

**Annual Report 2014**  
Nykredit Realkredit Group



**Nykredit**



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# GROUP CHIEF EXECUTIVE'S STATEMENT

2014 was an active and exciting, but also a challenging year for Nykredit. Change was the central theme. Change in order to unlock our potential, differentiate ourselves in the market and become more customer centric and efficient.

In spring we adjusted our organisation, and we are now well under way with our new strategy, Winning the Double, which we presented in late spring.

Our mission is clear: Nykredit will be the best bank for Danish homeowners. We were made by homeowners in 1851 for homeowners, and it is therefore natural that homeowners are always our first priority. In 2014 we defined our strategic platform and re-thought our market position. In 2015 we will tread a new path in the market, highlighting that our focus is homeowners and their requirements.

We have also focused on revitalising the important alliance we have with our 61 Totalkredit partner banks. 2014 made it clear that we have a robust and active partnership, and that there is a great mutual determination to take the partnership to a higher level. We took a number of important steps in that direction in 2014. We expanded our joint range of products with new competitive loans to provide our own customers and those of our partner banks with a wider choice of home finance products. On the IT front, we improved Totalkredit's joint advisory platform, Xportalen. As Nykredit is now a member of BEC, a bank-owned technology provider, we have joined forces in developing new digital banking solutions for our customers. Strong digital customer solutions will be a key focus area for Nykredit in coming years.

We have made substantial progress on our new strategy. The number of customers using Nykredit as their everyday bank continues to grow. The same applies to the number of Totalkredit customers. We have the least expensive market prices for almost any mortgage product today. Our strategy has been broken down into 70 specific priorities, all to achieve the intended business changes. Under the name of Nykredit BoligBank, we will launch new products and services, which we are looking forward to presenting to our customers and the market in the first half of 2015.

Regulatory matters were another high-priority area in 2014. These included the Danish FSA's Supervisory Diamond for mortgage banks, new EU liquidity rules and rules applying to Nykredit as a systemically important banking and mortgage lending group. Strong capitalisation is essential for us to maintain our competitive edge and run a long-term sustainable business.

Our core business is progressing, with top-line growth and declining costs and impairment losses. But we are also facing challenges due to persistently low interest rates, including our swap contracts, which we are continuously monitoring in order to achieve the right, long-term solutions.

On balance, we are on track in delivering the quite ambitious targets we have set for 2016.

To achieve our targets we must:

- Enhance our customer focus
- Create a more efficient and agile organisation
- Strengthen the Totalkredit partnership
- Grow earnings by DKK 1bn
- Reduce costs by DKK 500m, and
- Ensure a robust and competitive capital structure.

Nykredit's Winning the Double strategy provides a clearly defined path for our business in the coming years.

Yours sincerely



Michael Rasmussen  
Group Chief Executive

# COMPANY DETAILS

## COMPANY DETAILS AS AT 31 DECEMBER 2014

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

Website: [nykredit.com](http://nykredit.com)  
Tel: +45 44 55 10 00

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

### Auditors

Deloitte Statsautoriseret Revisionspartnerselskab  
Weidekampsgade 6  
DK-2300 Copenhagen S

### Annual General Meeting

The Annual General Meeting of the Company will be held on 18 March 2015.

### BOARD OF DIRECTORS

Steen E. Christensen, Attorney  
Chairman

Hans Bang-Hansen, Farmer  
Deputy Chairman

Steffen Kragh, Chief Executive Officer,  
Deputy Chairman

Kristian Bengaard, Senior Consultant\*  
Michael Demnitz, Chief Executive Officer  
Merete Eldrup, Chief Executive Officer  
Marlene Holm, Political Secretary\*  
Allan Kristiansen, Chief Relationship Manager\*  
Bent Naur, former Chief Executive Officer  
Anders C. Obel, Chief Executive Officer  
Erling Bech Poulsen, Farmer  
Lars Peter Skaarup, Personal Adviser\*  
Nina Smith, Professor  
Jens Erik Udsen, Managing Director  
Leif Vinther, Chairman of Staff Association\*

\* Staff-elected member

See pages 142-144 for directorships and executive positions of the members of the Board of Directors and the Executive Board.

### NOMINATION BOARD

Steen E. Christensen, Chairman  
Hans Bang-Hansen  
Steffen Kragh  
Nina Smith

### AUDIT BOARD

Steffen Kragh, Chairman  
Anders C. Obel  
Nina Smith  
Jens Erik Udsen (joined on 1 January 2014)

### REMUNERATION BOARD

Steen E. Christensen, Chairman  
Hans Bang-Hansen  
Steffen Kragh  
Leif Vinther, Chairman of Staff Association  
(joined on 1 January 2014)

### RISK BOARD – from 1 April 2014

Nina Smith, Chairman  
Steffen Kragh  
Merete Eldrup  
Bent Naur  
Michael Demnitz

### EXECUTIVE BOARD

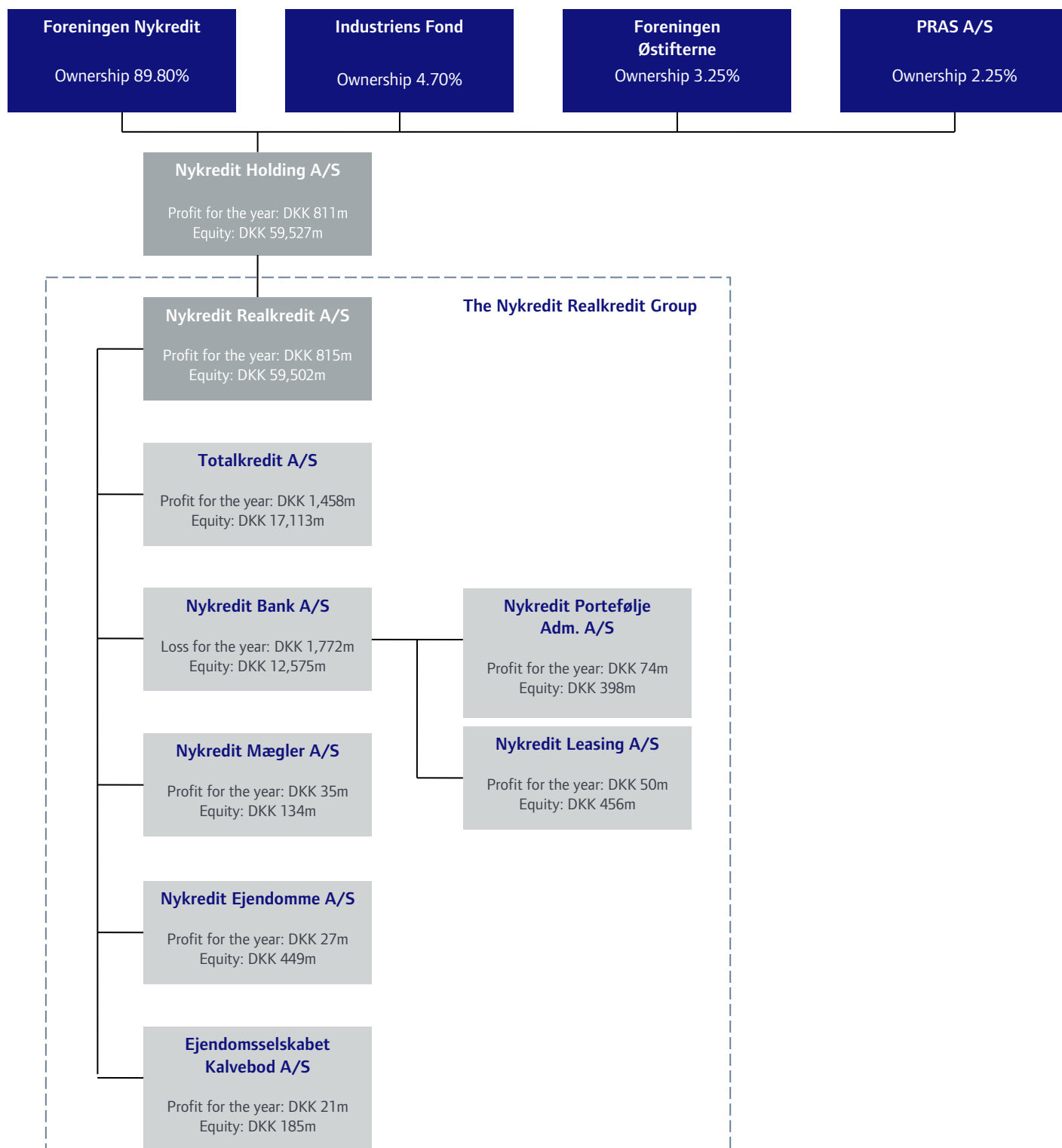
Michael Rasmussen  
Group Chief Executive  
  
Kim Duus  
Group Managing Director  
  
Søren Holm  
Group Managing Director  
  
Anders Jensen  
Group Managing Director  
  
Bente Overgaard  
Group Managing Director

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

- Annual Report 2014
- CSR Report 2014 – Nykredit Engaging with Society
- Risk and Capital Management 2014

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

# GROUP CHART



Reference is made to note 52 for a full list of group entities.

# FINANCIAL HIGHLIGHTS

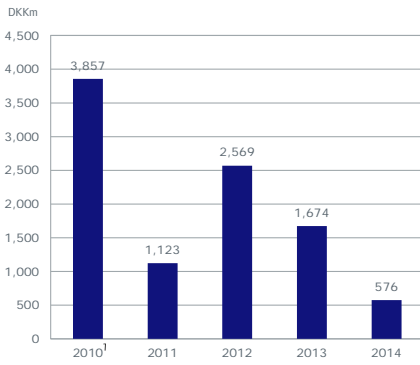
Nykredit Realkredit Group						
EUR 2014						
Exchange rate: 744.36						
DKK million	2014	2013	2012	2011	2010	
<b>CORE EARNINGS AND RESULTS FOR THE YEAR</b>						
<b>Core income from</b>						
- business operations	11,509	10,439	10,228	9,198	9,643	1,546
- value adjustment of derivatives due to interest rate changes	(1,229)	467	46	-	-	(165)
- other value adjustment of derivatives	(2,133)	(1,242)	(1,141)	(642)	(121)	(287)
- senior debt	(408)	(484)	(436)	(190)	(120)	(55)
- securities	130	118	212	644	470	17
<b>Total</b>	<b>7,869</b>	<b>9,298</b>	<b>8,909</b>	<b>9,010</b>	<b>9,872</b>	<b>1,057</b>
Operating costs, depreciation and amortisation, excluding special value adjustments	5,037	5,829	5,799	5,809	5,870	677
Operating costs, depreciation and amortisation – special value adjustments <sup>1</sup>	66	218	(205)	158	88	9
<b>Core earnings before impairment losses</b>	<b>2,766</b>	<b>3,251</b>	<b>3,315</b>	<b>3,043</b>	<b>3,914</b>	<b>372</b>
Impairment losses on mortgage loans and advances	2,132	2,415	1,592	1,026	888	286
Impairment losses on bank loans and advances, including government guarantee scheme	219	349	557	388	1,494	29
<b>Core earnings after impairment losses</b>	<b>416</b>	<b>487</b>	<b>1,166</b>	<b>1,629</b>	<b>1,532</b>	<b>56</b>
Investment portfolio income	779	1,190	1,989	19	2,177	105
Reclassification of value adjustment following the sale of strategic equities	-	697	455	160	(117)	-
<b>Profit before cost of capital</b>	<b>1,194</b>	<b>2,374</b>	<b>3,610</b>	<b>1,808</b>	<b>3,592</b>	<b>160</b>
Net interest on subordinated debt	(528)	(460)	(465)	(462)	(461)	(71)
<b>Profit before tax</b>	<b>666</b>	<b>1,914</b>	<b>3,145</b>	<b>1,346</b>	<b>3,131</b>	<b>89</b>
Tax	90	240	575	223	785	12
Profit from discontinued insurance operations	-	-	-	-	1,511	-
<b>Profit for the year</b>	<b>576</b>	<b>1,674</b>	<b>2,569</b>	<b>1,123</b>	<b>3,857</b>	<b>77</b>
<b>Total value adjustment and reclassification of strategic equities against equity</b>	<b>238</b>	<b>(343)</b>	<b>(237)</b>	<b>(854)</b>	<b>261</b>	<b>32</b>
<b>SUMMARY BALANCE SHEET, YEAR-END</b>						
	<b>31.12.2014</b>	<b>31.12.2013</b>	<b>31.12.2012</b>	<b>31.12.2011</b>	<b>31.12.2010</b>	<b>EUR 2014</b>
<b>Assets</b>						
Receivables from credit institutions and central banks	42,288	35,758	60,174	66,258	58,657	5,681
Mortgage loans at fair value	1,137,099	1,136,644	1,136,445	1,083,991	1,030,478	152,762
Bank loans – excluding reverse repurchase transactions	50,494	46,963	49,728	55,776	58,833	6,784
Bonds and equities	131,383	92,961	82,413	100,794	99,144	17,650
Remaining assets	96,889	105,088	104,645	86,086	64,029	13,016
<b>Total assets</b>	<b>1,458,153</b>	<b>1,417,414</b>	<b>1,433,405</b>	<b>1,392,905</b>	<b>1,311,140</b>	<b>195,894</b>
<b>Liabilities and equity</b>						
Payables to credit institutions and central banks	44,863	44,393	67,539	117,626	95,879	6,027
Deposits	65,232	65,172	54,509	57,404	55,467	8,764
Bonds in issue at fair value	1,167,163	1,130,020	1,103,818	1,021,942	974,319	156,801
Subordinated debt	11,394	10,964	11,281	11,204	11,618	1,531
Remaining liabilities	109,998	108,149	138,702	129,419	118,537	14,778
Equity	59,502	58,716	57,556	55,310	55,320	7,994
<b>Total liabilities and equity</b>	<b>1,458,153</b>	<b>1,417,414</b>	<b>1,433,405</b>	<b>1,392,905</b>	<b>1,311,140</b>	<b>195,894</b>
<b>FINANCIAL RATIOS</b>						
Profit for the year as % of average equity	1.0	2.9	4.6	2.0	7.2	
Core earnings before impairment losses as % of average equity	4.7	5.6	5.9	5.5	7.3	
Core earnings after impairment losses as % of average equity	0.7	0.8	2.1	2.9	2.9	
Costs as % of core income from business operations (cost:income ratio)	43.8	55.8	56.7	63.2	60.9	
Total provisions for loan impairment – mortgage lending	5,506	4,378	2,954	2,485	2,226	
Total provisions for loan impairment and guarantees – banking	3,666	4,078	4,139	4,407	6,888	
Impairment losses for the year, % – mortgage lending	0.19	0.21	0.14	0.09	0.09	
Impairment losses for the year, % – banking <sup>2</sup>	0.22	0.29	0.59	0.44	1.46	
Total capital ratio, %	18.2	18.9	19.1	17.1	18.5	
CET1 capital ratio, %	15.4	15.8	15.8	13.9	15.1	
Internal capital adequacy requirement	11.3	10.4				
Average number of full-time staff <sup>3</sup>	3,971	4,052	4,115	4,139	4,026	

<sup>1</sup> Special value adjustments include value adjustment of certain staff benefits and owner-occupied properties, adjustment of provisions relating to Dansk Pantebrevsbørs A/S under konkurs (in bankruptcy) and the impact of "Nykredit 2015".

<sup>2</sup> Excluding provisions relating to the government guarantee scheme and provisions for credit institutions.

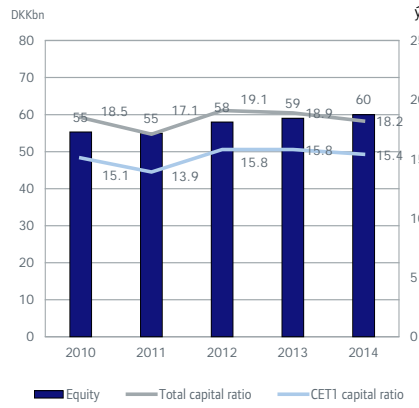
<sup>3</sup> Excluding Nykredit Forsikring A/S and JN Data A/S.

### Profit for the year

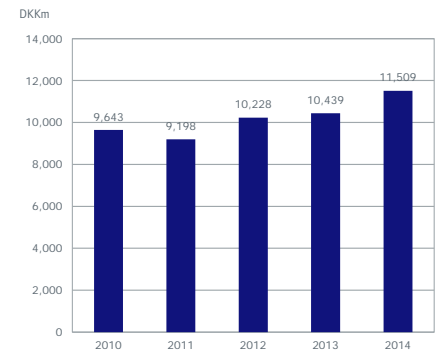


<sup>1</sup>Including profit from the divestment of Nykredit Forsikring A/S. Excluding value adjustment of strategic equities against equity. Nykredit Forsikring A/S is included up to 29 April 2010.

