. A few adjustments have been made; for example the equity portfolio has been adjusted to fair value, and owner-occupied properties and other payables have been increased by DKK 24 million related 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.

The company's profit (loss) for the period from 31 August to 31 December 2019 has been included in the Nykredit Bank Group's Financial Statements for 2019, at a loss of DKK 3 million. Sparinvest's profit (loss) up to the acquisition date amounted to DKK 100 million; an amount which has not been recognised in the Financial Statements. Profit for 2019 stood at DKK 97 million. Nykredit Bank has paid advisory fees etc of DKK 39 million, which have been charged to the income statement.

Goodwill corresponding to the balance between the value of Nykredit's ownership interest in Sparinvest and purchase price has been calculated provisionally at DKK 1,686, which has been allocated to Wealth Management, a business area of the Nykredit Group. A number of minor assets and liabilities have not yet been reviewed. 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. In connection with the investment in Sparinvest, an intangible asset was identified, which must be capitalised according to the accounting rules. The value thereof has been determined at DKK 170 million, equal to the present value of particularly the distribution network. The asset is amortised over 7 years.

Nykredit Realkredit Group

55. ACQUISITION OF GROUP ENTERPRISE (CONTINUED)Pre-acquisition balance sheet
at 30 December 2019**LR Realkredit A/S****Assets**

Cash balances and receivables from credit institutions	1,588
Loans, advances and other receivables	22,628
Bonds	3,120
Other property, plant and equipment	0
Other assets and prepayments etc	36
Total assets	27,373

Liabilities

Bonds in issue	23,880
Other payables and prepayments	191
Total liabilities	24,071

Equity (net assets)	3,302
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Cash purchase price	2,737
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Badwill	(564)
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The purchase price has been settled in cash. The Nykredit Group received DKK 1,588 million in cash in connection with the acquisition.

As from 30 December 2019 Nykredit Realkredit A/S has acquired 100% of the capital and voting rights and consequently obtained control of LR Realkredit A/S. The acquisition of LR Realkredit has increased the competitive power of Nykredit and also has a positive impact on Nykredit's capital position and equity from the recognition of about DKK 0.6 billion-worth of badwill, as the purchase price is lower than the equity value. The main reason is that a significant part of the company's equity comprises a non-distributable reserve fund (DKK 3.2 billion) that may be used to cover losses but cannot be distributed to the company's shareholders, which implies a lower valuation.

The pre-acquisition balance sheet is based on the balance sheet of LR Realkredit A/S as at 30 December 2019. Loans, advances and other receivables at fair value have been adjusted by DKK 146 million to DKK 22,628 million (nominal value: DKK 22,004 million). The carrying amount of cash and cash equivalents, short-term receivables as well as payables is assumed to equal the fair value. Badwill is the difference between the purchase price and net assets at fair value. Badwill is non-taxable.

Other than the impact of badwill, the Group's profit was not impacted by the investment in 2019, as the investment was made with effect from 30 December 2019 and thus without an earnings impact (a loss of DKK 3 million after tax). LR Realkredit A/S recorded a profit of DKK 175 million for the full-year 2019. An expense of DKK 10 million for advisers retained by Nykredit has been charged to the income statement.

The balance between the value of Nykredit's ownership interest in the company and the purchase price has been calculated provisionally at a negative DKK 564 million (badwill) and recognised as income in Group Items, a business area. No intangible assets (for instance customer relationships and distribution network) have been identified in connection with the transaction, which must be recognised as assets according to the accounting rules.

As the investment in LR Realkredit A/S was not completed until 30 December 2019, there is an ongoing process of identifying and valuing the company's assets, liabilities and equity, and changes to the valuation may arise. IFRS 3 furthermore stipulates that the pre-acquisition balance sheet in some instances may be adjusted for a period of up to 12 months after the date of acquisition. At the date of presentation of the Annual Report, no areas have been identified that may significantly affect the balance sheet or badwill.

NOTES

DKK million

Nykredit Realkredit Group

56. EVENTS SINCE THE BALANCE SHEET DATE

No significant events have occurred in the period up to the presentation of the Annual Report 2019 which affect the financial position of the Nykredit Group.

57. FINANCIAL RATIOS, DEFINITIONS**Financial ratios****Definition**

Return on equity before tax, %

The sum of profit (loss) before tax divided by average equity.

Return on equity after tax, %

The sum of profit (loss) after tax divided by average equity.

Income:cost ratio

Total income divided by total costs less tax.

Foreign exchange position, %

Exchange Rate Indicator 1 at year-end divided by Tier 1 capital including Additional Tier 1 capital less deductions at year-end.

Loans and advances:equity (loan gearing)

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

Growth in loans and advances for the year, %

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

Impairment charges for the year, %

Provisions for loan impairment and guarantees for the year divided by the sum of loans and advances at fair value, arrears and outlays, loans and advances at amortised cost, guarantees and provisions at year-end.