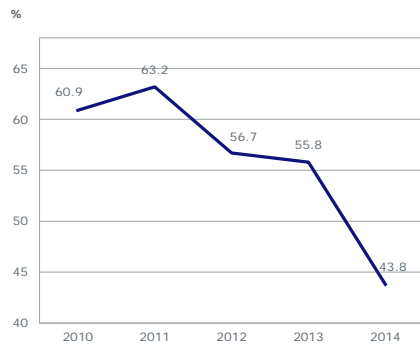
### Equity and capital adequacy



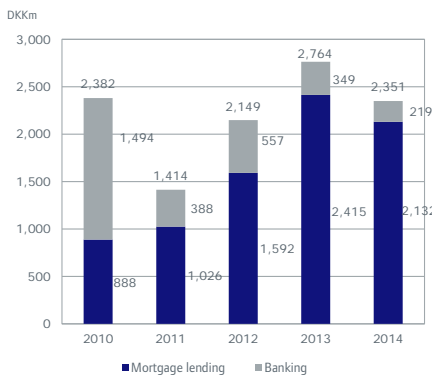
### Core income from business operations



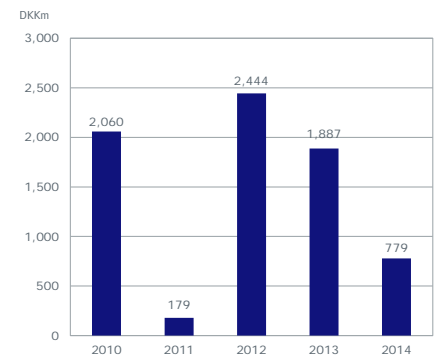
### Costs as % of core income from business operations (cost:income ratio)



### Impairment losses on loans and advances through profit or loss

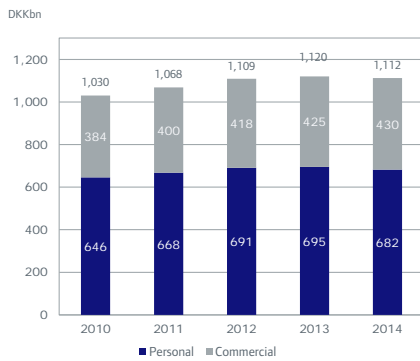


### Investment portfolio income

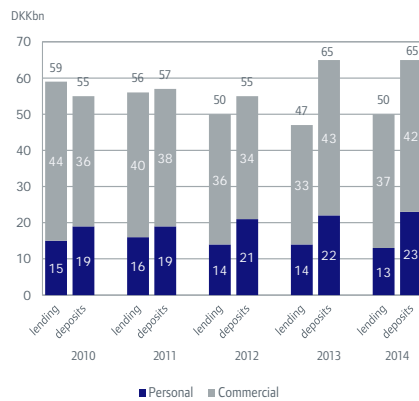


Excluding value adjustment of strategic equities against equity.

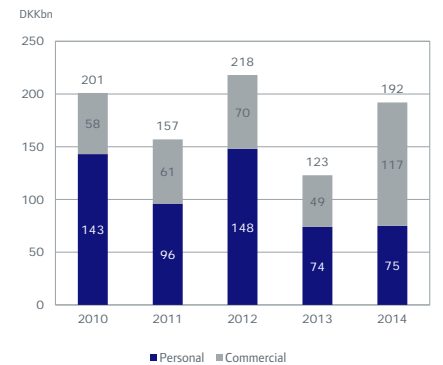
### Mortgage portfolio, year-end, nominal value



### Bank lending and deposits, year-end



### Gross new mortgage lending



# NYKREDIT'S STRATEGY

## NYKREDIT LAUNCHED A NEW STRATEGY, WINNING THE DOUBLE, IN 2014

Our new strategy contributes significantly to the business changes which Nykredit is facing.

The new strategy is a natural extension of our Nykredit 2015 plan launched at end-2013. This was an operational plan of short-term initiatives: strengthening our customer focus, growing earnings, streamlining the Group and further developing the Totalkredit partnership.

The Nykredit 2015 plan has been incorporated into the Group's new strategy, Winning the Double, which sets the long-term direction for the Group.

We call our strategy Winning the Double, because that is precisely what Nykredit must do – win on two fronts:

- We will win homeowners over as satisfied and loyal full-service customers of Nykredit, and
- We will take the Totalkredit partnership to a higher level.

Our new strategy and organisational structure are the platform from which we will strengthen our market position and unlock the Group's potential.

### Nykredit will be the best bank for Danish homeowners – as full-service customers

We want Danish homeowners to experience Nykredit as a trustworthy and competent partner in all stages of life – when buying a house, getting married, having children, moving house, getting divorced or retiring.

Our customers' situations differ significantly not least with respect to stage of life, income and wealth, but their homes are the natural pivot of our relationship with them.

We will take a number of specific initiatives in 2015 to strengthen our services and market position in personal banking. The most important initiatives are:

- A new homeowner programme for personal customers. A programme with homeowners as the pivot, offering clear benefits to Nykredit's full-service customers.
- Intensification of digital communication with customers. We want to make it easier for our customers – and streamline Nykredit's customer services.

Higher customer satisfaction will be the objective of all our efforts, making our customers choose us as their long-term financial partner.

### Nykredit aims to be the strongest and most loyal business partner to the local and regional banks

Over the years, the Totalkredit partnership has grown into a great success for Danish local and regional banks as well as for Nykredit. The partnership will be intensified and further developed in coming years.

Nykredit will share its expertise and capacity with its partners in order that together we may establish joint solutions leading to joint synergies – to the benefit of the partner banks and Nykredit.

A number of specific initiatives to strengthen the partnership have already been realised, of which the most important are:

- Introduction of a secured homeowner loan and a new variable-rate loan, F-kort, and re-introduction of one-tier mortgage lending. The product range has been expanded to ensure that Nykredit maintains a market-consistent product range.
- Improvement of the joint mortgage IT platform, Xportalen, through stable operations and stronger IT support driven by further coordination and integration.

We will further develop and expand our partnership. So far, the partnership has exclusively involved mortgage lending to personal customers, but in the coming years we will expand the partnership to include other product types, services and finance to commercial customers.

### Nykredit will increase core earnings and cost efficiency

Earnings growth and high cost efficiency are prerequisites for running a business as a competitive financial services provider today.

Nykredit must increase core earnings in order to meet capital requirements and ensure sustainable business operations in the long term. This calls for higher income, lower costs and a more efficient business.

IT systems, processes and output must be redesigned and simplified for the benefit of the customers – and Nykredit. Therefore, all future solutions will to a higher extent be based on specific and relevant customer requirements and be standardised as much as possible.

The first initiatives have been made to enhance earnings and streamline the business. The most important are:

- General cost restraint.
- Reduction of 300 management and staff positions, mainly in non-customer facing functions. This part of the cost efficiencies was aimed to create a more agile and customer-centric organisation with efficient decision-making processes.
- New Totalkredit price structure. As at 1 January 2015, Totalkredit raised the prices of variable-rate loans and interest-only loans to personal customers. This will contribute to meeting the requirements of credit rating agencies and authorities, including the upcoming Supervisory Diamond.
- Optimisation of processes based on customer requirements, leading to faster and more efficient customer services.
- Reorganisation of IT systems and IT resources focusing on customer value.

### Nykredit will deliver its strategy through 70 specific tasks and 10 goals

Our strategy is divided into 70 specific implementation tasks. Large and small projects which are all important steps in achieving the intended business changes. The projects span a wide range: A new customer programme for homeowners, process optimisation, capital budgets, a joint project model, and a CRM system, etc.

Nykredit will introduce the balanced scorecard system to ensure performance against its strategic goals. It is important continually to ensure that the intended business changes materialise.

Nykredit's balanced scorecard includes 10 goals at group level which focus on finances, customers, processes and staff. The performance indicators are:

- Business return
- Earnings
- Capital strength
- Growth in the number of full-service homeowner customers



- Satisfaction among full-service homeowner customers
- Satisfaction among commercial customers
- Satisfaction among Totalkredit partner banks
- Faster processes
- Staff satisfaction
- Performance orientation

As part of our Nykredit 2015 plan, we decided that core income must grow by DKK 1.0bn and that cost savings must be implemented with a gross impact of DKK 0.5bn, both with full effect in 2016 and based on passive projections.

Our business income target is DKK 11,900m in 2016. At end-2014, business income had increased to DKK 11,509m.

In 2013-2014, we launched savings and streamlining initiatives with a total impact of more than DKK 400m by 2016. Further streamlining will follow in 2015. Our goal is a more efficient, customer focusing organisation, with financial strength to intensify its efforts within strategic business priorities.

Nykredit has also set a long-term return target for the Group. Our target is to achieve a return on equity before tax of 11% by 2018, assuming normal interest rate levels and business climate.

# 2014 – IN BRIEF

## RESULTS RELATIVE TO 2013

Nykredit posted a profit before tax of DKK 666m against DKK 1,217m for 2013, excluding reclassification of profit from the sale of strategic equities of DKK 697m.

A positive development was seen in underlying operations, as core income from business operations rose by DKK 1,070m, loan impairment losses were down by DKK 413m, and operating costs, depreciation and amortisation reduced by DKK 271m, excluding amortisation of distribution rights in 2013, leading to total growth of DKK 1,754m.

Conversely, the charge relating to value adjustment of interest rate swaps increased by DKK 2,587m to DKK 3,362m.

On balance, results reflected a positive trend in the structurally most important items, but due to the significant negative value adjustment of interest rate swaps, results are considered unsatisfactory in their entirety.

There was a positive development in core income from business operations, up 10.3%, or DKK 1,070m.

Costs declined by 13.6%, or DKK 792m, which together with higher core income from business operations reduced the cost:income ratio from 55.8% to 43.8%, of which lower amortisation of rights which ceased at end-2013 represented a decline of 5.0 percentage points.

Value adjustment of interest rate swaps had an adverse effect of DKK 3,362m on profit compared with a charge of DKK 775m the year before due to higher provisions for potential losses.

Investment portfolio income fell from DKK 1,190m to DKK 779m, excluding reclassification of profit from the sale of strategic equities.

Loan impairment losses came to DKK 2,351m compared with DKK 2,764m the year before. The trend reflected lower impairment losses both within mortgage lending and banking.

Nykredit recorded a profit after tax of DKK 576m. Equity was DKK 59,502m at end-2014, including value adjustment of strategic equities of DKK 238m.

### Core earnings

#### *Core income from business operations*

Core income from business operations grew by DKK 1,070m to DKK 11,509m.

Core income from mortgage lending rose by DKK 1.2bn, or 16.9%, to DKK 8,176m. The rise in core income was mainly prompted by higher refinancing activity and increasing earnings margins.

Nominal mortgage lending declined by DKK 8.2bn to DKK 1,112bn compared with the beginning of the year. The decline was attributable to the personal customers segment, which saw a fall of DKK 13.9bn, whereas lending to commercial customers rose by DKK 5.7bn.

Viewed separately, Jyske Bank's exit from the partnership increased earnings by some DKK 200m. Loans originated by Jyske Bank declined from DKK 82bn in March 2014 to DKK 61bn at year-end. Core income from banking dropped by DKK 87m, or 2.7%, to DKK 3,165m. Retail's core income rose moderately, but lower trading activity in Nykredit Markets had an adverse effect on core income.

Bank lending grew by DKK 3.5bn to DKK 50.5bn compared with the beginning of the year, partly as a result of the loan portfolio acquired

from FIH. Deposits of DKK 65.2bn were unchanged on the beginning of the year. Nykredit Bank recorded a deposit surplus of DKK 14.7bn at end-2014.

### Value adjustment of derivatives

Value adjustment of interest rate swaps resulted in a charge of DKK 3,362m, corresponding to a higher charge of DKK 2,587m on 2013. DKK 1,229m of this charge was attributable to a decline in interest rates, while new provisions added DKK 2,133m to the charge.

Value adjustments are based on a conservative valuation. Thus, the total market values of swap contracts with customers having the lowest ratings have been adjusted to DKK 0. The valuation of the market values of other swaps with weak customers, especially housing cooperatives, has also been made according to a conservative approach.

In December 2014, the Maritime and Commercial Court in Copenhagen granted a housing cooperative's petition for bankruptcy. Nykredit has appealed this decision. It should be noted that the Danish High Court has previously found for Nykredit in a similar case.

The decision did not affect the value adjustment of interest rate swaps in the case in question or similar cases in Q4/2014, but generally gave rise to a more conservative assessment and valuation of receivables relating to cooperative housing.

Market values of interest rate swaps with housing cooperatives came to DKK 7.9bn, equal to 40% of market values of customer swaps totalling DKK 19.6bn. The negative value adjustment of swaps with housing cooperatives totalled DKK 4.1bn, or 50% of the market values. Negative value adjustments of about DKK 1.4bn of contracts with other customers are not concentrated within individual sectors.

Incurred losses on interest rate swaps since 2012 amounted to just below DKK 300m and are expected to remain at a moderate level compared with total provisions of DKK 5.5bn. The relatively large provisions are in part due to the fact that the market values of swap contracts with customers having the lowest ratings have been valued at DKK 0.

Value adjustments due to the interest rate fall in 2014 had an adverse earnings impact of DKK 1,229m, of which DKK 1,021m resulted from individually assessed interest rate swaps, while the remainder stemmed from a general assessment of provisions for weak customers. The value adjustment was positive at DKK 467m in 2013.

Value adjustment of interest rate swaps was particularly affected by the development in 30-year swap rates, which amounted to about 1.7% at year-end, but it was also influenced by customers' financial outlook and the legal set-up of cooperative housing. Value adjustments will change by DKK 1.4bn-2.1bn upon a 1 percentage point change in interest rate levels. The interest rate sensitivity of DKK 1.4bn was attributable to contracts which have been valued at DKK 0 on an individual basis. The remaining interest rate sensitivity related to other contracts where value adjustments also significantly reflected the development in the cooperative housing area, including the legal set-up.

### Senior debt

Nykredit issues senior secured debt (previously referred to as junior covered bonds) and senior unsecured debt to fund supplementary collateral in respect of covered bonds. Nykredit's issues totalled DKK 32.2bn at end-2014 against DKK 44.3bn at the beginning of the year, leading to net interest expenses of DKK 408m against DKK 484m in

2013. The lower issuance levels were prompted by lower requirements from credit rating agencies and a slight rise in housing prices.

#### Core income from securities

Core income from securities increased from DKK 118m to DKK 130m. The increase derived from lower net interest expenses relating to the acquisition of Totalcredit, as the purchase price is paid in instalments, which will cease on 1 October 2015.

Core income was determined on the basis of the Danish central bank's average lending rate, which dropped from 0.23% to 0.20% in 2014.

#### Operating costs, depreciation and amortisation, excluding special value adjustments

Nykredit's costs, excluding special value adjustments, reduced by 13.6% to DKK 5,037m, of which DKK 521m resulted from lower amortisation because the distribution rights obtained in connection with Nykredit's acquisition of Totalcredit were fully amortised at end-2013. Costs as a percentage of core income from business operations were down from 55.8% at the beginning of the year to 43.8%.

#### Impairment losses on loans and advances

Impairment losses on loans and advances declined by DKK 413m to DKK 2,351m, equal to 0.19% of total mortgage and bank lending.

Nykredit's impairment losses on mortgage lending fell by DKK 283m to DKK 2,132m, equal to 0.19% of lending. Impairment losses on mortgage lending to personal customers decreased by DKK 611m to DKK 581m, equal to 0.09% of lending. Impairment losses on mortgage lending to commercial customers, including housing cooperatives, rose by DKK 328m to DKK 1,551m, equal to 0.36% of lending.

Group impairment losses on bank lending declined by DKK 130m to DKK 219m. Of impairment losses for the year, DKK 100m, or 0.6% of lending, stemmed from personal customers. Impairment losses on bank lending to commercial customers amounted to DKK 119m against DKK 251m in 2013.

Nykredit's impairment provisions for potential losses on mortgage and bank lending totalled DKK 9,172m against DKK 8,456m at the beginning of the year. In addition, total provisions for value adjustment of interest rate swaps amounted to DKK 5.5bn against DKK 2.2bn at the beginning of year.

Incurred losses on mortgage and bank lending for the year came to DKK 1,656m in 2014 against DKK 1,632m in 2013. Incurred losses included both the charge for the year of DKK 522m and impairment provisions of DKK 1,134m made in previous years now finally written off. Incurred losses on interest rate swaps came to DKK 100m against DKK 148m in 2013.

#### Investment portfolio income

Nykredit's investment portfolio income totalled DKK 779m against DKK 1,190m in 2013, excluding reclassification of profit from the sale of strategic equities. Value adjustment of strategic equities against equity was a credit of DKK 258m.

Investment portfolio income from bonds, liquidity and interest rate instruments amounted to DKK 585m. Investment portfolio income from equities and equity instruments value adjusted through profit or loss was DKK 194m.

Nykredit's securities portfolio mainly consists of short-term, high-rated Danish and other European covered bonds and credit bonds.

The interest rate risk associated with the bond portfolio was widely hedged through offsetting government bond sales or the use of interest rate derivatives.

#### Net interest on subordinated debt

Nykredit raised subordinated debt of DKK 11.4bn against DKK 11.0bn at the beginning of the year. In Q2/2014, Nykredit raised subordinate loan capital (Tier 2 capital) of EUR 600m with special interest rate and redemption terms.

Net interest expenses came to DKK 528m against DKK 460m in 2013.

#### Tax

Tax calculated on profit for the year was DKK 90m, equal to a tax rate of 13.5%. In 2014, Nykredit's effective tax rate was affected by tax-exempt gains on equities and value adjustment of the Group's owner-occupied properties. Adjusted for these items, the effective tax rate was 24.1%.

#### Dividend

It will be recommended for approval by the Annual General Meeting that no dividend be distributed for the financial year 2014.

### RESULTS FOR Q4/2014

Nykredit posted a loss before tax of DKK 884m against a loss of DKK 169m for Q3/2014 and a profit of DKK 841m and DKK 878m for Q2 and Q1, respectively.

Compared with Q3/2014, loss before tax increased by DKK 715m due to a DKK 465m rise in mortgage loan impairment, a fall in investment portfolio income of DKK 375m and higher operating costs of DKK 98m, excluding special value adjustments.

Compared with Q3/2014, core income from business operations rose by DKK 101m, and value adjustment of derivatives reduced by DKK 189m.

### RESULTS RELATIVE TO FORECASTS

When announcing the Q1-Q3 Interim Report 2014, Nykredit expected a profit before tax for the full year of DKK 3,250m-3,750m, excluding value adjustment of interest rate swaps and investment portfolio income. The profit reported for 2014 was DKK 3,249m, excluding value adjustment of interest rate swaps and investment portfolio income.

Nykredit's guidance for core earnings after impairment losses for the full year 2014 was DKK 2.5bn-3.0bn when announcing the Annual Report 2013. Core earnings after impairment losses were DKK 416m for the full year. The development reflected a positive trend in underlying business operations, while interest rate swaps resulted in substantial negative value adjustments. The lower results relative to forecasts chiefly stemmed from value adjustment of interest rate swaps with a total adverse earnings impact of DKK 3,362m.

Operating costs, depreciation and amortisation were as expected, while loan impairments were lower than forecast.

### OUTLOOK FOR 2015

We expect core earnings after impairment losses of DKK 3.8bn-4.3bn, excluding value adjustment of derivatives. It should be noted that negative market rates may impact earnings in 2015 if market standards lead to changed earnings margins.

Business income is expected to gather momentum due to a rise in refinancing activity and higher earnings margins.

Costs, depreciation and amortisation are expected to be below the level recorded in 2014.

Investment portfolio income and value adjustment of swaps depend on the volatility of financial markets and the financial and legal positions of the customers with whom we have concluded swap contracts.

## OTHER

### New product and new price structure

At the end of August, Nykredit and Totalkredit launched a new product and a new price structure.

The new product is a variable-rate loan, "F-kort", with interest rate reset every six months. F-kort loans are linked to the Cita rate, but are funded by bonds with longer maturities.

In recent years, credit rating agencies and regulators in Denmark and the EU have pointed out that the large annual bond sales should be reduced so as to best secure the sale of bonds. Remortgaging from adjustable-rate mortgages (ARMs) with 1-year or 2-year interest rate reset (F1-F2 loans) to other products will contribute to meeting the requirements of credit rating agencies and regulators, including the upcoming Supervisory Diamond.

This is the background for Nykredit and Totalkredit's launch of F-kort and a new price structure in Totalkredit.

The new price structure, effective from 1 January 2015, increases administration margin rates on interest-only (IO) loans and on ARMs with 1-year or 2-year interest rate reset (F1-F2 loans). There are no changes to the administration margins on fixed-rate loans, ARMs with 3-year to 10-year interest rate reset (F3-F10 loans) or capped floating-rate repayment loans (RenteMax). The administration margin on the new "F-kort" loan will be fixed in line with those of F3-F10 loans.

Furthermore, Totalkredit and Nykredit increased the price spreads on F1-F2 loans to 0.30 point. The price spread on F3-F10 loans and other variable-rate loans will be raised to 0.20 point. The new price spreads will apply to loans subject to interest rate reset as from 1 January 2015.

Totalkredit and Nykredit continue to be very competitive in the market, and Totalkredit has the lowest administration margins for most of new loans.

As the first mortgage bank, Totalkredit launched a fixed-rate bond loan with a coupon rate of 2% in December 2014. The new loan types and the new price structure are expected to lead to a marked change in the Group's issuance structure. This will ensure compliance with the requirements of credit rating agencies and the Danish FSA.

### Housing cooperatives

In December 2014, the Maritime and Commercial Court in Copenhagen granted a housing cooperative's petition for bankruptcy. Nykredit has appealed this decision. It should be noted that the Danish High Court has previously found for Nykredit in a similar case.

### Nykredit designated a systemically important financial institution

In line with expectations, the Danish FSA designated Nykredit Realkredit A/S as a systemically important financial institution (SIFI) in June. As a SIFI, Nykredit will be more closely monitored by the Danish

FSA and will be subject to a higher capital requirement (SIFI buffer) of 2%.

### Nykredit accepts Danish Supreme Court decision

The Danish Supreme Court made a decision in the case about Nykredit's administration margins in June. In its decision, the Court established that Nykredit Realkredit A/S continues to be bound by the administration margin undertaking imposed by the Danish competition authorities on Nykredit Realkredit A/S in connection with Nykredit's acquisition of Totalkredit in 2003. As a result, Nykredit Realkredit A/S may only raise its administration margins for personal customers to market level subject to prior approval by the Danish competition authorities. The administration margins on mortgage loans raised with Nykredit Realkredit A/S before 1 April 2012 therefore remain unchanged.

Since 1 April 2012, new lending to personal customers with the Nykredit Group has been granted via Totalkredit. This practice will continue unchanged.

### Corporate loan portfolio from FIH Erhvervsbank A/S strengthens Nykredit Bank's position

Nykredit Bank and FIH Erhvervsbank agreed in June that Nykredit Bank would take over 22 large corporate accounts with credit exposures totalling approximately DKK 3.5bn, comprising lending of around DKK 1.7bn, guarantees and credit commitments of around DKK 1.3bn and derivative financial instruments of DKK 0.1bn, net.

The agreement adds a number of large corporate clients to Nykredit Bank's customer base.

### Stronger customer focus after reorganisation

We changed our management and organisational structure in spring. The purpose was to sharpen our business strategic focus and raise profitability through a strong customer focus with new customer concepts, increased earnings, efficiencies and a less complex organisation. Another focus area is to strengthen and reinvigorate the Totalkredit partnership with the 62 Danish local and regional banks.

We aim to grow income by DKK 1bn and reduce costs by DKK 0.5bn with full effect from 2016. As part of cost reduction and to raise the efficiency of decision-making processes, it was necessary to reduce the number of management and staff positions by up to 300, mainly in non-customer facing functions. The new organisation was implemented on 1 May 2014.

### Participation in EU-wide AQR and stress test

In 2014, the Nykredit Group participated in the EU-wide Asset Quality Review and stress test.

As stated in a report from the Danish FSA and Nykredit's press release dated 26 October 2014, the review prompted a few accounting adjustments. The most significant adjustments, totalling DKK 330m, were recognised in the financial statements for H1/2014.

The adjustments partially reflect a change in methodology concerning impairment of loans for rental properties included in the Danish FSA's definition of asset finance, which is the unsecured part of a loan. Instead of probability-weighted impairment, the unsecured part of the loans will be fully written down for impairment.

The Danish FSA's report and Nykredit's press release are available at [nykredit.dk/AQR](http://nykredit.dk/AQR).



### **Changes to the Group Executive Board**

As at 1 October 2014, Anders Jensen was appointed Group Managing Director with responsibility for Retail. Anders Jensen was formerly CEO of Nordea Bank Danmark.

Karsten Knudsen, Group Managing Director, and Per Ladegaard, Group Managing Director, retired from the Group Executive Board at end-August.

### **Nykredit a member of BEC**

Nykredit Bank became a member of BEC, a bank-owned technology provider, in October. Nykredit Bank will increasingly use BEC's banking platform to offer core banking services to personal and commercial customers, which will reduce Nykredit's development costs.

BEC membership enables Nykredit to focus more on IT development within mortgage lending and housing advisory services. Therefore, the membership is a natural extension of Nykredit's strategic objective of strengthening and developing the alliance with Totalcredit's partner banks.

## **UNCERTAINTY AS TO RECOGNITION AND MEASUREMENT**

The 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 the determination of the fair value of certain financial instruments, valuation of loans and advances, goodwill and properties and provisions.

Uncertainty as to recognition and measurement is described in detail in accounting policies (note 1), to which reference is made.

## **EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR**

Jyske Bank exited the Totalcredit partnership with effect from mid-March 2014. In June Jyske Bank instituted arbitration proceedings to determine the final terms for its exit from the Totalcredit partnership. After the close of the financial year, the dispute has been settled.

No other significant events have occurred in the period up to the presentation of the Annual Report which affect the financial position of Totalcredit.

# BUSINESS AREAS

As at 1 May, Nykredit established a new management and organisational structure with the following business areas:

- Retail, which serves Nykredit's personal customers and SMEs. The business area includes mortgage lending to Nykredit's personal customers arranged via Totalkredit.
- Wholesale, which comprises Totalkredit Partners and Wholesale Clients. Totalkredit Partners arranges the Group's mortgage loans to personal customers via local and regional banks. Wholesale Clients comprises Corporate & Institutional Banking and the business units Nykredit Markets and Nykredit Asset Management.

Further, Group Items comprises income and costs not allocated to the business areas, including core income from securities and investment portfolio income.

Gross income from customer business is allocated to the business areas which have supplied the underlying products (Nykredit Markets and Nykredit Asset Management). Gross income attributable to the sales activities of Retail and Corporate & Institutional Banking is subsequently reallocated in full. Correspondingly, Retail and Corporate & Institutional Banking pay a proportion of the operating costs of Nykredit Markets and Nykredit Asset Management that may be attributed to their sales activities.

Nykredit's core income from business operations was DKK 11,509m against DKK 10,439m in 2013. Retail contributed 55% of core income, Totalkredit Partners 23% and Wholesale Clients 22% compared with 58%, 18% and 24%, respectively, in 2013. Group Items accounted for less than 1%.

Nykredit's core earnings after impairment losses totalled DKK 416m against DKK 487m in 2013. The development reflected higher core earnings in Totalkredit Partners due to growing business income and declining amortisation. Higher negative value adjustment of interest rate swaps resulted in a downturn in Retail and Wholesale Clients.

Results before tax in Group Items were reduced by lower investment portfolio income.

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

DKK million	Wholesale			Group Items	Total
	Retail	Totalkredit Partners	Wholesale Clients		
<b>2014</b>					
<b>Core income from</b>					
- customer activities, gross	5,836	2,650	3,004	20	11,509
- payment for distribution	536	-	(536)	-	-
<b>Total business operations</b>	<b>6,372</b>	<b>2,650</b>	<b>2,468</b>	<b>20</b>	<b>11,509</b>
- value adjustment of derivatives	(1,857)		(1,505)		(3,362)
- senior debt	(129)	(210)	(16)	(53)	(408)
- securities	-	-	-	130	130
<b>Total</b>	<b>4,386</b>	<b>2,440</b>	<b>947</b>	<b>96</b>	<b>7,869</b>
Operating costs	2,996	395	860	851	5,103
<b>Core earnings before impairment losses</b>	<b>1,389</b>	<b>2,045</b>	<b>87</b>	<b>(755)</b>	<b>2,766</b>
Impairment losses on loans and advances	1,574	362	399	15	2,351
<b>Core earnings after impairment losses</b>	<b>(185)</b>	<b>1,683</b>	<b>(312)</b>	<b>(770)</b>	<b>416</b>
Investment portfolio income <sup>2</sup>	-	-	-	779	779
<b>Profit (loss) before cost of capital</b>	<b>(185)</b>	<b>1,683</b>	<b>(312)</b>	<b>9</b>	<b>1,194</b>
Net interest on subordinated debt	-	-	-	(528)	(528)
<b>Profit (loss) before tax</b>	<b>(185)</b>	<b>1,683</b>	<b>(312)</b>	<b>(520)</b>	<b>666</b>
<b>Profit (loss) before tax excluding value adjustment of derivatives</b>	<b>1,672</b>	<b>1,683</b>	<b>1,193</b>	<b>(520)</b>	<b>4,028</b>
<b>Return</b>					
Average equity requirement, DKKm <sup>3</sup>	23,334	13,405	14,510	8,428	59,677
Core earnings after impairment losses and before value adjustment of derivatives as % of average equity requirement <sup>3</sup>	7.2	12.6	8.2	-	6.3

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

<sup>2</sup> Investment portfolio income includes profit relating to investments in associates and profit from their sale of DKK 6m (2013: DKK 32m).

<sup>3</sup> The equity requirement is based on Nykredit's internal determination and allocation of capital.

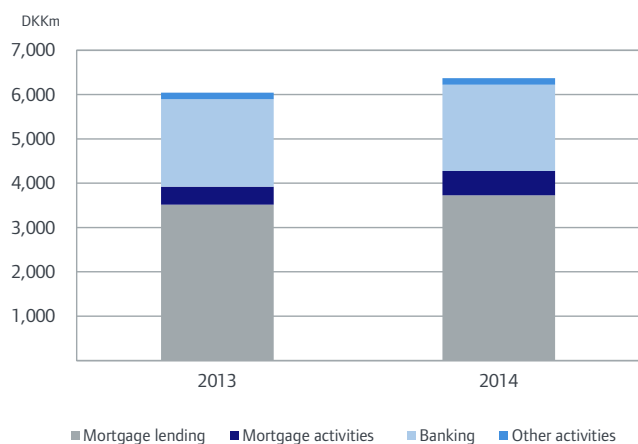
## Results – Retail

DKK million	2014	2013
Core income from		
- business operations	6,372	6,046
- value adjustment of derivatives	(1,857)	(179)
- senior debt	(129)	(119)
<b>Total</b>	<b>4,386</b>	<b>5,748</b>
Operating costs	2,987	2,996
Depreciation of property, plant and equipment and amortisation of intangible assets	9	9
<b>Core earnings before impairment losses</b>	<b>1,389</b>	<b>2,742</b>
Impairment losses on mortgage lending	1,506	1,601
Impairment losses on bank lending	68	387
<b>Core earnings after impairment losses</b>	<b>(185)</b>	<b>755</b>
<b>Core earnings after impairment losses excluding value adjustment of derivatives</b>	<b>1,672</b>	<b>934</b>

## Activities

DKK million	2014	2013
<b>Mortgage lending</b>		
Gross new lending	67,574	40,189
Portfolio at nominal value, year-end	442,147	445,490
Impairment losses for the year as % of loans and advances	0.34	0.36
Impairment losses for the year as % of loans and advances, personal customers	0.11	0.32
Impairment losses for the year as % of loans and advances, commercial customers	0.52	0.39
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	3,694	2,831
Total impairment provisions as % of loans and advances	0.84	0.64
<b>Banking</b>		
Loans and advances, year-end	25,533	23,304
Deposits, year-end	40,637	36,798
Impairment losses for the year as % of loans and advances	0.26	1.61
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	1,978	2,279
Total impairment provisions as % of loans and advances	7.19	8.91
Guarantees, year-end	4,357	3,244
Provisions for guarantees, year-end	51	48

## Core income from business operations



## RETAIL

The business area Retail serves personal customers and SMEs, including agricultural customers, small housing cooperatives and private residential rental customers. Mortgage loans granted via Totalkredit to Nykredit's personal customers form part of the business area Retail. Retail also includes the activities of Nykredit Mægler A/S.

Nykredit serves its customers through 54 local customer centres and the nationwide sales and advisory centre Nykredit Direkte. Nykredit offers insurance in partnership with Gjensidige Forsikring.

The customers of Retail are offered banking, mortgage lending, insurance, pension, investment and debt management products. Nykredit Mægler offers estate agency services to commercial and personal customers through the estate agency chains Nybolig and Estate.

### New strategy

Nykredit will focus on attracting full-service customers. Therefore, Nykredit is in the process of developing and customising its products, strengthening its advisory services and improving internal processes.

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

### Activities

Nominal mortgage lending went down by DKK 3.3bn to DKK 442bn at end-2014. Of the decline, DKK 3.8bn stemmed from personal customers. Lending to personal customers and commercial customers was DKK 197bn and DKK 245bn, respectively.

Gross new mortgage lending expanded by DKK 27.4bn to DKK 68bn, of which DKK 28bn to personal customers and DKK 40bn to commercial customers.

Bank lending grew by DKK 2.2bn to DKK 25.5bn compared with the beginning of the year mainly thanks to Retail's commercial customers, while lending to personal customers was on a level with 2013. Deposits went up by DKK 3.8bn to DKK 40.6bn. Commercial customers contributed DKK 2.5bn to the rise.

### Results

Core earnings after impairment losses came to a loss of DKK 185m against earnings of DKK 755m in 2013. The cause of the adverse development was increased negative value adjustment of interest rate swaps. Core earnings after impairment losses, excluding value adjustment of derivatives, came to DKK 1,672m against DKK 934m in 2013.

Core income from business operations was up by 5.4% to DKK 6,372m in 2014. Core income from mortgage products increased by DKK 357m, driven by a combination of higher refinancing activity and increased earnings margins.

Value adjustment of interest rate swaps was a charge of DKK 1,857m against a charge of DKK 179m in 2013. Value adjustment of interest rate swaps principally stemmed from housing cooperatives.

Operating costs of DKK 2,987m were on a level with 2013.

Impairment losses on mortgage lending fell by DKK 95m to DKK 1,506m, and impairment losses on bank lending dropped by DKK 319m to DKK 68m. Impairment losses represented 0.34% of mortgage lending and 0.26% of bank lending.

Impairment losses on mortgage lending to commercial customers increased by DKK 325m to DKK 1,287m. The upturn stemmed from impairment losses on housing cooperatives, which grew by DKK 422m and impairment losses on agricultural customers, which grew by DKK 292m. Impairment losses on mortgage lending to other commercial customers reduced compared with 2013. Impairment losses on bank lending to commercial customers fell back by DKK 320m.

Impairment losses on loans and advances to personal customers reduced by DKK 419m in total. The reduction derived from a decline in impairment losses on mortgage lending.

Total impairment provisions amounted to DKK 5,672m at end-2014 against DKK 5,110m at the beginning of the year. The upturn was chiefly prompted by a rise in individual impairment provisions for mortgage lending to commercial customers.

**Arrears**

At the September due date, 75-day mortgage loan arrears as a percentage of total mortgage payments due came to 0.76% for Retail against 0.77% at the same time in 2013.

At end-2014, Nykredit had a portfolio of 194 properties acquired at forced sales by public auction. In the year under review, 249 properties were acquired and 327 sold.

**Substantial security**

The security underlying mortgage lending to the Retail segment remained substantial. The LTV ratios of mortgage loans are shown below with individual loans relative to the estimated values of the individual properties at year-end. Of mortgage lending to personal customers, 4% had a current LTV ratio in excess of 80%, which was unchanged from end-2013. Of mortgage lending to SMEs, 10% had a current LTV ratio in excess of 60% against 8% at end-2013.

**International operations**

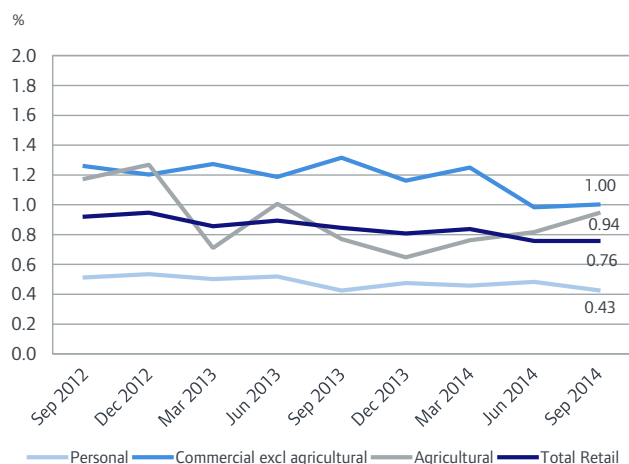
Nykredit offers Danish private residential mortgage loans for properties chiefly in France and Spain directly to customers or through business partners.