Return on capital employed, %

Profit (loss) after tax for the year divided by total assets.

Financial ratios – capital and capital adequacy**Definition**

Total capital ratio, %

Own funds divided by the risk exposure amount.

Tier 1 capital ratio, %

Tier 1 capital (including Additional Tier 1 capital) divided by the risk exposure amount.

Common Equity Tier 1 capital ratio, %

Common Equity Tier 1 capital (excluding Additional Tier 1 capital) divided by the risk exposure amount.

Financial ratios are based on the Danish FSA's definitions and guidelines.

Other financial ratios on page 5 and in note 3**Definition**Profit (loss) for the year as % of business capital (ROAC)
(return on allocated capital)

Profit (loss) for the year relative to business capital. Profit corresponds to net profit or loss less interest expenses for Additional Tier 1 capital, which is treated as dividend in the Financial Statements. Business capital corresponds to a capital target of 16% of the risk exposure amount and minority interests' share of profit (loss).

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

Profit (loss) for the year less interest expenses for Additional Tier 1 capital divided by average equity excluding Additional Tier 1 capital and minority interests.

Costs as % of income

Costs divided by income

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

Business profit (loss) divided by average equity

* Equity is calculated based on the five quarter average.

NOTES

DKK million

Nykredit Realkredit Group

	2019	2018	2017	2016	2015
58. FIVE-YEAR FINANCIAL HIGHLIGHTS					
SUMMARY INCOME STATEMENT					
Net interest income	11,038	10,869	11,485	11,470	11,877
Net fee income etc	(264)	(337)	(99)	(188)	(94)
Net interest and fee income	10,774	10,532	11,386	11,281	11,783
Value adjustments	2,130	724	3,620	775	652
Other operating income	2,198	1,056	501	589	194
Staff and administrative expenses	4,830	4,609	4,533	4,796	4,658
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	305	103	248	185	2,185
Other operating expenses	191	154	196	285	188
Impairment charges for loans, advances and receivables etc	994	380	379	680	920
Profit (loss) from investments in associates and Group enterprises	5	(9)	21	8	8
Profit before tax	8,787	7,057	10,170	6,708	4,685
Tax	1,344	1,247	2,039	1,327	1,448
Profit for the year	7,443	5,810	8,131	5,380	3,237
Value adjustment and reclassification of strategic equities against equity	-	0	(6)	331	7
SUMMARY BALANCE SHEET, YEAR-END					
	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Assets					
Cash balances and receivables from credit institutions and central banks	59,623	29,691	48,031	34,829	23,253
Mortgage loans at fair value	1,287,370	1,193,667	1,163,879	1,124,693	1,119,101
Bank loans excluding reverse repurchase lending	65,466	60,566	55,783	55,003	46,747
Bonds and equities etc	115,690	99,444	102,125	116,555	110,294
Remaining assets	82,188	64,624	56,992	69,525	84,394
Total assets	1,610,336	1,447,991	1,426,810	1,400,606	1,383,789
Liabilities and equity					
Payables to credit institutions and central banks	13,914	15,692	13,319	21,681	30,226
Deposits and other payables	100,677	93,191	75,914	65,415	62,599
Bonds in issue at fair value	1,336,414	1,196,229	1,179,093	1,152,383	1,137,314
Subordinated debt	11,004	11,011	10,942	11,078	11,006
Remaining liabilities	63,949	51,990	68,695	79,092	77,184
Equity	84,378	79,878	78,847	70,957	65,460
Total liabilities and equity	1,610,336	1,447,991	1,426,810	1,400,606	1,383,789
OFF-BALANCE SHEET ITEMS					
Contingent liabilities	6,616	5,913	7,055	6,694	6,942
Other commitments	28,206	16,948	8,443	6,934	6,637
FINANCIAL RATIOS¹					
Total capital ratio, %	23.7	25.4	25.3	23.0	23.9
Tier 1 capital ratio, %	20.5	22.1	21.7	19.9	20.5
Return on equity before tax, %	10.7	8.9	13.6	10.3	7.6
Return on equity after tax, %	9.1	7.2	10.8	8.3	5.2
Income:cost ratio	2.39	2.35	2.90	2.13	1.59
Foreign exchange position, %	0.5	0.0	0.3	0.3	0.4
Loans and advances:equity (loan gearing)	16.6	16.2	15.8	17.1	18.4
Growth in loans and advances for the year, %	7.8	3.9	2.4	(0.7)	0.2
Impairment charges for the year, %	0.07	0.03	0.03	0.06	0.08
Return on capital employed, %	0.46	0.40	0.57	0.38	0.23

¹ Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 57.