Core income from international mortgage lending totalled DKK 115m in 2014, up DKK 10m.

Mortgage lending at cash value came to DKK 10.7bn against DKK 10.4bn at end-2013. Lending in Spain represented DKK 5.1bn and lending in France DKK 4.6bn.

Impairment losses on international mortgage lending decreased by DKK 30m to DKK 11m in 2014.

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



**Nykredit Realkredit Group Mortgage debt outstanding relative to estimated property values**

LTV/%	Personal		Commercial		Agricultural		Private residential rental	
	2014	2013	2014	2013	2014	2013	2014	2013
0-40	63	63	69	73	71	70	60	61
40-60	21	21	21	20	19	20	23	23
60-80	12	12	7	6	7	7	13	13
80-90	2	2	1	1	1	1	2	2
90-100	1	1	1	0	1	1	1	1
> 100	1	1	1	1	1	1	1	0
<b>LTV average<sup>1</sup></b>	<b>68</b>	<b>68</b>	<b>61</b>	<b>58</b>	<b>59</b>	<b>60</b>	<b>71</b>	<b>69</b>

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

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

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



**Results – Wholesale**

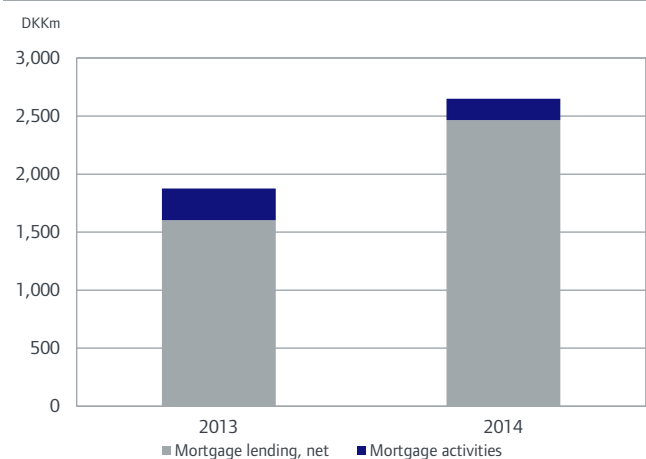
DKK million	2014	2013
Core income from		
- business operations	5,118	4,457
- value adjustment of derivatives	(1,505)	(597)
- senior debt	(226)	(322)
<b>Total</b>	<b>3,387</b>	<b>3,538</b>
Operating costs	1,246	1,355
Depreciation of property, plant and equipment and amortisation of intangible assets	9	527
<b>Core earnings before impairment losses</b>	<b>2,132</b>	<b>1,656</b>
Impairment losses on mortgage lending	614	804
Impairment losses on bank lending	147	(11)
<b>Core earnings after impairment losses</b>	<b>1,371</b>	<b>864</b>
<b>Core earnings after impairment losses excluding value adjustment of derivatives</b>	<b>2,876</b>	<b>1,461</b>

**Results – Totalkredit Partners**

DKK million	2014	2013
Core income from		
- business operations	2,650	1,875
- senior debt	(210)	(302)
<b>Total</b>	<b>2,440</b>	<b>1,572</b>
Operating costs	395	409
Depreciation of property, plant and equipment and amortisation of intangible assets	0	521
<b>Core earnings before impairment losses</b>	<b>2,045</b>	<b>642</b>
Impairment losses on loans and advances	362	554
<b>Core earnings after impairment losses</b>	<b>1,683</b>	<b>88</b>

**Activities – Totalkredit Partners**

DKK million	2014	2013
<b>Mortgage lending</b>		
Gross new lending	89,411	56,238
Portfolio at nominal value, year-end	484,596	494,677
Impairment losses for the year as % of loans and advances	0.07	0.11
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	1,152	1,139
Total impairment provisions as % of loans and advances	0.24	0.23

**Core income from business operations, Totalkredit Partners****WHOLESALE**

Wholesale comprises the business units Totalkredit Partners and Wholesale Clients. The latter consists of Corporate & Institutional Banking, Nykredit Markets and Nykredit Asset Management.

**Totalkredit Partners**

Under the Totalkredit brand, Totalkredit Partners provides mortgage loans to personal customers distributed through 62 Danish local and regional banks.

Under the partnership, the local and regional banks are responsible for customer contact and advisory services. Further, the banks assume part of the loss risk on the loans, and losses are primarily offset against the part of the administration margin income payable to the banks as commission.

Totalkredit continuously develops its product range in association with the local and regional partner banks. In 2014 a new secured home-owner loan was introduced. The loan allows partner banks to transfer bank loans secured by real estate to Totalkredit, within the LTV limits laid down in the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act.

**New strategy**

Nykredit is making targeted efforts to strengthen and further develop the Totalkredit partnership for the purpose of creating a closer relationship with local and regional banks as well as expanding the partnership beyond mortgage banking.

Nykredit aims to be the strongest and most loyal partner to the local and regional banks.

**Activities**

Nominal mortgage lending went down by DKK 10.1bn to DKK 485bn at end-2014. Loans arranged by Jyske Bank totalled DKK 61bn at end-2014 against DKK 82bn in March 2014.

Gross new lending climbed to DKK 89.4bn, up DKK 33.2bn on 2013.

**Results**

Core earnings after impairment losses came to DKK 1,683m against DKK 88m in 2013.

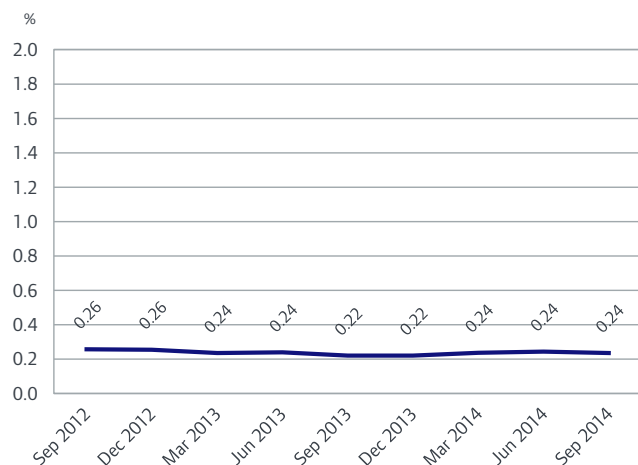
Results mirrored growth in core income from business operations coupled with a decline in impairment losses on loans and advances as well as in depreciation of property, plant and equipment and amortisation of intangible assets.

Core income from business operations expanded by 41% to DKK 2,650m in 2014. This was spurred by higher administration margin income and a reduction in distribution commission as a result of Jyske Bank's exit from the Totalkredit partnership. Viewed separately, Jyske Bank's exit from the alliance affected Totalkredit's business results by some DKK 200m.

Net expenses relating to senior debt amounted to DKK 210m against DKK 302m in 2013. The drop derived from lower senior secured debt and a modest decrease in net interest. The decline in senior debt was in part due to slightly rising property prices.

Operating costs declined by DKK 14m, or 3.4%, to DKK 395m in 2014.

### Arrears ratio, mortgage lending 75 days past due, Totalkredit Partners



### Debt outstanding relative to estimated property values Totalkredit Partners

LTV/%	2014	2013
0-40	55	55
40-60	23	23
60-80	16	16
80-90	3	3
90-100	2	2
> 100	1	1
<b>LTV average<sup>1</sup></b>	<b>77</b>	<b>78</b>

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

As the distribution rights were fully amortised at the beginning of the year, nothing has been recorded under depreciation of property, plant and equipment and amortisation of intangible assets.

Loan impairment losses declined by DKK 191m on 2013 to a net charge of DKK 362m after set-off against commission payable to partner banks. A set-off against commission payable to partner banks reduced loan impairment losses for the year by DKK 270m against DKK 333m in 2013.

Total impairment provisions amounted to DKK 1,152m at end-2014 against DKK 1,139m at the beginning of the year.

#### Arrears

At the September due date, 75-day mortgage loan arrears as a percentage of total mortgage payments due were unchanged at 0.24% relative to the same date in 2013.

At end-2014, the number of properties acquired at forced sales by public auction was 42. In 2014, 125 properties were acquired and 131 sold.

#### Substantial security

The security underlying mortgage lending remained substantial. The LTV ratios of mortgage loans are determined based on the estimated values of the individual properties at year-end. Of mortgage lending to personal customers, 5% had a current LTV ratio in excess of 80%, which was unchanged from end-2013.

Incurred losses, corresponding to the cash part of a loan exceeding 60% of the mortgageable value of the property at the time of granting, are offset against future commission payments from Totalkredit to its partner banks.

**Results – Wholesale Clients**

DKK million	2014	2013
Core income from		
- business operations	2,468	2,582
- value adjustment of derivatives	(1,505)	(597)
- senior debt	(16)	(20)
<b>Total</b>	<b>947</b>	<b>(1,966)</b>
Operating costs	852	946
Depreciation of property, plant and equipment and amortisation of intangible assets	8	6
<b>Core earnings before impairment losses</b>	<b>87</b>	<b>1,014</b>
Impairment losses on mortgage lending	252	250
Impairment losses on bank lending	147	(11)
<b>Core earnings after impairment losses</b>	<b>(312)</b>	<b>775</b>
<b>Core earnings after impairment losses excluding value adjustment of derivatives</b>	<b>1,193</b>	<b>1,372</b>

**Income from customer activities**

DKK million	2014	2013
Customer activities, gross		
Nykredit Markets	506	680
Nykredit Asset Management	784	788
Corporate & Institutional Banking	1,714	1,759
<b>Total</b>	<b>3,004</b>	<b>3,227</b>
Payment for distribution		
Nykredit Markets	(256)	(255)
Nykredit Asset Management	(461)	(448)
Corporate & Institutional Banking	181	58
<b>Total</b>	<b>(536)</b>	<b>(645)</b>
Core income		
Nykredit Markets	250	425
Nykredit Asset Management	323	340
Corporate & Institutional Banking	1,895	1,817
<b>Total</b>	<b>2,468</b>	<b>2,582</b>

**Activities – Wholesale Clients**

DKK million	2014	2013
<b>Mortgage lending</b>		
Gross new lending	35,430	26,739
Portfolio at nominal value, year-end	185,002	179,803
Impairment losses for the year as % of loans and advances	0.14	0.14
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	661	408
Total impairment provisions as % of loans and advances	0.36	0.23
<b>Banking</b>		
Loans and advances, year-end	24,929	23,484
Deposits, year-end	23,287	27,235
Impairment losses for the year as % of loans and advances	0.56	0.14
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	1,526	1,636
Total impairment provisions as % of loans and advances	5.77	6.51
Guarantees, year-end	1,913	1,806
Provisions for guarantees, year-end	55	55
<b>Assets under management</b>	<b>133,484</b>	<b>116,269</b>
<b>Assets under administration</b>		
<b>Nykredit Portefølje Administration</b>	<b>669,112</b>	<b>598,434</b>
- of which Nykredit Group investment funds	60,165	51,808

**Wholesale Clients**

The business area Wholesale Clients comprises activities with Nykredit's corporate and institutional clients, the non-profit housing segment, large housing cooperatives and mortgage lending to commercial customers for properties abroad. Wholesale Clients also handles Nykredit's securities and financial derivatives trading, and asset and wealth management for institutional clients, investment funds, local authorities and private banking clients. Wholesale Clients consists of Corporate & Institutional Banking, Nykredit Markets and Nykredit Asset Management as well as Nykredit Leasing.

Clients are offered banking, mortgage lending, pension, investment and debt management products. Nykredit Markets is Nykredit's securities trading platform, which offers a wide variety of products: Bonds, equities, corporate bonds, currency products, derivatives and corporate issues. Nykredit Asset Management's product range includes Nykredit Invest and Private Portfolio as well as individual asset management agreements. Nykredit Leasing is Nykredit's competence centre within asset finance.

**New strategy**

Nykredit's business strategy for Wholesale Clients aims to provide clients with added value in the form of broad financial advisory services and deep client insight.

Based on Nykredit's strong competency profile, we are working to ensure a better and more holistic experience whenever our clients are in contact with Nykredit.

**Activities**

Total nominal mortgage lending increased by DKK 5.2bn to DKK 185bn at end-2014. Gross new mortgage lending was up by DKK 8.7bn to DKK 35bn.

Bank lending rose by DKK 1.4bn to DKK 24.9bn at end-2014 compared with the beginning of the year. Bank deposits fell by DKK 3.9bn to DKK 23.3bn at end-2014.

Nykredit Asset Management had assets under management totalling DKK 133bn at end-2014, up DKK 17.2bn on the beginning of the year. Total assets under administration grew by DKK 70.7bn to DKK 669bn at end-2014.

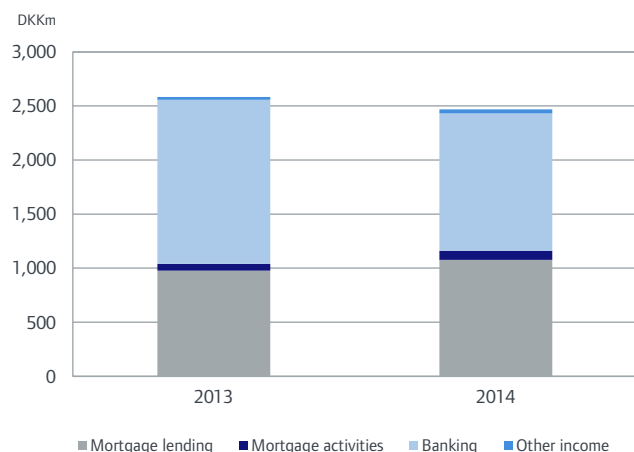
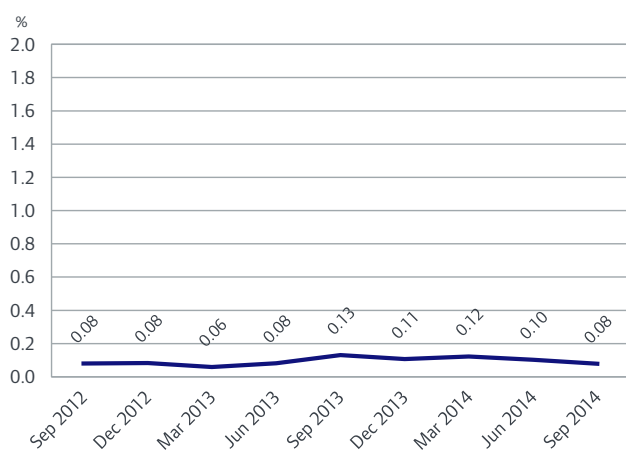
**Results**

Core earnings after impairment losses came to a loss of DKK 312m against earnings of DKK 775m in 2013. The cause of the adverse development was a larger charge from value adjustment of interest rate swap contracts, especially with housing cooperatives. Core earnings after impairment losses, excluding value adjustment of interest rate swaps, were DKK 1,193m against DKK 1,372m in 2013.

The development mirrored growth in business volumes in Corporate & Institutional Banking, somewhat lower activity in Nykredit Markets, higher positive value adjustment of derivatives (interest rate swaps) and higher impairment of loans and advances.

Gross income from customer activities was DKK 3,004m compared with DKK 3,227m in 2013.

Nykredit Markets posted gross income of DKK 506m, a DKK 174m decrease on 2013. Earnings reflected low fixed income market activity.

**Core income from business operations, Wholesale Clients****Arrears ratio, mortgage lending  
75 days past due, Wholesale Clients****Debt outstanding relative to estimated property values  
Wholesale Clients**

LTV/%	2014	2013
0-40	70	71
40-60	21	21
60-80	7	6
80-90	1	1
90-100	1	1
> 100	0	0
<b>LTV average<sup>1</sup></b>	<b>59</b>	<b>59</b>

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

The level was due to a combination of very low interest rates and changed business conditions due to new liquidity regulations and requirements from credit rating agencies.

Nykredit Asset Management's gross income remained unchanged at DKK 784m compared with 2013. Corporate & Institutional Banking recorded a moderate decline of DKK 45m to DKK 1,714m.

Nykredit Markets's income after payment for distribution dropped by DKK 175m to DKK 250m in 2014. Nykredit Asset Management's income after payment for distribution amounted to DKK 323m, the same level as in 2013. Corporate & Institutional Banking recorded DKK 78m income growth to DKK 1,895m.

Value adjustment of derivatives, mainly interest rate swaps, was a charge of DKK 1,505m against a charge of DKK 597m in 2013.

Operating costs declined by DKK 94m, or 10%, to DKK 852m in 2014.

Impairment losses on mortgage lending were unchanged at DKK 252m on 2013. Impairment losses on bank lending were DKK 147m in 2014, up DKK 158m. Part of this development was due to the fact that 2013 was affected by relatively large recoveries of DKK 181m from claims previously written off. Impairment losses represented 0.14% of mortgage lending and 0.56% of bank lending.

Total impairment provisions amounted to DKK 2,187m at end-2014 against DKK 2,044m at the beginning of the year. The increase reflected a rise in individual impairment provisions for mortgage lending and higher collective impairment provisions for bank lending, whereas individual impairment provisions for bank lending declined.

**Arrears**

At the September due date, 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.08% against 0.13% at the same time in 2013.

**Substantial security**

The security underlying mortgage lending remained substantial. The LTV ratios of mortgage loans are determined based on the estimated values of the individual properties at year-end. Of mortgage lending, 9% had a current LTV ratio in excess of 60% against 8% at end-2013.

**International operations**

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

Core income from international mortgage lending rose by DKK 50m to DKK 394m in 2014.

Mortgage lending at cash value amounted to DKK 45.3bn at end-2014 against DKK 45.8bn at the beginning of the year. Lending amounted to DKK 21.8bn in Sweden, DKK 15.8bn in Germany, DKK 4.2bn in the UK and DKK 3.2bn in Finland.



## GROUP ITEMS

A number of income statement and balance sheet items are not allocated to the business areas. Such items are carried under Group Items and include costs of some staff functions and IT development costs. Group Items also includes Nykredit's total return on the securities portfolio, which is the sum of "Core income from securities" and "Investment portfolio income". The activities of the companies Nykredit Ejendomme and Ejendomsselskabet Kalvebod are also part of Group Items.

### Results

A loss before tax of DKK 520m was recorded against a profit of DKK 295m in 2013. This development was due to the fact that profit from the sale of strategic equities of DKK 697m was recognised as income in 2013 relative to acquisition cost in accordance with Nykredit's accounting policies.

### Results – Group Items

DKK million	2014	2013
Core income from		
- business operations	20	(63)
- senior debt	(53)	(43)
- securities	130	118
<b>Total</b>	<b>96</b>	<b>11</b>
Operating costs	593	708
Operating costs – special value adjustments	66	218
Depreciation of property, plant and equipment and amortisation of intangible assets	193	234
<b>Core earnings before impairment losses</b>	<b>(755)</b>	<b>(1,148)</b>
Impairment losses on mortgage lending	11	10
Impairment losses on bank lending	4	(26)
<b>Core earnings after impairment losses</b>	<b>(770)</b>	<b>(1,132)</b>
Investment portfolio income	779	1,190
Reclassification of value adjustment following the sale of strategic equities	-	697
<b>Profit before cost of capital</b>	<b>9</b>	<b>754</b>
Net interest on subordinated debt	(528)	(460)
<b>Profit (loss) before tax</b>	<b>(520)</b>	<b>295</b>

### Activities

DKK million	2014	2013
Banking		
Loans and advances, year-end	33	175
Deposits, year-end	1,308	1,139
<b>Total impairment provisions, year-end</b>		
Total impairment provisions	55	60
Total impairment provisions as % of loans and advances	62.6	25.43
Guarantees, year-end	1.276	1.260
Provisions for guarantees, year-end	-	-

### Core income from securities

Nykredit's core income from securities was DKK 130m against DKK 118m in 2013. The increase stemmed from a larger investment portfolio and lower net interest expenses relating to the acquisition of Totalkredit, whereas the development in the risk-free interest rate had a negative impact on core income from securities.

The risk-free interest rate, which corresponds to the Danish central bank's average lending rate, fell from 0.23% in 2013 to 0.20%.

Core income from securities equals the return that the Group could have obtained by placing its investment portfolios at the risk-free interest rate. Core income from securities also includes net interest expenses relating to the acquisition of Totalkredit.

### Operating costs

Unallocated costs were DKK 593m against DKK 708m in 2013. By far the largest cost component was IT development costs.

Special value adjustments came to a net charge of DKK 66m, principally due to adjustment of the provisions for restructuring costs as a result of "Nykredit 2015" and impairment of owner-occupied properties.

### Impairment losses

Impairment losses on loans and advances amounted to DKK 15m.

### Investment portfolio income

Investment portfolio income came to DKK 779m against DKK 1,190m, excluding reclassification of value adjustments following the sale of strategic equities in 2013.

Investment portfolio income from bonds, liquidity and interest rate instruments came to DKK 585m. Investment portfolio income from equities and equity instruments value adjusted through profit or loss was DKK 194m.

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

# CAPITAL AND LIQUIDITY MANAGEMENT

Nykredit's activities mainly consist of match-funded mortgage lending secured by mortgage over real estate. The Danish mortgage system is characterised by substantial security for the very reason that lending is secured by mortgage over real estate and statutory loan-to-value (LTV) ratios.

The Danish mortgage system is regulated by the Danish Financial Business Act, the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, and the Danish Executive Order on bonds. Danish legislation provides LTV limits for the mortgaging of properties, and losses on mortgage loans are therefore limited. Mortgage lending and the underlying funding are regulated by the balance principle, which means that Nykredit incurs negligible interest rate risk, foreign exchange risk and liquidity risk on mortgage lending and the underlying funding. The refinancing risk on mortgage lending was in 2014 resolved by Danish legislation on maturity extension of covered bonds if interest rates increase by more than 500bp. Therefore, credit risk is Nykredit's largest risk.

Nykredit's activities also include bank deposits and lending, trading in securities and financial instruments, debt capital, asset management, pension products and insurance mediation. The business activities combined with the investment portfolio involve credit, market, liquidity and operational risks.

Nykredit strives to meet best international practice for risk management, including disclosure of risk areas, and seeks to ensure financially sustainable solutions in the short and long term. Nykredit values risk management based on risk type and a strong capital structure. Nykredit's internal controls and risk management are designed to

ensure efficient management of relevant risks.

Nykredit's advanced models for quantifying risks are central elements of the Group's risk and capital management. Reference is made to note 46 for a more detailed description of Nykredit's risk management.

Nykredit's investment assets are marked to market, for which reason earnings may be volatile due to changes in prices and interest rates and related gains/losses on Nykredit's securities investments.

## Balance principle and match funding

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

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

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

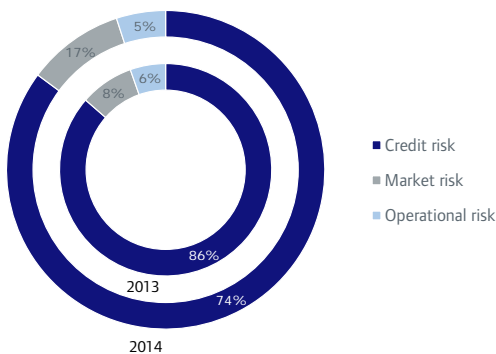
In order to eliminate interest rate risk and exchange rate risk, mortgage loans have the same interest rate and foreign exchange terms as the bonds funding the loans. Fixed-rate loans have fixed funding for the entire loan term. Adjustable-rate mortgages (ARMs) are funded by bonds with maturities that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

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

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

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

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



## Balance principle and match funding



## Nykredit Realkredit Group Equity

DKK million	2014	2013
<b>Equity, beginning of year</b>	<b>58,716</b>	<b>57,556</b>
Profit for the year	576	1,674
Fair value adjustment of equities available for sale	238	366
Realised value adjustment of equities available for sale reclassified to the income statement	-	(709)
Distributed dividend (for 2012)	-	(150)
Other adjustments	(28)	(21)
<b>Equity, year-end</b>	<b>59,502</b>	<b>58,716</b>

## Nykredit Realkredit Group Capital and capital adequacy

DKK million	2014	01.01.2014	2013
Credit risk	305,321	300,931	298,575
Market risk	35,335	28,571	28,571
Operational risk	17,933	18,818	18,818
<b>Total risk exposure amount (REA)<sup>1</sup></b>	<b>358,589</b>	<b>348,320</b>	<b>345,963</b>
Equity	59,502	58,511	58,716
Common Equity Tier 1 (CET1) capital deductions	(3,944)	(3,283)	(4,050)
<b>CET1 capital</b>	<b>55,559</b>	<b>55,228</b>	<b>54,666</b>
Additional Tier 1 (AT1) capital	6,746	8,542	10,678
AT1 capital deductions	(588)	-	-
<b>Tier 1 capital</b>	<b>61,717</b>	<b>63,770</b>	<b>65,344</b>
Tier 2 capital	4,463	237	237
Tier 2 capital deductions	(573)	(98)	(237)
<b>Own funds</b>	<b>65,606</b>	<b>63,909</b>	<b>65,344</b>
CET1 capital ratio, %	15.4	15.9	15.8
Tier 1 capital ratio, %	17.2	18.3	18.9
Total capital ratio, %	18.2	18.3	18.9

Own funds and capital adequacy are specified further in note 2.

<sup>1</sup> Capital adequacy is determined in accordance with the transitional rules pursuant to the transitional provisions of the Capital Requirements Regulation (CRR). REA must constitute at least 80% of REA determined under Basel I. Total REA subject to transitional rules was DKK 787bn at end-2014, equal to a total capital ratio of 14.1%.

Note: "01.01.2014" shows pro forma capital and capital adequacy determined in accordance with the new capital adequacy rules effective from 1 January 2014.

## Nykredit Realkredit Group Required own funds and internal capital adequacy requirement

DKK million	2014	2013
Credit risk	24,426	20,144
Market risk	2,827	3,996
Operational risk	1,435	1,461
<b>Total Pillar I</b>	<b>28,687</b>	<b>25,601</b>
Slightly weaker economic climate (stress tests, etc)	3,510	2,854
Other factors	4,538	4,331
Model and calculation uncertainties	3,674	3,158
<b>Total Pillar II</b>	<b>11,722</b>	<b>10,343</b>
<b>Total required own funds</b>	<b>40,409</b>	<b>35,944</b>
Internal capital adequacy requirement (Pillar I and Pillar II), %	11.3	10.4

## EQUITY AND OWN FUNDS

### Equity

Nykredit's equity was DKK 59.5bn at end-2014, equal to a rise of DKK 786m relative to the beginning of the year. The rise included profit for the year of DKK 0.6bn and positive value adjustment of strategic equities of DKK 0.2bn.

In accordance with IAS 39, Nykredit has classified the Group's strategic equity investments as "available for sale" in its Consolidated Financial Statements. Current value adjustment of these equities is recognised in equity, whereas value adjustments following a sale will be reclassified from equity to the income statement. The value of equities classified as available for sale totalled DKK 2,035m at end-2014.

### Capital and capital adequacy

Nykredit's own funds include Common Equity Tier 1 (CET1) capital, Additional Tier 1 (AT1) capital and Tier 2 capital after deductions. In Q2/2014, Nykredit raised Tier 2 capital totalling EUR 600m to comfortably meet the new capital requirements and Nykredit's capital targets. At the same time, Nykredit redeemed AT1 capital of EUR 500m. AT1 capital included subsequently came to DKK 6.7bn at end-2014.

Own funds totalled DKK 65.6bn, and REA was up by DKK 13bn to DKK 359bn at end-2014, corresponding to a total capital ratio of 18.2%. The Tier 1 capital ratio was 17.2%, and the CET1 capital ratio was 15.4% at end-2014.

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

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

### Required own funds and internal capital adequacy requirement

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

The internal capital adequacy requirement is calculated as the required own funds as a percentage of REA. The determination of the required own funds takes into account the business objectives by allocating capital for all relevant risks, including any model uncertainties. The determination of the internal capital adequacy requirement of both the Group and the individual group companies involves a comparison of Nykredit's own assessment of the required own funds and the results obtained using the 8+ method (special determination of the capital adequacy requirement for the Danish FSA). This ensures that Nykredit uses the most conservative approach to determine the internal capital adequacy requirement. Nykredit's required own funds were DKK 40.4bn at end-2014, equal to an internal capital adequacy requirement of 11.3%.

The determination takes into account approximately DKK 35bn resulting from the changed calculation method for REA following the statutory implementation of advanced IRB models for the lending of Nykredit Bank.

Nykredit's required own funds consist of Pillar I and Pillar II capital.

**Pillar I**

Pillar I capital, covering credit, market and operational risks, was determined at DKK 28.7bn at end-2014.

**Pillar II**

Pillar II capital covers other risks as well as an increased capital requirement during an economic downturn. The Pillar II capital requirement was determined at DKK 11.7bn at end-2014. The capital requirement during a slight economic downturn is determined by means of stress tests. Under Pillar II, a capital charge is included to reflect the uncertainty of the models used.

Reference is made to note 2 for a more detailed description of Nykredit's capital management.

**Capital targets for 2015-2019**

The overall capital policy and risk appetite are determined annually by the Board of Directors, including the Group's capital targets.

The capital targets are based on the current business volume with REA at approximately DKK 360bn and the change of DKK 35bn following from the statutory implementation of the advanced IRB approach for lending in Nykredit Bank. Today, the Bank uses the foundation IRB approach. The implementation has awaited the compilation of sufficient historical loss data for the Bank to build the required statistical models.

Nykredit's capital targets towards 2019:

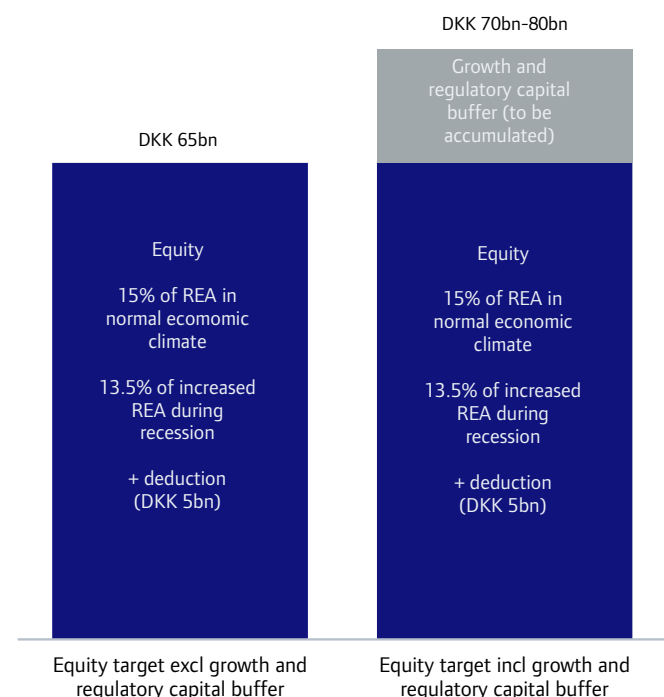
- Nykredit's target is equity to the tune of 15% of REA, to which should be added the statutory deductions from equity of approximately DKK 5bn. An equity level of 15% is significantly higher than the formal statutory requirement, but from a market perspective it is deemed necessary/appropriate for a major bond issuer such as Nykredit.
- Nykredit's target is a total capital ratio of 18-20% of REA. Also this level is markedly above the formal requirement, but from a market perspective it is deemed the necessary/appropriate level for a major bond issuer such as Nykredit.
- Nykredit aims to build a buffer in the order of DKK 10bn to achieve extra capital coverage during recessionary periods and to secure our growth potential. Such a buffer will help sustain a stable and active lending policy in relation to our customers.
- Nykredit is now entitled to issue non-voting shares for capitalisation purposes.

The capital requirement varies according to economic trends. All other things being equal, the requirement will rise in periods of high unemployment and high interest rates. This will be offset by two factors: Firstly, that Nykredit continually manages the employment of capital of the individual business entities and secondly, that the financial market demand for equity measured as a percentage of REA is expected to decrease to 13-14% in such a scenario.

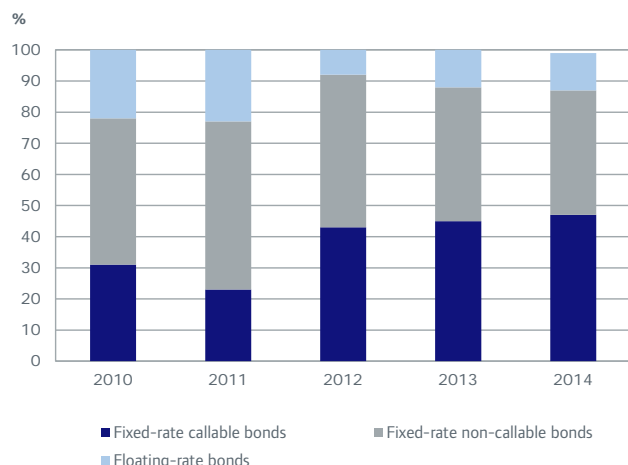
Nykredit's equity requirement towards 2019:

- In a normal economic climate and during an economic boom: equity of DKK 65bn excluding the growth and regulatory capital buffer (15% of DKK 400bn plus statutory deductions of DKK 5bn).
- Including the growth and regulatory capital buffer: equity of DKK 70bn-80bn.

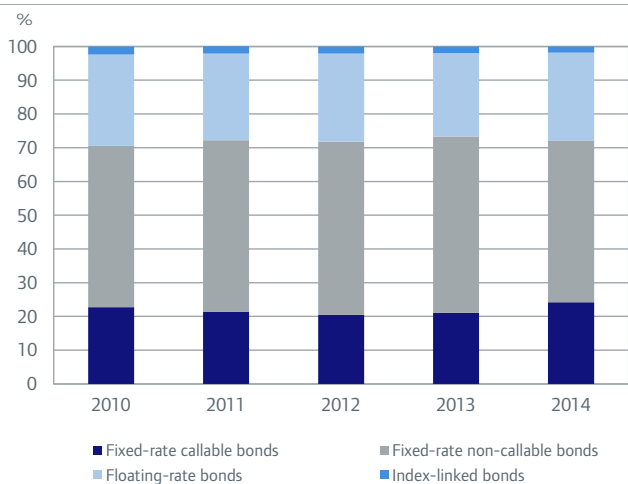
**Nykredit Realkredit Group  
Capital targets for 2019 at the current business volume**



### Nykredit Realkredit Group Gross issuance in DKK excluding refinancing



### Nykredit Realkredit Group Total covered bond issuance by bond type



### Nykredit Realkredit Group Covered bond investor base



## FUNDING

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

Nykredit's liquidity is determined as the portfolios of highly liquid bonds and cash and is funded by deposits, senior secured debt (junior covered bonds), senior unsecured debt (EMTN and ECP programmes), subordinated debt and equity.

### Mortgage funding through covered bonds

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

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

- At the time of granting, a mortgage loan must not exceed a certain proportion of the value of the mortgaged property (LTV ratio). Subsequently, the LTV ratio will change with the amortisation of the loan and/or as a result of changes in the market value of the property or the underlying covered bonds.
- If current LTV ratios exceed the statutory LTV limits, mortgage lenders must provide supplementary collateral, funded by SDOs, for each loan secured by mortgage over real estate. Nykredit funds part of the supplementary collateral by issuing senior secured and unsecured debt.