NOTES

DKK million

Nykredit Realkredit A/S

	2019	2018	2017	2016	2015
58. FIVE-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)					
SUMMARY INCOME STATEMENT					
Net interest income	3,916	4,038	4,209	4,579	5,017
Net fee income etc	340	639	626	844	901
Net interest and fee income	4,256	4,678	4,835	5,423	5,918
Value adjustments	1,524	(375)	961	919	(235)
Other operating income	2,044	1,021	952	1,054	816
Staff and administrative expenses	2,638	2,767	2,773	3,155	3,078
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	278	93	227	163	2,134
Other operating expenses	167	131	166	231	122
Impairment charges for loans, advances and receivables etc	696	(37)	(164)	770	586
Profit from investments in associates	3,954	3,883	5,076	3,181	3,165
Profit before tax	7,998	6,253	8,822	6,257	3,744
Tax	555	443	698	545	501
Profit for the year	7,443	5,810	8,125	5,712	3,244
SUMMARY BALANCE SHEET, YEAR-END					
	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Assets					
Cash balances and receivables from credit institutions and central banks	64,379	37,761	55,198	31,833	18,561
Mortgage loans at fair value	511,722	509,225	519,721	524,984	549,618
Totalkredit mortgage loan funding	842,624	712,600	688,444	635,985	593,377
Bonds and equities etc	37,529	39,613	43,149	48,342	59,786
Remaining assets	68,082	59,342	60,779	64,410	61,116
Total assets	1,524,337	1,358,540	1,367,291	1,305,554	1,282,458
Liabilities and equity					
Payables to credit institutions and central banks	2,562	1,094	5,353	18,054	17,724
Deposits and other payables	11,950	10,500	-	-	-
Bonds in issue	1,374,671	1,229,273	1,235,565	1,181,335	1,169,616
Subordinated debt	11,016	11,011	10,942	11,078	10,907
Remaining liabilities	39,817	26,779	36,583	24,133	18,750
Equity	84,321	79,883	78,847	70,954	65,460
Total liabilities and equity	1,524,337	1,358,540	1,367,291	1,305,554	1,282,458
OFF-BALANCE SHEET ITEMS					
Other commitments	11,594	7,392	1,596	1,537	1,197
FINANCIAL RATIOS¹					
Total capital ratio, %	19.1	20.9	20.5	20.7	20.1
Tier 1 capital ratio, %	16.7	18.1	17.9	18.0	17.3
Return on equity before tax, %	9.7	7.9	11.8	9.2	6.0
Return on equity after tax, %	9.1	7.3	10.8	8.3	5.2
Income:cost ratio	3.12	3.12	3.94	2.45	1.63
Foreign exchange position, %	0.2	0.0	0.3	0.1	0.1
Loans and advances:equity (loan gearing)	6.1	6.4	6.6	7.4	8.4
Growth in loans and advances for the year, %	0.2	(1.9)	(1.5)	(5.2)	(4.7)
Impairment charges for the year, %	0.1	0.00	(0.03)	0.15	0.11
Return on capital employed, %	0.49	0.42	0.59	0.43	0.25

¹ Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 57.

Nykredit Realkredit Group

59. GROUP STRUCTURE

Name and registered office	Ownership interest as %, 31 December 2019	Profit for 2019	Equity, 31 December 2019	Number of staff in 2019	Profit for 2018	Equity, 31 December 2018	Number of staff in 2018
Nykredit Realkredit A/S (Parent), Copenhagen, a)	-	7,443	84,321	2,383	5,810	79,883	2,403
Totalkredit A/S, Copenhagen, a)	100	2,573	30,612	201	2,120	28,229	108
Nykredit Bank A/S, Copenhagen, b)	100	1,287	24,377	679	1,660	21,095	664
Nykredit Portefølje Administration A/S, Copenhagen, g)	100	191	1,079	120	163	887	118
Nykredit Leasing A/S, Gladsaxe, e)	100	102	858	58	84	755	55
Sparinvest Holdings SE, Luxembourg, h)	76	280	233	2	-	-	-
Nykredit Mægler A/S, Copenhagen, c)	100	69	138	31	67	133	34
Nykredit Ejendomme A/S, Copenhagen, d) (discontinued in 2018)	-	-	-	-	24	0	-
LR Realkredit A/S, Copenhagen, a)	100	175	3,299	6	-	-	-
Ejendomsselskabet Kalvebod A/S, Copenhagen, h)	100	28	698	-	25	256	-
Kalvebod Ejendomme I A/S, Copenhagen, d)	100	25	556	-	7	117	-
Kalvebod Ejendomme II A/S, Copenhagen, d)	100	3	138	-	20	135	-

The Group structure only includes significant subsidiaries. Financial information is provided in the order in which the subsidiaries are recognised in the Consolidated Financial Statements.