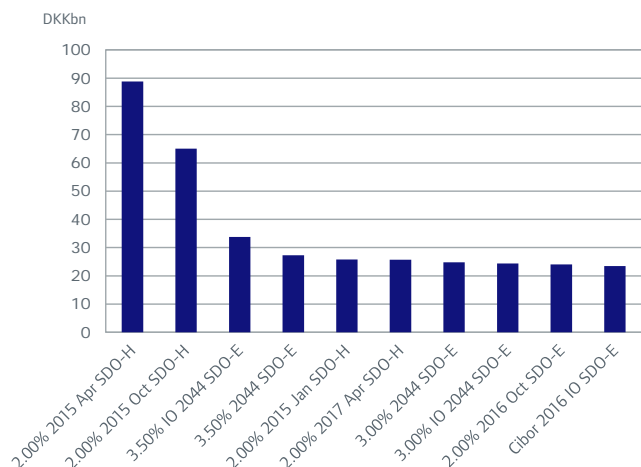
### Covered bond market

Nykredit is one of the largest private bond issuers in Europe, and the Group's issues chiefly consist of covered bonds. At end-2014, the Group had a nominal amount of DKK 970bn of SDOs and DKK 318bn of ROs in issue, of which DKK 59bn funded two-tier mortgaging.

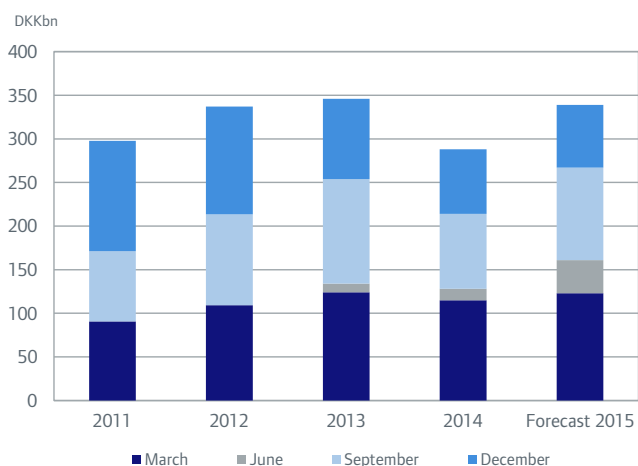
Nykredit's investors mainly comprise Danish banks, mortgage lenders and investment funds, which hold 53%, and insurance companies and pension funds, which hold 16%. Foreign ownership amounts to 23%. However, part of these investors are based in Denmark, but have asset managers domiciled abroad. The higher savings ratio in Denmark means that secure assets are in keen demand from domestic investors. This demand has a stabilising effect on the covered bond market in times of turmoil in international financial markets.



**Nykredit Realkredit Group**  
**Nykredit's largest series on Nasdaq Copenhagen at 2 January 2015**



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



Nykredit strives to build large, liquid benchmark bond series to obtain effective pricing of its bonds. Nykredit Realkredit and Totalkredit's joint bond issuance contributes to creating large volumes and deep liquidity in the Group's key bond series. Liquidity is also supported by Nykredit's high market share and market making agreements between members of Nasdaq Copenhagen.

Daily tap issuance of bonds amounted to DKK 206bn in 2014. Bonds worth DKK 291bn were issued in connection with the refi-ncing of variable-rate loans in 2014.

**Supervisory diamond for mortgage banks and refinancing of ARMs with 1-year interest rate reset**

In December 2014, the Danish FSA introduced a Supervisory Diamond for mortgage banks. In parallel to the Supervisory Diamond, bank loans resembling mortgage loans will be subject to special supervision.

The Supervisory Diamond has five benchmarks of which the benchmark for lending with short-term funding and the benchmark for interest-only loans are main areas in which Nykredit's loan mix must change in the coming years. Nykredit today complies with all the other requirements of the Supervisory Diamond.

Nykredit's/Totalkredit's most recent increase in administration margin rates and refinancing costs, notably in respect of loans which are refinanced frequently and interest-only loans, should be seen as important elements incentivising our customers to choose the loan types that enable Nykredit to meet the requirements of the Supervisory Diamond.

Interest-only ARMs with 1-year interest rate reset, which were very popular until recently, are no longer attractive to our customers due to their pricing. Thus, only half of the existing ARMs with 1-year interest rate reset and refinancing in January 2015 were refinanced into the same loan type, whereas the other half of these loans were refinanced into other loan types.

**Supervisory Diamond for mortgage lenders**

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

### Deconcentration of refinancing auctions

Nykredit now holds refinancing auctions four times a year. Accordingly, the auction volumes will be more equally distributed across the four annual auction periods in the long term, which will reduce refinancing risk.

### Covered bond refinancing risk

The EU is contemplating the introduction of a Net Stable Funding Ratio (NSFR). The NSFR is a measure indicating whether an institution has liquid assets which match the run-off of capital market funding within the next 12 months. In the EU, the NSFR is so far a reporting requirement intended to enable the European Commission and the European Banking Authority (EBA) to assess how to introduce a hard requirement in 2018.

In Q3/2013, S&P introduced two additional liquidity and funding measures, which largely correspond to the NSFR requirements:

- Broad liquid assets to short-term wholesale funding (BLAST)
- Stable funding ratio (SFR)

Nykredit's BLAST was 0.41, and Nykredit's stable funding ratio was 77% at end-2014.

Aiming to reduce refinancing risk, the Danish government adopted an amendment to Danish legislation as at 1 April 2014 eliminating mortgage banks' refinancing risk. Should a refinancing auction fail or the yield-to-maturity of the bonds increase by 500bp, the maturity of the bonds which would otherwise have matured will be extended automatically, thus eliminating refinancing risk.

### Supplementary collateral

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

It is Nykredit's policy to have a sizeable collateral buffer in case of declining property prices. Accordingly, Nykredit monitors the need for supplementary collateral closely, and a number of stress tests are conducted to assess the sensitivity of the supplementary collateral requirement to declining property prices etc.

The supplementary collateral requirement was DKK 40.3bn at end-2014. If property prices were to decline by 10%, the requirement would rise to a total of DKK 50.8bn. The requirement for supplementary collateral should be seen in the context of the group mortgage banks' liquid assets totalling DKK 91bn.

### Nykredit Realkredit Group

#### Supplementary collateral requirement (Capital Centres E and H)

DKK billion	
Current supplementary collateral requirement	40.3
Stress test of supplementary collateral requirement in 12 months	50.8
Assets serving as supplementary collateral in SDO capital centres	68.1
- of which funded by senior secured debt <sup>1</sup>	24.0

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

### Senior secured and unsecured debt

As part of its liquidity management, Nykredit Realkredit issues senior secured and unsecured debt.

Senior secured debt may be issued both through the SDO and RO capital centres to fund supplementary collateral requirements and the requirements of credit rating agencies. No supplementary collateral requirement applies to Nykredit's RO capital centres, and accordingly their issuance exclusively serves to fulfil the requirements of credit rating agencies.

Nykredit may apply senior unsecured debt to cover both general requirements and supplementary collateral requirements from credit rating agencies.

Nykredit Realkredit launched its first two senior unsecured debt issues totalling DKK 4.3bn in 2014. Nykredit Realkredit did not issue any senior secured debt in 2014.

**Funding of bank lending**

Nykredit Bank had a deposit surplus of DKK 14.7bn as at 31 December 2014. The deposit surplus came to DKK 18.2bn at end-2013.

**Nykredit Bank senior unsecured debt**

As part of its liquidity management, Nykredit Bank regularly issues senior unsecured debt under its EMTN and ECP programmes. The Bank's medium-term bonds in issue under the EMTN programme totalled DKK 17.9bn and its short-term ECP issues amounted to DKK 10.1bn as at 31 December 2014.

**Subordinated debt**

As replacement for some of the redeemed AT1 capital, Nykredit Realkredit issued EUR 600m of subordinate loan capital in the form of Tier 2 Coco bonds in Q2/2014.

**Issuance in 2015**

Nykredit Realkredit will continue to issue covered bonds on tap and at refinancing auctions. Recent years' issues total between DKK 478bn and DKK 580bn.

Nykredit Realkredit expects to issue senior secured and unsecured debt in 2015. Issues are expected to total DKK 6bn, which should be

seen in the context that DKK 4.4bn of senior secured debt is expected to mature in 2015. The issuance need depends on property prices and the requirements of credit rating agencies and the level of subordinated debt.

In October 2014, a Danish bill on a debt buffer requirement for mortgage banks was submitted for consultation. The buffer requirement is 2% of mortgage lending and may be fulfilled by way of excess capital and senior unsecured debt. Proceeds from issues launched for the purpose of the debt buffer may also be applied to cover requirements from credit rating agencies or as supplementary collateral. As a consequence of the bill, Nykredit Realkredit expects to focus issuance on senior unsecured debt rather than senior secured debt. The bill is not a result of EU legislation, but is purely a Danish initiative.

Total run-off under Nykredit Bank's EMTN programme was DKK 7bn in 2014. The total EMTN and ECP issuance requirement depends on the development in customer deposits and loans as well as the Bank's other business activities.

Nykredit expects that the existing AT1 capital will be replaced, in part or in full, by subordinated debt in the course of 2015 and 2016.

**CREDIT RATINGS**

**Standard & Poor's**

Nykredit's SDOs and ROs issued through rated capital centres are all rated AAA by Standard & Poor's, which is the highest possible rating. The rating outlooks are stable.

Senior secured debt is rated A+ by Standard & Poor's.

Nykredit Realkredit and Nykredit Bank both have a long-term unsecured rating of A+ and a short-term unsecured rating of A-1. The rating outlooks are negative. The negative outlooks are a consequence of Standard & Poor's changed view on the refinancing risk relating to ARMs with short-term funding and the upcoming pan-European bank resolution rules (BRRD).

**Fitch Ratings**

Nykredit Realkredit and Nykredit Bank both have a long-term unsecured rating of A and a short-term unsecured rating of F1 from Fitch. The rating outlooks are stable.

**Moody's Investors Service**

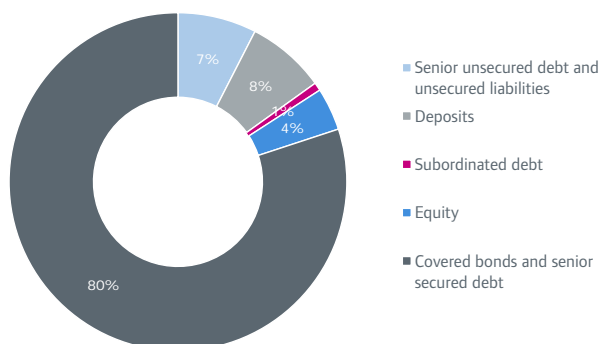
Nykredit terminated its rating relationship with Moody's Investors Service in April 2012.

In this connection, Nykredit ceased supplying information for the purpose of Moody's rating process. Moody's has opted to publish unsolicited ratings for some group companies.

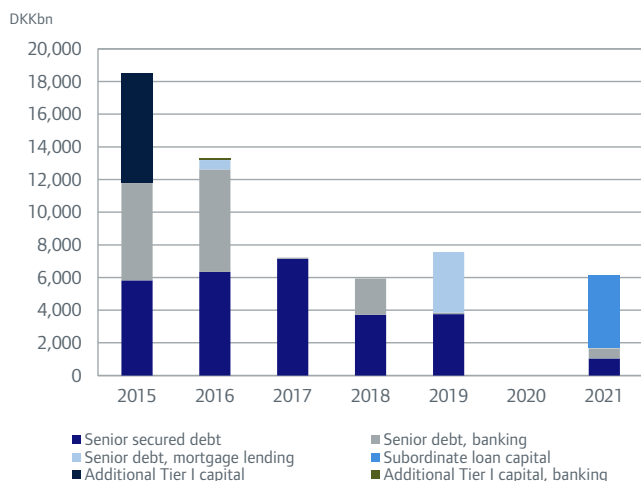
**Listing of ratings**

A table listing Nykredit's credit ratings with Standard & Poor's and Fitch Ratings is available in the publication Risk and Capital Management 2014 at [nykredit.com/reports](http://nykredit.com/reports) as well as at [nykredit.com/ir](http://nykredit.com/ir).

**Nykredit Realkredit Group  
Funding profile**

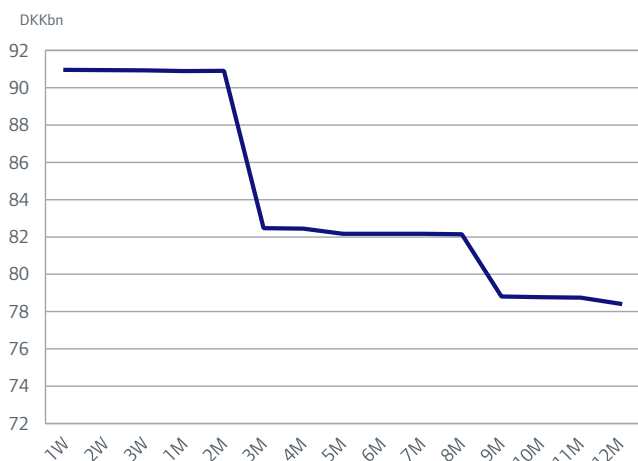


**Nykredit Realkredit Group  
Senior debt maturity profile**



## Mortgage lending

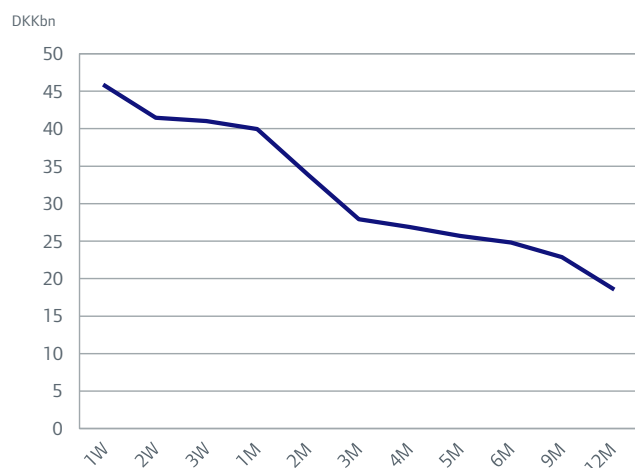
### Liquidity stress testing (internal methods)



Note: The unencumbered proportion of the liquid assets has been projected on the assumption that there is no access to capital market funding.

## Banking

### Liquidity stress testing (internal methods)



Note: The unencumbered part of the liquid assets has been projected on the assumption that there is no access to capital market funding.

## Nykredit Realkredit Group

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

DKK billion	2014	2013
Mortgage loans – nominal value, cf note 17a	1,112	1,120
Bonds in issue – nominal value, cf notes 30a and 30b	1,289	1,248
<b>Difference</b>	<b>177</b>	<b>128</b>

The difference comprises:

- Bonds sold in connection with the refinancing of ARMs <sup>1</sup>	56	94
- Ordinary principal payments and prepayments <sup>2</sup>	120	33
- Pre-issued bonds in respect of which the underlying loans have not been disbursed, including pre-issuance	1	1
<b>Total</b>	<b>177</b>	<b>128</b>

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

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

## LIQUIDITY

Nykredit's liquid assets are mainly liquid Danish and other European government and covered bonds. In a liquid repo market, these securities are eligible as collateral with other banks and with the Danish or other European central banks and are directly exchangeable into liquidity. To this should be added a small portfolio of money market deposits, equities, credit bonds and similar assets.

The unencumbered part of the liquid assets of the Group's mortgage banks, including proceeds from senior secured and unsecured debt in issue, totalled DKK 91 bn at end-2014 against DKK 98bn at end-2013.

At end-2014, Nykredit Bank's liquid assets totalled DKK 92.3bn against DKK 85.3bn at end-2013, determined in accordance with section 152 of the Danish Financial Business Act.

## Bond portfolio

The gross bond portfolio of DKK 314bn comprises mortgage bank reserves, Nykredit Bank's liquid assets, portfolios relating to market making in the mortgage lending and banking areas, proceeds from the issuance of senior secured and unsecured debt as well as DKK 20bn of assets pledged as collateral.

In compliance with the mortgage bank balance principle, part of Nykredit's mortgage bond portfolio includes a temporary portfolio of DKK 135bn relating to the refinancing of the covered bonds used to fund Nykredit's ARMs and placement of funds prepaid such as ordinary principal payments, prepayments and funds from fixed-price agreements not yet settled. The portfolio of self-issued bonds held in accordance with the balance principle chiefly comprises short-term bonds maturing on the next payment date. The portfolio is used to secure payment in connection with bond redemption.

Self-issued bonds accounted for DKK 65bn of the liquidity position and DKK 111bn of liquid assets held under the balance principle. In the period preceding a payment date, the value of bonds in issue exceeds the value of the mortgage loan portfolio. The main reason is refinancing, as the new bonds are issued immediately after the refinancing auctions, which are conducted approximately one month prior to the relevant payment date, whereas the existing bonds do not mature until the same payment date.

### Liquidity Coverage Ratio

On 10 October 2014, the European Commission published the final regulation on LCR, which must be met as at 1 October 2015. A requirement of 100% is expected for Danish SIFIs as at 1 October 2015. The LCR denotes the amount of high quality liquid assets (HQLAs) to be held by a credit institution to be able to cover net cash outflows over a short-term stress period.

The quality of a significant amount of Danish covered bonds is very high, ie LCR Level 1b assets.

One of the implications is that Danish covered bonds from series of minimum EUR 500m may account for up to 70% of banks' liquidity buffer, however with a haircut of 7%. Bonds from series between EUR 250m and 500m may account for up to 40% of banks' liquidity buffer (Level 2a liquid assets, with a haircut of 15%). Government bonds are the only instruments of which banks may have unlimited use, and they should as a minimum account for 30% of the liquidity buffer.

Of the Group's bonds in issue, 82% are Level 1b assets, corresponding to an issued amount of DKK 1,050bn, and 8% are Level 2a assets, corresponding to an issued amount of DKK 106bn.

At end-2014, the Nykredit Realkredit Group's LCR was 254%. The aggregate LCR for Nykredit's mortgage banks was markedly above 1,000% due to a net cash inflow, while Nykredit Bank A/S's LCR was 107%. Depending on the final rules and any resulting procedures, LCR management across companies will be changed and thus also the LCR level.

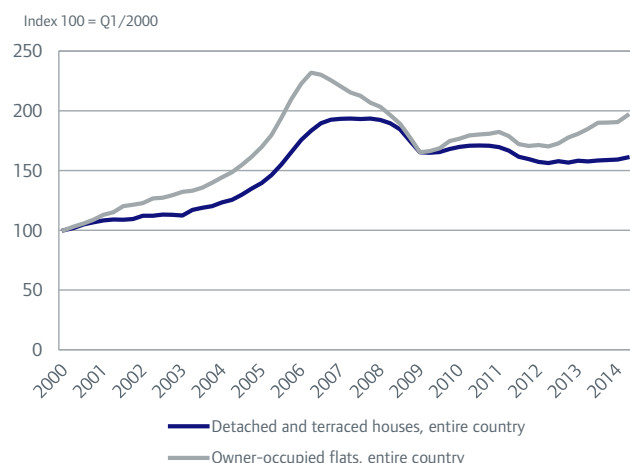
Nykredit expects that some payment obligations relating to match-funded mortgage lending will be exempted from the LCR rules.

The LCR is exclusive of self-issued bonds.



# LENDING

## Housing prices in Denmark



Source: Association of Danish Mortgage Banks

The Group reported total mortgage and bank lending, excluding reverse repurchase lending, of DKK 1,162bn against DKK 1,167bn at the beginning of the year.

Mortgage lending at fair value was DKK 1,137bn, on a level with the beginning of the year. Nominal mortgage lending amounted to DKK 1,112bn. Nykredit's share of total Danish mortgage lending was 42.3% against 43.0% at the beginning of the year. Nykredit's market share in the private residential segment was 46.2% and in the commercial segment 37.1% against 47.2% and 37.2%, respectively, at the beginning of the year. Totalkredit's share of total private residential lending, excluding lending by Jyske Bank, was up from 41.2% at the beginning of the year to 41.9%.

Bank lending totalled DKK 50.5bn against DKK 47.0bn at the beginning of the year, up DKK 3.5bn. The level mirrored the takeover of the portfolio from FIH as well as modest loan demand. Reverse repurchase lending amounted to DKK 35.2bn against DKK 56.8bn at the beginning of the year.

Impairment provisions for mortgage and bank lending totalled DKK 9.1bn compared with DKK 8.4bn at the beginning of the year. At end-2014, Nykredit had made impairment provisions for receivables from credit institutions of DKK 44m.

Nykredit's issued guarantees came to DKK 7.5bn at end-2014 against DKK 6.3bn at the beginning of the year.

Incurred losses totalled DKK 1,656m in 2014, with DKK 997m on mortgage lending and DKK 659m on bank lending.

## Nykredit Realkredit Group

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

DKK million	Loans, advances and guarantees		Total provisions for loan impairment and guarantees		Impairment losses on loans and advances, earnings impact	
	2014	2013	2014	2013	2014	2013
<b>Mortgage lending</b>						
Nykredit Realkredit	570,029	587,483	4,270	3,204	1,712	1,826
Totalkredit	541,715	532,487	1,236	1,174	409	578
<b>Total</b>	<b>1,111,744</b>	<b>1,119,970</b>	<b>5,506</b>	<b>4,378</b>	<b>2,121</b>	<b>2,404</b>
<b>Bank lending</b>						
Nykredit Bank	50,494	46,963	3,560	3,974	211	309
<b>Total</b>	<b>50,494</b>	<b>46,963</b>	<b>3,560</b>	<b>3,974</b>	<b>211</b>	<b>309</b>
<b>Receivables from credit institutions</b>						
<b>Total</b>	<b>-</b>	<b>-</b>	<b>44</b>	<b>29</b>	<b>15</b>	<b>29</b>
Reverse repurchase lending	35,228	56,814	-	-	-	-
Guarantees	7,546	6,311	107	103	4	21
<b>Loan impairment, %<sup>1</sup></b>						
Nykredit Realkredit	-	-	0.75	0.55	0.30	0.31
Totalkredit	-	-	0.23	0.22	0.08	0.11
<b>Total</b>	<b>-</b>	<b>-</b>	<b>0.50</b>	<b>0.39</b>	<b>0.19</b>	<b>0.21</b>
Nykredit Bank	-	-	6.59	7.80	0.39	0.61
<b>Total</b>	<b>-</b>	<b>-</b>	<b>6.59</b>	<b>7.80</b>	<b>0.39</b>	<b>0.61</b>

<sup>1</sup> Loan impairment excluding receivables from credit institutions, reverse repurchase lending and guarantees.  
 Note: Nominal mortgage lending, adjusted for intercompany lending and intercompany set-off.

## MORTGAGE LENDING

### Loan portfolio

Nykredit's credit exposure in terms of nominal mortgage lending went down by DKK 8.2bn to DKK 1,112bn at end-2014. Private residential lending amounted to DKK 14bn of the decline, corresponding to a drop in residential lending of 2.0%, whereas private rental increased by DKK 7.9bn, or 9.9%. The net decrease in private residential lending resulted from the new residential lending for the year offset by the outflow of loans arranged by Jyske Bank following the bank's exit from the Totalkredit partnership.

Lending by property category was relatively unchanged. Private residential lending accounted for 60.7% and remained the largest segment. Lending for private rental property, agricultural property and office and retail represented 7.9%, 8.6% and 10.0%, respectively. The remaining loan portfolio, 12.8%, related to the property categories industry and trades, non-profit housing, cooperative housing and other.

Lending was geographically well-diversified with about half in Jutland: 31% in East Jutland, 27% in North Jutland, 17% in West Jutland and 25% in South Jutland. Lending in the Copenhagen area remained unchanged at 26.6% of the portfolio. The share of international lend-

ing was unchanged at 5.0% at end-2014.

### Lending by loan type

After several years' growth in ARMs with 1-year and 2-year interest rate reset (F1-F2 loans), Nykredit recorded a decline in these loans in 2014, and demand was very modest at end-2014.

The amount of F1-F2 loans fell by DKK 55.1bn, or 18.3%, relative to the beginning of the year. Nykredit aims to reduce the amount of these loans considerably in the coming years. By contrast, ARMs with 3-year to 10-year interest rate reset (F3-F10 loans) increased by DKK 30.2bn, or 12.6%. Fixed-rate callable loans rose by DKK 14.5bn, or 5.7%, relative to the beginning of the year. Money market-based loans and index-linked loans declined by 1.3% and 6.5%, respectively, relative to the beginning of the year.

Loans with an interest-only period (IO) represented 55.8% against 56.3% at the beginning of the year, while repayment loans rose from 43.7% to 44.2%. The proportion of IO loans remains high, in part because two-tier lending for any one property consists of two loan types. The base loan (0-60% of the property value) mainly consists of an IO loan, whereas the top part is a repayment loan.

### Security

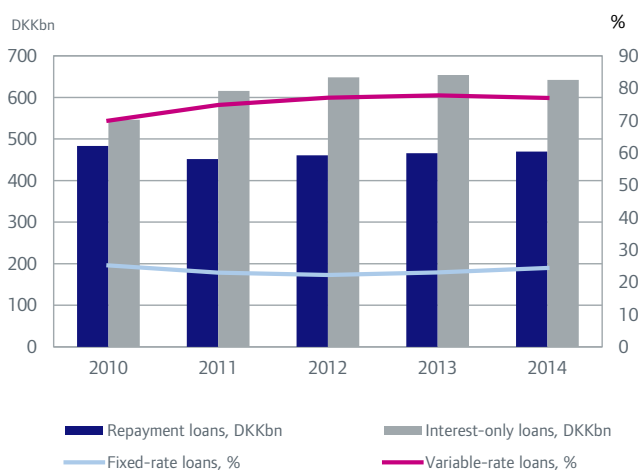
The main type of security provided for loans is mortgages against real estate. The security provided is valued regularly relative to the current market value of a property via the LTV ratio.

In addition to mortgages against real estate, Nykredit accepts guarantees issued by public authorities or banks. Guarantees issued by public authorities contribute to reducing the credit risk of mortgage loans mainly for subsidised housing. The guarantor assumes primary liability in respect of such guarantees. Mortgage lending guaranteed by public authorities amounted to DKK 28bn at end-2014.

The bank guarantees comprise guarantees for the registration of mortgages free from any adverse endorsements, guarantees for interim loans in connection with new building and loss guarantees. Mortgage lending guaranteed by banks amounted to DKK 8bn.

Furthermore, mortgage loans granted via Totalkredit are covered by set-off agreements with partner banks arranging Totalkredit loans. Under these agreements, Totalkredit may set off part of write-offs on mortgage lending against future commission payments to these partner banks. Lending covered by set-off agreements totalled DKK 127bn at end-2014.

### Nykredit Realkredit Group Mortgage lending by loan type



### Nykredit Realkredit Group Mortgage lending by property type



**Nykredit Realkredit Group**  
**Mortgage lending by property type<sup>1</sup>**

Nominal value at end-2014 DKK million/number	Private residential property	Private rental	Industry and trades	Office and retail	Agricul- tural property	Non- profit housing <sup>2</sup>	Coope- rative housing	Other	Total
<b>Mortgage lending</b>									
- Bond debt outstanding	674,974	87,575	25,058	110,874	95,982	61,050	38,481	17,750	1,111,744
- Number of loans	723,268	26,859	3,445	22,926	36,132	17,268	5,838	2,762	838,498
Bond debt outstanding by loans involving									
- public guarantees	0	12	-	12	285	26,810	455	103	27,677
- bank guarantees	7,614	-	-	-	-	-	-	-	7,614
- set-off agreements with partner banks	127,012	0	-	-	-	-	-	0	127,012
- no guarantee	540,348	87,563	25,058	110,863	95,697	34,240	38,026	17,647	949,441
<b>Total</b>	<b>674,974</b>	<b>87,575</b>	<b>25,058</b>	<b>110,874</b>	<b>95,982</b>	<b>61,050</b>	<b>38,481</b>	<b>17,750</b>	<b>1,111,744</b>
<b>Bond debt outstanding by loan type</b>									
Fixed-rate loans									
- repayment loans	134,995	4,548	1,337	9,263	6,117	20,108	7,735	3,267	187,370
- loans with interest-only period	73,255	3,653	16	1,502	3,110	2	1,812	306	83,656
Adjustable-rate mortgages (ARMs)									
- repayment loans, 1-year and 2-year interest reset	43,167	7,518	2,699	10,791	11,173	461	501	1,463	77,771
- other repayment loans	55,648	4,717	3,018	8,053	4,870	20,057	1,079	836	98,278
- loans with interest-only period, 1-year and 2-year interest reset	114,153	17,112	2,096	18,963	14,583	59	694	296	167,956
- other loans with interest-only period	123,831	15,960	3,134	12,341	9,171	89	6,229	215	170,970
Money market-linked loans									
Loans with interest rate cap									
- repayment loans	47,994	804	190	1,016	2,340	75	479	646	53,546
- loans with interest-only period	70,727	723	12	604	2,394	7	421	36	74,924
Loans without interest rate cap									
- repayment loans	1,858	6,517	7,112	19,478	10,115	264	1,062	6,244	52,650
- loans with interest-only period	9,337	25,910	5,442	28,848	31,889	163	16,471	4,273	122,333
Index-linked loans	7	113	1	16	219	19,765	1,998	169	22,288
<b>Total</b>	<b>674,974</b>	<b>87,575</b>	<b>25,058</b>	<b>110,874</b>	<b>95,982</b>	<b>61,050</b>	<b>38,481</b>	<b>17,750</b>	<b>1,111,744</b>
<b>Bond debt outstanding by region</b>									
- Capital region	183,527	23,757	1,729	31,471	3,251	24,330	21,553	6,488	296,106
- Other east Denmark	66,726	3,623	2,422	7,168	13,201	4,364	2,664	1,396	101,563
- Funen	57,701	5,427	1,182	4,362	8,576	5,052	2,308	1,079	85,686
- Jutland	354,164	35,560	14,845	46,402	70,814	27,304	11,778	8,787	569,655
- Faroe Islands and Greenland	2,128	149	-	182	-	-	178	1	2,637
- International	10,728	19,059	4,880	21,290	139	-	-	-	56,097
<b>Total</b>	<b>674,974</b>	<b>87,575</b>	<b>25,058</b>	<b>110,874</b>	<b>95,982</b>	<b>61,050</b>	<b>38,481</b>	<b>17,750</b>	<b>1,111,744</b>
<b>Bond debt by debt outstanding, DKKm</b>									
0-2	523,851	16,471	1,769	13,072	19,192	5,724	1,713	1,072	582,865
2-5	136,701	13,793	2,287	13,926	29,245	7,226	5,901	1,857	210,936
5-20	13,481	20,307	4,754	24,501	40,648	24,146	17,659	5,938	151,435
20-50	940	10,171	2,576	13,616	5,517	15,796	7,701	3,879	60,195
50-100	-	5,990	1,378	10,735	1,083	5,482	1,934	1,489	28,091
100-	-	20,844	12,294	35,025	297	2,676	3,572	3,515	78,223
<b>Total</b>	<b>674,974</b>	<b>87,575</b>	<b>25,058</b>	<b>110,874</b>	<b>95,982</b>	<b>61,050</b>	<b>38,481</b>	<b>17,750</b>	<b>1,111,744</b>
<b>Bond debt outstanding by remaining loan term, years</b>									
0-10	25,332	14,763	3,717	28,992	2,124	4,168	518	897	80,510
10-15	23,416	11,322	11,508	29,442	3,385	6,008	894	1,915	87,891
15-20	85,365	9,802	4,198	28,977	11,281	11,039	4,173	4,634	159,469
20-25	259,760	24,576	4,829	13,725	48,821	7,892	18,118	4,659	382,379
25-30	281,101	27,089	806	9,739	30,371	22,186	14,038	5,645	390,974
30-35	-	23	-	-	-	9,593	741	-	10,356
35-	-	1	-	-	-	165	0	-	166
<b>Total</b>	<b>674,974</b>	<b>87,575</b>	<b>25,058</b>	<b>110,874</b>	<b>95,982</b>	<b>61,050</b>	<b>38,481</b>	<b>17,750</b>	<b>1,111,744</b>

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

<sup>2</sup> Non-profit housing includes mortgage lending for subsidised urban renewal.

**Mortgage loan impairment****Total impairment provisions**

Total provisions for mortgage loan impairment remained low, equalling 0.50% of total mortgage lending compared with 0.39% at the beginning of the year.

Total impairment provisions increased by DKK 1,128m to DKK 5,506m at end-2014 compared with the beginning of the year. Of the increase, DKK 732m was related to private rental property (including housing cooperatives), and DKK 362m was attributable to agricultural property. Impairment provisions for private residential property were unchanged at 0.32% compared with the beginning of the year, whereas impairment provisions for private rental property rose from 0.66% to 1.19%.

Private residential property accounted for DKK 2,164m of impairment provisions at end-2014, while commercial property accounted for DKK 3,342m.

**Earnings impact**

Impairment losses on mortgage lending came to DKK 2,121m in 2014 against DKK 2,404m in 2013. Of total impairment losses on loans and advances for the year, DKK 856m, or 40.4%, was attributable to private rental property (including housing cooperatives) and DKK 554m, or 26.1%, to private residential property, while DKK 441m, or 20.8% derived from agricultural property.

To this should be added impairment losses on credit institutions totalling DKK 11m in 2014 compared with DKK 10m in 2013.

**Loans to weak customers**

Nykredit's individually impaired mortgage loans to weak customers increased by DKK 3,708m to 16,214m at end-2014, equal to 1.46% of total loans and advances. The increase was attributable to lending for private residential property, office and retail, agricultural property and private rental property.

Mortgage loans to weak customers for which individual impairment had not been recorded amounted to DKK 69.2bn at end-2014, equal to 6.2% of total loans and advances. These loans have an elevated risk of default, but not necessarily a high risk of future losses, as the loss risk also depends on any security underlying the loans.

**Nykredit Realkredit Group**  
**Mortgage loan impairment by property type<sup>1</sup>**

DKK million/%	2014			2013		
	Total impairment provisions	Total impairment provisions, %	Total earnings impact	Total impairment provisions	Total impairment provisions, %	Total earnings impact
Private residential	2,164	0.32	554	2,166	0.31	1,210
Private rental <sup>2</sup>	1,500	1.19	856	768	0.66	440
Industry and trades	257	1.03	98	218	0.87	114
Office and retail	506	0.46	91	556	0.50	399
Agricultural	856	0.89	441	494	0.51	150
Non-profit housing	97	0.16	55	44	0.07	16
Other	126	0.71	26	132	0.75	75
<b>Total</b>	<b>5,506</b>	<b>0.50</b>	<b>2,121</b>	<b>4,378</b>	<b>0.39</b>	<b>2,404</b>

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

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

**Nykredit Realkredit Group**  
**Credit exposure to mortgage lending by property type<sup>1</sup>**

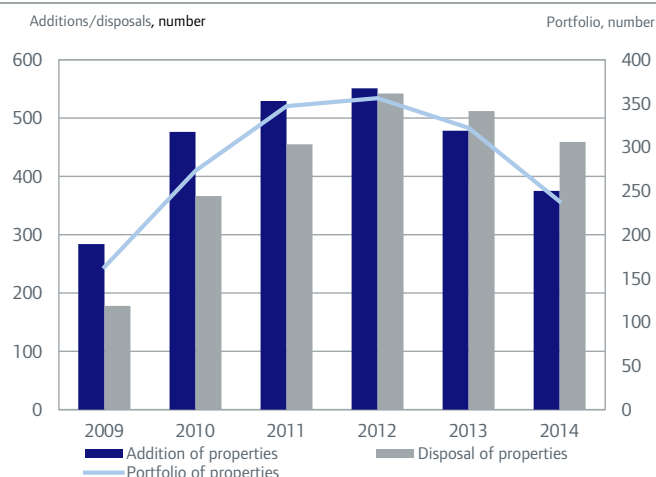
DKK million	2014			2013		
	Lending, year-end	Loans to weak customers, individual impairment provisioning	Loans to weak customers, no individual provisioning	Lending, year-end	Loans to weak customers, individual impairment provisioning	Loans to weak customers, no individual provisioning
Private residential	674,974	5,765	42,555	689,057	4,841	42,914
Private rental	126,056	4,984	7,803	115,598	3,315	9,722
Industry and trades	25,058	664	580	25,119	452	884
Office and retail	110,874	1,621	6,791	111,215	1,396	9,789
Agricultural	95,982	2,598	10,621	97,217	2,114	9,263
Non-profit housing <sup>2</sup>	61,050	382	434	64,129	174	742
Other	17,750	199	441	17,636	215	735
<b>Total</b>	<b>1,111,744</b>	<b>16,214</b>	<b>69,225</b>	<b>1,119,970</b>	<b>12,506</b>	<b>74,050</b>

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

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

<sup>2</sup> Non-profit housing includes subsidised cooperative housing and subsidised urban renewal.