All banks and mortgage providers subject to national financial supervisory authorities must comply with the statutory capital requirements. The capital requirements may limit intercompany facilities and dividend payments.

Geographical distribution of activities

	Number of staff	Revenue ¹	Profit (loss) before tax	Tax	Government aid received
Denmark: Names and activities appear from the Group structure above	3,512	31,087	8,787	1,344	-
Poland: Nykredit Realkredit A/S S.A. Oddział w Polsce, branch, a) (discontinued in 2018)	3	1	(0)	-	-

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

a) Mortgage bank

b) Bank

c) Estate agency business

d) Property company

e) Leasing business

f) No activity

g) Investment management company

h) Holding company, no independent activities

Nykredit Realkredit A/S is wholly owned by and consolidated with Nykredit A/S for accounting purposes, which is consolidated with Forenet Kredit f.m.b.a. for accounting purposes. The financial statements of Forenet Kredit f.m.b.a. (in Danish) and Nykredit A/S are available from:

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

Nykredit Realkredit Group

	Ownership interest as %, 31 December 2019	Revenue 2018	Profit (loss) for 2018	Assets, 31 December 2018	Liabilities, 31 December 2018	Equity, 31 December 2018	Nykredit's share of profit for 2018	Nykredit's share of equity value, 31 December 2018	Profit (loss) for 2017	Equity, 31 December 2017
59. GROUP STRUCTURE (CONTINUED)										
Name and registered office										
Associates¹										
Bolighed A/S, a)	50	24	1	10	1	7	-	3	(1)	6
Boligsiden A/S, Copenhagen, a)	23	7	(1)	14	-	12	-	3	-	12
Komplementarselskabet Core Property Management A/S, Copenhagen, c)	20	5	5	23	3	24	1	5	48	51
Core Property Management P/S, Copenhagen, a)	20	100	21	46	9	45	4	9	14	24
E-nettet A/S, Copenhagen, b)	17	180	4	171	13	103	1	17	16	99
Jesper Nielsen Franchisegiver A/S, d)	50	-	-	-	-	-	-	-	-	-
JN Data A/S, Silkeborg, b)	13	-	-	-	-	-	-	-	8	222

¹ Recognised on the basis of the latest annual reports or interim reports as at 30 September if annual reports are not available.

Nykredit holds less than 20% of the shares in E-nettet A/S, but still exercises significant influence over the financial and operational conditions of the company as it has a representative on the board of directors. Consequently, for accounting purposes the shareholding is treated as an associate.

- a) Property company
- b) IT provider
- c) Investment company
- d) Property company

Nykredit Realkredit A/S

SERIES FINANCIAL STATEMENTS

Pursuant to the Danish Financial Supervisory Authority's Executive Order no 872 of 20 November 1995 on series financial statements of mortgage banks, mortgage banks are required to prepare separate series financial statements for series with series reserve funds, cf section 25(1) of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act.

The Series Financial Statements have been prepared on the basis of the Financial Statements 2019 of Nykredit Realkredit A/S.

The distribution of profit for 2019 adopted by Nykredit Realkredit A/S's Board of Directors (see the Annual Report, page 46) has been included in the Series Financial Statements. The series' calculated share of profit for the year of Nykredit Realkredit A/S determined in accordance with the Executive Order has been taken to the general reserves of Nykredit Realkredit A/S.

The Series Financial Statements have been printed at association level, cf section 30(3) of the Executive Order.

Complete Series Financial Statements may be obtained from Nykredit Realkredit A/S.

MANAGEMENT COMMENTARY (CONTINUED)

DKK million

Nykredit Realkredit A/S

Summary series financial statements at the level of the association and Nykredit Realkredit In General

2019	1	2	3	4	5	6	7
	KØK	FSK	LCR	HUM	BHY	SKRF	VESØ
Income statement							
Income from lending	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Interest etc, net	1.4	0.3	0.3	0.6	0.1	0.1	0.2
Administrative expenses	(0.2)	(0.1)	0.0	(0.1)	0.0	0.0	0.0
Write-offs and impairment charges for loans and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(0.3)	(0.2)	(0.1)	(0.1)	0.0	0.0	0.0
Profit	1.3	0.4	0.2	0.4	0.1	0.1	0.2
Balance sheet							
Assets							
Mortgage loans etc	115.0	123.4	6.9	8.6	0.1	4.9	5.2
Remaining assets	35.0	9.6	5.1	9.8	1.3	3.2	5.4
Total assets	150.0	133.0	12.0	18.4	1.4	8.1	10.6
Liabilities and equity							
Bonds in issue etc	125.1	124.0	8.0	9.8	0.4	6.2	6.9
Remaining liabilities	6.1	5.3	0.5	0.7	0.1	0.5	0.5
Equity	18.8	3.7	3.5	7.9	0.9	1.4	3.2
Total liabilities and equity	150.0	133.0	12.0	18.4	1.4	8.1	10.6
Movements in capital, net	(0.5)	(0.3)	(0.4)	0.0	(0.3)	(0.6)	0.3
2019	8	9	10	11 Total			
	HUSM	KHYP	JLKR	(1-10)			
Income statement							
Income from lending	0.0	0.0	0.0	0.8			
Interest etc, net	0.1	0.0	0.1	3.2			
Administrative expenses	0.0	0.0	0.0	(0.4)			
Write-offs and impairment charges for loans and advances	0.0	0.0	0.0	0.0			
Tax	0.0	0.0	0.0	(0.7)			
Profit	0.1	0.0	0.1	2.9			
Balance sheet							
Assets							
Mortgage loans etc	2.9	0.0	3.5	270.5			
Remaining assets	1.8	0.5	9.0	80.7			
Total assets	4.7	0.5	12.5	351.2			
Liabilities and equity							
Bonds in issue etc	3.1	0.4	4.7	288.6			
Remaining liabilities	0.2	0.0	0.6	14.5			
Equity	1.4	0.1	7.2	48.1			
Total liabilities and equity	4.7	0.5	12.5	351.2			
Movements in capital, net	(0.5)	(0.3)	(0.4)	0.0			

MANAGEMENT COMMENTARY (CONTINUED)

DKK million

Nykredit Realkredit A/S

Summary series financial statements at the level of the association and Nykredit Realkredit In General

2019	12 FK	13 JK	14 NYK	15 Total (12-14)	16 INST	17 Total (11,15,16)
Income statement						
Income from lending	0.0	0.0	3,760.6	3,760.6	(1.8)	3,759.6
Interest etc, net	0.0	0.0	3,044.2	3,044.2	2,903.8	5,951.2
Administrative expenses	0.0	0.0	(520.1)	(520.1)	(496.1)	(1,016.6)
Write-offs and impairment charges for loans and advances	0.0	0.0	(813.6)	(813.6)	117.8	(695.8)
Tax	0.0	0.0	(1,203.7)	(1,203.7)	649.5	(554.9)
Profit	0.0	0.0	4,267.4	4,267.4	3,173.2	7,443.5
Balance sheet						
Assets						
Mortgage loans etc	0.0	0.0	511,622.2	511,622.2	415.7	512,308.4
Remaining assets	0.0	0.0	1,019,736.7	1,019,736.7	33,067.9	1,052,885.3
Total assets	0.0	0.0	1,531,358.9	1,531,358.9	33,483.6	1,565,193.7
Liabilities and equity						
Bonds in issue etc	0.0	0.0	1,420,098.3	1,420,098.3	447.9	1,420,834.8
Remaining liabilities	0.0	0.0	62,403.2	62,403.2	1,364.5	63,782.2
Equity	0.0	0.0	48,857.4	48,857.4	31,671.2	80,576.7
Total liabilities and equity	0.0	0.0	1,531,358.9	1,531,358.9	33,483.6	1,565,193.7
Movements in capital, net	0.0	0.0	12,380.2	-	(7,960.2)	-

1 Københavns Kreditforening		12 Forenede Kreditforeninger
2 Fyens Stifts Kreditforening	7 Den vest- og sønderjydske Kreditforening	13 Jyllands Kreditforening
3 Landkreditkassen	8 Jydsk Husmandskreditforening	14 Nykredit (including Capital Centres C, D, E, G, H, I & J)
4 Østifternes Husmandskreditforening	9 Købstadshypotekforeningen	15 Sum (12-14) Foreninger efter 1972
5 Byernes Hypotekforening	10 Jydsk Landkreditforening	16 Nykredit Realkredit In General
6 Sønderjyllands Kreditforening	11 Total (1-10) Foreninger før 1972	17 Sum (11, 15, 16) Nykredit Realkredit A/S

Notes

1. Assets, Series Financial Statements

Assets in Nykredit Realkredit A/S's Financial Statements, end-2019

1,524,337.0

Assets, Series Financial Statements

1,565,193.7

Difference

(40,856.7)

Specified as follows:

Set-off of self-issued ROs, self-issued SDOs, self-issued senior secured debt and other self-issued securities

(40,625.7)

Set-off of interest receivable from self-issued bonds etc

(231.0)

Total

(40,856.7)

2. Equity, Series Financial Statements

Equity in Nykredit Realkredit A/S's Financial Statements, end-2019

84,320.6

Of which holders of Additional Tier 1 capital

(3,777.6)

Provisions for repayable reserves in pre-1972 series

33.7

Equity, Series Financial Statements

80,576.7

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Realkredit Group

FINANCIAL CALENDAR FOR 2020

5 February	Publication of Annual Reports 2019 and announcements of Financial Statements of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
26 March	Annual General Meetings of Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
7 May	Publication of Q1 Interim Report 2020 of the Nykredit Realkredit Group.
20 August	Publication of H1 Interim Reports 2020 of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
4 November	Publication of Q1-Q3 Interim Report 2020 of the Nykredit Realkredit Group.

MANAGEMENT COMMENTARY (CONTINUED)

DIRECTORSHIPS AND EXECUTIVE POSITIONS

The Board of Directors and the Executive Board form the Nykredit Realkredit Group's Management.

BOARD OF DIRECTORS

The Board of Directors meets monthly, except in July, and holds a strategy seminar once a year.

The Board members are elected for a term of one year. The latest election took place on 21 March 2019. Re-election is not subject to any restrictions.

Below, an account is given of the individual director's position, age, gender and years of service on the Board, meeting attendance, skills as well as directorships and executive positions in other Danish and foreign companies as well as major organisational responsibilities.

Steffen Kragh, Chairman

Chief Executive Officer

Date of birth: 6 April 1964

Gender: Male

Joined the Board on 28 March 2006

Non-independent director – more than 12 years on the Board of Directors

Board of Directors, meetings attended in 2019: 15/15

Chairman of the Board Nomination Committee, meetings attended in 2019: 3/3

Chairman of the Board Remuneration Committee, meetings attended in 2019: 3/3

Board expertise:

In-depth knowledge:

- Capital markets, securities and funding
- Organisation/HR and processes
- Strategic matters
- Corporate governance
- Economics, finance and accounting

Expert knowledge:

- Digitisation, IT and processes
- Financial regulation
- Market conditions, customer relations and sales
- Risk management and credit matters

Chief Executive Officer of:

Egmont Fonden

Egmont International Holding A/S

Chairman of:

Nykredit A/S

Egmont Administration A/S

Egmont Finansiering A/S

Egmont Holding Limited

Egmont Investerings A/S

Egmont Svensk Finansiering A/S

Lindhardt og Ringhof Forlag A/S

Nordisk Film A/S

Deputy Chairman of:

Lundbeckfonden

Lundbeckfond Invest A/S

Director of:

Cappelen Damm Holding AS

Egmont Book Publishing Ltd.

Egmont UK Ltd.

Ejendomsselskabet Gothersgade 55 ApS

Ejendomsselskabet Vognmagergade 11 ApS

MBG Sleeping Egmont A/S

Managing Director of:

NKB Invest 103 ApS

Merete Eldrup, Deputy Chairman

Former Chief Executive Officer

Date of birth: 4 August 1963

Gender: Female

Joined the Board on 24 March 2010

Independent director

Board of Directors, meetings attended in 2019: 15/15

Member of the Board Nomination Committee, meetings attended in 2019: 3/3

Member of the Board Audit Committee, meetings attended in 2019: 8/8

Chairman of the Board Risk Committee, meetings attended in 2019: 8/8

Member of the Board Remuneration Committee, meetings attended in 2019: 3/3

Board expertise:

In-depth knowledge:

- Market conditions, customer relations and sales
- Organisation/HR and processes
- Politics, public administration and associations
- Risk management and credit matters
- Strategic matters
- Corporate governance
- Economics, finance and accounting

Expert knowledge:

- Digitisation, IT and processes
- Financial regulation

Chief Executive Officer of:

TV2/DANMARK A/S**

Chairman of:

Københavns Universitet*

TV 2 BIB A/S**

TV 2 DTT A/S**

TV 2 Networks A/S**

Deputy Chairman of:

Nykredit A/S

Gyldendal A/S**

Rockwool Fonden*

Director of:

Justitia*

Kalaallit Airports International A/S*

Rambøll Gruppen A/S

Member of the committee of representatives of:

Foreningen Realdania

Nina Smith, Deputy Chairman

Professor

Date of birth: 17 October 1955

Gender: Female

Joined the Board on 22 September 2004

Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Board of Directors, meetings attended in 2019: 15/15

Member of the Board Nomination Committee, meetings attended in 2019: 3/3

Member of the Board Remuneration Committee, meetings attended in 2019: 3/3

Board expertise:

In-depth knowledge:

- Financial regulation
- Capital markets, securities and funding
- Politics, public administration and associations
- Risk management and credit matters
- Strategic matters
- Economics, finance and accounting

Expert knowledge:

- Sector and real estate expertise

Professor at Institut for Økonomi, Aarhus Universitet

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Realkredit Group

Chairman of:

Forenet Kredit f.m.b.a.

Nykredits Fond

VIVE – Det Nationale Forsknings- og Analysecenter for Velfærd

Deputy Chairman of:

Nykredit A/S

Director of:

Carlsberg A/S**

Carlsbergfondets Forskerboliger A/S**

Faxehus ApS**

Fonden Visit Aarhus*

Helge Leiro Baastad

Chief Executive Officer

Date of birth: 14 September 1960

Gender: Male

Joined the Board on 16 March 2016

Independent director

Board of Directors, meetings attended in 2019:

15/15

Member of the Board Audit Committee, meetings attended in 2019: 6/8

Board expertise:

In-depth knowledge:

- Digitisation, IT and processes
- Capital markets, securities and funding
- Organisation/HR and processes
- Politics, public administration and associations
- Strategic matters
- Corporate governance

Expert knowledge:

- Financial regulation
- Risk management and credit matters
- Economics, finance and accounting

Chief Executive Officer of:

Gjensidige Forsikring ASA

Director of:

Nykredit A/S

Finans Norge

Ungt Entreprenørskap

Olav Bredgaard Brusen***

Deputy Chairman of NYKREDS

Date of birth: 8 May 1968

Gender: Male

Joined the Board on 16 March 2016

Board of Directors, meetings attended in 2019:

15/15

Member of the Board Remuneration Committee, meetings attended in 2019: 1/3

Board expertise:

In-depth knowledge:

- Market conditions, customer relations and sales
- Organisation/HR and processes

Expert knowledge:

- Sector and real estate expertise
- Politics, public administration and associations
- Risk management and credit matters

Director of:

Forenet Kredit f.m.b.a.**

Nykredit A/S

Member of the committee of representatives of:

Forenet Kredit f.m.b.a.*

Michael Demsitz

Chief Executive Officer

Date of birth: 1 February 1955

Gender: Male

Joined the Board on 31 March 2004

Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Board of Directors, meetings attended in 2019:

15/15

Member of the Board Risk Committee, meetings attended in 2019: 8/8

Board expertise:

In-depth knowledge:

- Sector and real estate expertise
- Market conditions, customer relations and sales
- Organisation/HR and processes
- Politics, public administration and associations
- Strategic matters
- Corporate governance

Expert knowledge:

- Digitisation, IT and processes
- Risk management and credit matters
- Economics, finance and accounting

Chief Executive Officer of:

Boligkontoret Danmark

Chairman of:

Byggeskadebogen

Deputy Chairman of:

Forenet Kredit f.m.b.a.

Nykredits Fond

Director of:

Nykredit A/S

AlmenNet

BL – Danmarks Almene Boliger

Per W. Hallgren

Chief Executive Officer

Date of birth: 8 July 1962

Gender: Male

Joined the Board on 16 March 2016

Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Board of Directors, meetings attended in 2019:

15/15

Chairman of the Board Audit Committee, meetings attended in 2019: 8/8

Member of the Board Risk Committee, meetings attended in 2019: 8/8

Board expertise:

In-depth knowledge:

- Sector and real estate expertise
- Market conditions, customer relations and sales
- Risk management and credit matters
- Strategic matters
- Corporate governance
- Economics, finance and accounting

Expert knowledge:

- Financial regulation
- Capital markets, securities and funding

Chief Executive Officer of:

Jeudan A/S

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Realkredit Group

Chairman of:

CEJ Ejendomsadministration A/S

CEJ Aarhus A/S

Center for politiske studier CEPOS

Jeudan I A/S

Jeudan II A/S

Jeudan III A/S

Jeudan IV A/S

Jeudan V A/S

Jeudan VI A/S

Jeudan VII A/S

Jeudan VIII A/S

Jeudan IX ApS

Jeudan X ApS

Jeudan XI ApS**

Jeudan Projekt & Service A/S*

Director of:

Forenet Kredit f.m.b.a.

Nykredit A/S

EjendomDanmark

Erik Fjeldsøe Fonden*

Foreningen Ofelia Plads

Marlene Holm***

Personal Banking Adviser

Date of birth: 2 December 1964

Gender: Female

Joined the Board on 21 March 2012

Board of Directors, meetings attended in 2019:
15/15

Board expertise:

Expert knowledge:

- Sector and real estate expertise
- Market conditions, customer relations and sales
- Organisation/HR and processes
- Politics, public administration and associations
- Risk management and credit matters

Director of:

Nykredit A/S

Hans-Ole Jochumsen

Former Vice Chairman

Date of birth: 14 November 1957

Gender: Male

Joined the Board on 22 March 2018

Independent director

Board of Directors, meetings attended in 2019:

15/15

Member of the Board Risk Committee, meetings attended in 2019: 8/8

Board expertise:

In-depth knowledge:

- Capital markets, securities and funding
- Market conditions, customer relations and sales
- Strategic matters
- Corporate governance
- Economics, finance and accounting

Expert knowledge:

- Sector and real estate expertise
- Digitisation, IT and processes
- Financial regulation
- Risk management and credit matters

Chairman of:

NDX Interessenter AB

Nordax Bank AB

Nordax Group AB

Director of:

Nykredit A/S

Other:

Member of Advisory Board for Concordium
Senior Adviser of Alkymi

Vibeke Krag

Former Chief Executive Officer

Date of birth: 3 November 1962

Gender: Female

Joined the Board on 16 March 2017

Non-independent director in view of directorship in
Forenet Kredit f.m.b.a.

Board of Directors, meetings attended in 2019:
15/15

Member of the Board Audit Committee, meetings attended in 2019: 8/8

Board expertise:

In-depth knowledge:

- Digitisation, IT and processes
- Financial regulation
- Risk management and credit matters
- Corporate governance
- Economics, finance and accounting

Expert knowledge:

- Sector and real estate expertise
- Market conditions, customer relations and sales
- Organisation/HR and processes
- Strategic matters

Director of:

Forenet Kredit f.m.b.a.

Nykredit A/S

Eniig Energi A/S**

Eniig Energi Naturgas A/S**

Gjensidige Forsikring ASA

Other:

Faculty member, CBS Executive, bestyrelsesuddannelsen

Member of Konkurrencerådet

Member of Udpegningsorganet for Københavns
Universitet

Editor of Erhvervsjuridisk tidsskrift, Karnov

Allan Kristiansen***

Chief Relationship Manager

Date of birth: 6 March 1958

Gender: Male

Joined the Board on 12 April 2000

Board of Directors, meetings attended in 2019:
15/15

Board expertise:

In-depth knowledge:

- Capital markets, securities and funding
- Market conditions, customer relations and sales

Expert knowledge:

- Sector and real estate expertise
- Financial regulation
- Risk management and credit matters
- Economics, finance and accounting

Director of:

Nykredit A/S

Nykredit Bank A/S

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Realkredit Group

Inge Sand***

Senior Agricultural Adviser

Date of birth: 13 March 1965

Gender: Female

Joined the Board on 16 March 2016

Board of Directors, meetings attended in 2019:
12/15

Board expertise:

Expert knowledge:

- Sector and real estate expertise
- Market conditions, customer relations and sales
- Organisation/HR and processes
- Politics, public administration and associations
- Risk management and credit matters

Director of:

Forenet Kredit f.m.b.a.**

Nykredit A/S

Member of the committee of representatives of:

Forenet Kredit f.m.b.a.*

Leif Vinther***

Senior Security Consultant

Date of birth: 18 April 1959

Gender: Male

Joined the Board on 12 April 2000

Board of Directors, meetings attended in 2019:
14/15

Board expertise:

In-depth knowledge:

- Digitisation, IT and processes
- Organisation/HR and processes
- Politics, public administration and associations

Expert knowledge:

- Financial regulation
- Strategic matters

Director of:

Forenet Kredit f.m.b.a.**

Nykredit A/S

Nykredits Fond

Member of the committee of representatives of:

Forenet Kredit f.m.b.a.*

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Realkredit 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.

Michael Rasmussen

Group Chief Executive

Date of birth: 13 November 1964

Gender: Male

Joined the Executive Board on 1 September 2013

Managing Director of:

Nykredit A/S

Chairman of:

Nykredit Bank A/S

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

Director of:

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

Tonny Thierry Andersen*

Group Managing Director

Date of birth: 30 September 1964

Gender: Male

Joined the Executive Board on 1 June 2019

Managing Director of:

Nykredit A/S*

Director of:

Nykredit Bank A/S*

David Hellemann

Group Managing Director

Date of birth: 5 December 1970

Gender: Male

Joined the Executive Board on 1 September 2016

Managing Director of:

Nykredit A/S

Chairman of:

Ejendomsselskabet Kalvebod A/S

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.

Director of:

Nykredit Bank A/S

Totalkredit A/S

CBS Executive Fonden

Finanssektorens Uddannelsescenter**

Landsdækkende Banker*

Realkreditrådet**

Anders Jensen

Group Managing Director

Date of birth: 20 January 1965

Gender: Male

Joined the Executive Board on 1 October 2014

Managing Director of:

Nykredit A/S

Chairman of:

Nykredit Leasing A/S**

Nykredit Mægler A/S**

Deputy Chairman of:

Nykredit Bank A/S*

Director of:

Nykredit Bank A/S**

Bokis A/S

e-nettet A/S**

Grænsefonden

Niels Brock (Copenhagen Business College)

Niels Brock International A/S*

Resigned on 21 March 2019:

Kim Duus

Group Managing Director

Søren Holm

Group Managing Director

* Joined in 2019

** Resigned in 2019

*** Staff-elected member

This document is an English translation of the original Danish text. In the event of discrepancies between the original Danish text and the English translation, the Danish text shall prevail.