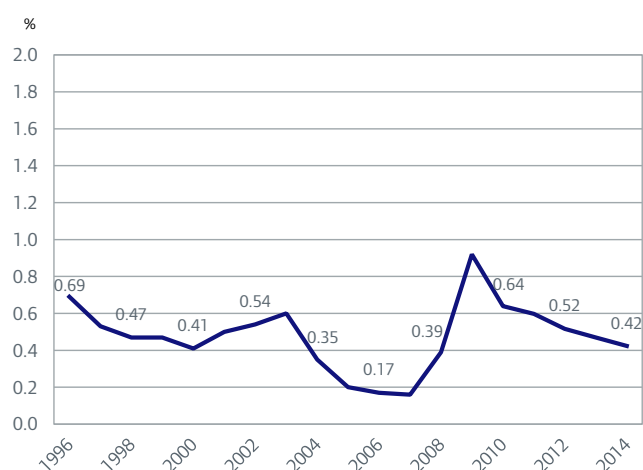
### Nykredit Realkredit Group Properties acquired/sold



### Nykredit Realkredit Group Arrears ratio – 75 days past due

Due dates	Arrears relative to total mortgage payments	Debt outstanding affected by arrears of total debt outstanding	Debt outstanding affected by arrears
	%	%	DKK billion
<b>2014</b>			
- September	0.42	0.42	4.7
- June	0.41	0.43	4.8
- March	0.46	0.47	5.2
<b>2013</b>			
- December	0.43	0.50	5.6
- September	0.47	0.46	5.2
- June	0.46	0.50	5.6
- March	0.47	0.46	5.1

### Nykredit Realkredit Group Arrears ratio, mortgage lending – 75 days past the September due date



### Arrears

Mortgage loan arrears are determined 15 and 75 days past the due date. Mortgage loan arrears represented 0.42% of total mortgage payments due 75 days past the September due date against 0.47% at the same time in 2013. Arrears determined 15 days past the December due date represented 0.99% against 1.09% at the same time in 2013.

Similarly, bond debt outstanding affected by arrears as a percentage of total bond debt outstanding dropped from 0.46% to 0.42% year-on-year.

### Acquired properties

Nykredit acquires properties at forced sales on a current basis with a view to resale. The portfolio of acquired properties has declined slightly since 2012. The number of properties was down to 238 at end-2014 against 322 properties at the beginning of the year and 356 properties at end-2012. The portfolio of private residential property amounted to 117.

The value of acquired properties totalled DKK 552m. In 2014 the Group acquired 375 properties and sold 459.



## BANK LENDING

Loans, advances and guarantees were DKK 93.3bn against DKK 110.1bn at the beginning of the year, down DKK 16.8bn. The decline chiefly stemmed from reverse repurchase lending, which fell back by DKK 21.6bn to DKK 35.2bn.

Bank lending at amortised cost amounted to DKK 50.5bn against DKK 47.0bn at the beginning of the year. The level mirrored the takeover of the portfolio from FIH as well as modest loan demand. Bank lending before provisions for loan impairment was DKK 54.1bn against DKK 50.9bn at the beginning of the year.

Finance and insurance still accounted for the largest single sector exposure at DKK 40.4bn against DKK 61.6bn at end-2013. The exposure widely comprised reverse repurchase lending with bonds serving as security, and the decline of DKK 21.1bn should in part be seen in the context of a general fall of DKK 21.6bn in reverse repurchase lending.

Finance and insurance accounted for 37.9%, real estate 12.3%, while personal customers contributed 22.9% compared with 53.4%, 9.2% and 15.4%, respectively, at end-2013.

Nykredit Bank recorded lending growth of 6.8%, excluding reverse repurchase lending, determined pursuant to the rules of the Danish FSA, including rules relating to the FSA Supervisory Diamond model. The Danish FSA's lending limit value indicates that growth of 20% or more may imply increased risk-taking.

The sectors real estate and construction saw a combined increase from DKK 12.4bn at end-2013 to DKK 15.2bn. Of total loans, advances and guarantees at end-2014, DKK 11.4bn related to the category renting of real estate against DKK 8.5bn at end-2013. At end-2014, impairment provisions for lending to the real estate sector totalled DKK 1.8bn against DKK 1.7bn at end-2013, equal to 11.7% of loans and advances against 12.2% at end-2013, respectively.

### Bank loan impairment and provisions for guarantees

Nykredit's loans to weak customers, which are individually impaired, dropped by DKK 961m to DKK 4,878m at end-2014.

#### Nykredit Realkredit Group Bank lending and guarantees

DKK million	2014	2013
Bank lending	50,494	46,963
Reverse repurchase lending	35,228	56,814
Guarantees	7,546	6,311
<b>Total</b>	<b>93,268</b>	<b>110,088</b>

#### Nykredit Realkredit Group Credit exposure to bank lending, reverse repurchase lending and guarantees by sector

DKK million	2014		2013	
	Lending, year-end	Loans to weak customers, individual impairment provisioning	Lending, year-end	Loans to weak customers, individual impairment provisioning
<b>Public sector</b>	<b>596</b>	<b>0</b>	<b>496</b>	<b>0</b>
Agriculture, hunting, forestry and fishing	3,230	207	2,026	241
Manufacturing, mining and quarrying	5,526	302	5,026	270
Energy supply	1,055	6	1,743	25
Construction	2,087	373	1,796	371
Trade	3,309	208	2,557	295
Transport, accommodation and food service activities	2,930	142	3,025	198
Information and communication	1,027	82	948	90
Finance and insurance	40,420	508	61,568	893
Real estate	13,071	1,869	10,615	2,202
Other	9,643	479	7,811	557
<b>Total commercial customers</b>	<b>82,298</b>	<b>4,176</b>	<b>97,115</b>	<b>5,142</b>
<b>Personal customers</b>	<b>23,721</b>	<b>702</b>	<b>17,789</b>	<b>697</b>
<b>Total</b>	<b>106,615</b>	<b>4,878</b>	<b>115,397</b>	<b>5,839</b>
- Of which provisions for losses and guarantees	13,347	-	5,309	-

As the breakdown is based on public sector statistics, it is not directly comparable with the Bank's business areas.  
Note: Reference is made to note 46 for a breakdown of bank lending and guarantees by rating category.

**Total impairment provisions**

Nykredit's total provisions for bank loan impairment declined by DKK 414m in 2014 to DKK 3,560m at end-2014, equal to 6.59% of total bank lending. Provisions for guarantees amounted to DKK 107m against DKK 103m at the beginning of the year.

Individual impairment provisions for bank lending totalled DKK 3,051m against DKK 3,605m at the beginning of the year, and collective impairment provisions for bank lending were DKK 509m against DKK 370m at the beginning of the year.

The decline in individual impairment provisions of DKK 554m consisted of new impairment provisions of DKK 634m, reversals of DKK 600m, and write-offs of DKK 588m.

The increase in collective impairment provisions partly stemmed from a more conservative assessment of private residential lending.

Impairment provisions for receivables from credit institutions came to DKK 23m at end-2014 compared with DKK 19m at end-2013.

**Guarantees**

The Bank issues guarantees on a current basis. Guarantees issued were DKK 3,138m, down by DKK 371m on the beginning of the year.

At end-2014, provisions for guarantees amounted to DKK 107m against DKK 103m at the beginning of the year.

**Earnings impact**

Impairment losses for the year came to DKK 211m, and provisions for guarantees were DKK 4m – a total charge of DKK 215m. By comparison, loan impairment losses and provisions for guarantees were DKK 330m in 2013.

To this should be added impairment losses on credit institutions total-ling DKK 4m in 2014 against DKK 19m in 2013.

**Nykredit Realkredit Group****Bank loan impairment and provisions for guarantees by sector<sup>1</sup>**

DKK million	2014		2013	
	Total impairment provisions	Total earnings impact	Total impairment provisions	Total earnings impact
<b>Public</b>	<b>0</b>	<b>(8)</b>	<b>8</b>	<b>8</b>
Agriculture, hunting, forestry and fishing	138	(10)	177	28
Manufacturing, mining and quarrying	269	26	261	129
Energy supply	9	2	8	3
Construction	236	11	262	47
Trading	119	(30)	195	(27)
Transport, accommodation and food service activities	91	(19)	126	16
Information and communication	62	1	68	4
Finance and insurance	305	(85)	445	(207)
Real estate	1,540	303	1,465	98
Other	305	(77)	422	143
<b>Total commercial customers</b>	<b>3,074</b>	<b>122</b>	<b>3,429</b>	<b>234</b>
<b>Personal customers</b>	<b>592</b>	<b>101</b>	<b>641</b>	<b>88</b>
<b>Total</b>	<b>3,666</b>	<b>215</b>	<b>4,078</b>	<b>330</b>
- Of which provisions for losses on guarantees	107	4	103	21
<b>Total including impairment provisions for credit institutions</b>	<b>3,689</b>	<b>219</b>	<b>4,097</b>	<b>349</b>

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

# ORGANISATION, MANAGEMENT AND CORPORATE RESPONSIBILITY

## FINANCIAL SUSTAINABILITY AND CORPORATE RESPONSIBILITY

A changing society needs sound financial enterprises to foster changes and secure financial solutions that are sustainable in the short and long term.

As a market participant, Nykredit has financial sustainability as its business concept. This means

### that we

- operate on the basis of a sharply defined ethical frame of reference and long-term relationships
- create new and dynamic opportunities for customers and investors
- value balanced risk management and a strong capital structure.

### Nykredit Realkredit Group

#### Organisation and delegation of responsibilities

##### Board of Directors

- Overall governance and strategic management
- Lays down overall policies and guidelines

##### Audit Board

- Monitors matters relating to accounting, audit, internal controls and risk management

##### Remuneration Board

- Prepares and recommends the remuneration policy

##### Nomination Board

- Nominates candidates for the Committee of Representatives, Board of Directors and Executive Board
- Prepares resolutions on the competency profiles of the Board of Directors and Executive Board

##### Risk Board

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

##### Group Executive Board

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

##### Committees

- Governance and management within selected fields of business

##### Credit

- Manages and formulates the credit policy
- Approves large exposures

##### Asset/Liabilities

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

##### Risk

- General capital and risk management
- General risk policy
- Approves risk models

##### Contingency

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

##### Products

- Ensures development and maintenance of concepts and products

### that you

- as a customer receive holistic advisory services that provide perspective and improve your options
- as a business partner experience competence, respect and determination to realise mutual benefits
- as an investor are offered a broad range of investment options with focus on security and transparency
- as a staff member have room to unfold your full potential while maintaining a work-life balance
- as a member of society can expect us to contribute to securing a stable and efficient financial market, while maintaining a broad sense of community.

Nykredit's relationship with customers, investors, society and staff are described in CSR Report 2014 – Nykredit Engaging with Society, available at [nykredit.com/reports](http://nykredit.com/reports).

## ORGANISATION AND DELEGATION OF RESPONSIBILITIES

The Board of Directors of Nykredit Realkredit A/S counts 15 members, of which ten 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 is the supreme management body of the Company, which makes decisions of a strategic and fundamental nature and lays down guidelines for the day-to-day management by the Group Executive Board.

The Board of Directors must have a suitable size, composition and diversity, which possesses the skills required to perform the management tasks and the responsibility resting at all times with the Board of Directors as the supreme management body of the Company.

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

- Strategy
- Sector and real estate expertise
- Economics, finance and accounting
- Capital markets, securities and funding
- Politics, public administration and associations
- Legal and regulatory matters of importance to financial business
- Corporate governance
- Financial business management, including IT
- Market conditions, customer relations and sales
- Organisation/HR and processes
- Credit matters.

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

### Board committees

The Board of Directors of Nykredit Realkredit A/S has appointed an Audit Board, a Remuneration Board, a Nomination Board and a Risk Board. Each of these board committees monitors selected areas and prepares cases for review by the entire Board of Directors, each within their field of responsibility.

#### Audit Board

The principal tasks of the Audit Board are to monitor the financial reporting process, the effectiveness of Nykredit's internal control systems, internal audit and risk management as well as the statutory audit of the financial statements, and to monitor and verify the independence of the auditors.

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

The Audit Board consists of Steffen Kragh, CEO (Chairman), Anders C. Obel, CEO, Nina Smith, Professor, and Jens Erik Udsen, Managing Director, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting. The Board of Directors of Nykredit Realkredit A/S has appointed Steffen Kragh, CEO, as the independent, proficient member of the Audit Board.

The Audit Board held four meetings in 2014.

#### Remuneration Board

One of the principal tasks of the Remuneration Board is to make recommendations in respect of Nykredit's remuneration policy, including guidelines on incentive pay, for the approval of the Board of Directors. Moreover, the Remuneration Board makes proposals for remuneration of the Committee of Representatives, the Board of Directors and the Executive Board. It also reviews and considers draft resolutions concerning staff bonus budgets and ensures that the information in the Annual Report about remuneration of the Board of Directors and the Executive Board is correct, fair and satisfactory.

The Remuneration Board consists of Steen E. Christensen, Attorney (Chairman), Hans Bang-Hansen, Farmer, and Steffen Kragh, CEO, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting, and of Leif Vinther, Chairman of Staff Association and staff-elected member of the Board of Directors of Nykredit Realkredit A/S.

The Remuneration Board held three meetings in 2014.

#### Nomination Board

The Nomination Board is tasked with drawing up recommendations for the Board of Directors on the nomination of candidates for the Committee of Representatives, the Board of Directors and the Executive Board. The Nomination Board is further tasked with setting targets for the under-represented gender on the Board of Directors and laying down a diversity policy for the Board of Directors. In addition, the Nomination Board, which is accountable to the Board of Directors, is overall responsible for the competency profiles and continuous evaluation of the work and results of the Board of Directors and the Executive Board.

The Nomination Board consists of Steen E. Christensen, Attorney (Chairman), Hans Bang-Hansen, Farmer, Steffen Kragh, CEO, and Nina Smith, Professor, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting.

The Nomination Board held three meetings in 2014.

### Risk Board

With effect from 1 April 2014, Nykredit Realkredit A/S set up a Risk Board, which is tasked with providing advice to the Board of Directors on the Nykredit Group's risk profile and current risk management.

The Risk Board consists of Nina Smith, Professor (Chairman), Steffen Kragh, CEO, Merete Eldrup, Managing Director, Bent Naur, former CEO, and Michael Demsitz, Managing Director, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting.

The Risk Board held four meetings in 2014.

### Committees

Nykredit has appointed a number of committees which are to perform specific tasks within selected fields. All the committees include one or more members of the Group Executive Board.

As at 1 April 2014, Nykredit reduced the number of committees from ten to five. This simplification should be seen in the context of the increasing number of group level decisions which is being made by the Group Executive Board and the strengthening of base level decision-making powers. Committees have decision-making powers at group executive board level and the committee chairmen are members of the Group Executive Board. Each committee must report to the entire Group Executive Board.

The *Credits Committee* is charged with overseeing the management of risks in Nykredit's credits area. The Committee chiefly considers cases and manages portfolios in the credits area.

In relation to the Nykredit Group and the individual companies Nykredit Realkredit, Totalkredit and Nykredit Bank, the *Asset/Liability Committee* is charged with monitoring and coordinating the use of the limited resources in the form of capital and liquidity, monitoring profitability at the business level and laying down internal limits.

The *Risk Committee* is charged with overseeing the overall risk profile and capital requirements of the Nykredit Group in order to assist the managements of Foreningen Nykredit (the Nykredit Association) and Nykredit Holding A/S in overseeing – and the managements of Nykredit Realkredit, Totalkredit and Nykredit Bank in ensuring – compliance with current legislation and practice in the area in question.

The Risk Committee must also oversee all the Nykredit Group's risk models in order to assist Management in monitoring and ensuring compliance with current legislation and practice in the area in question.

The *Contingency Committee* has the overall responsibility for compliance with IT security policy rules in relation to contingencies (major accidents and catastrophes) and the Group's contingency plans covering IT as well as business aspects.

The *Products Committee's* overarching purpose is to ensure that the development and maintenance of concepts and products potentially involving material risks for the Group, counterparties and/or customers are undertaken in accordance with the Group's business model and the guidelines which the Group Executive Board has approved for development and approval of new concepts and products.

## THE UNDER-REPRESENTED GENDER

Since 1995, Nykredit has pursued an active strategy to increase the number of women in management with particular focus on recruiting women for the highest management levels. All of the Nykredit Group's financial companies have female representation on their boards of directors and have targets in this respect, which must be met before end-2016. The actual 2014 figures and the targets for 2016 are stated below.

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

Further information on Nykredit's gender equality policy and objectives is available in Nykredit's CR Fact Book 2014, available at [nykredit.com/CRfactbook](http://nykredit.com/CRfactbook).

## CORPORATE GOVERNANCE

The Board of Directors of Nykredit Realkredit A/S has decided that Nykredit should act as a listed company for external purposes, operating on sound business terms.

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

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

Nykredit Realkredit A/S differs from ordinary listed companies, as the company has only one shareholder, Nykredit Holding A/S, which has a limited number of shareholders: Foreningen Nykredit, Foreningen Østifterne, Industriens Fond and PRAS A/S.

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

In 1991 the mortgage association Nykredit was converted into a public limited company. Nykredit operates through Nykredit Realkredit A/S, the objects of which are to carry on mortgage banking and other financial business. The company is wholly owned by Nykredit Holding A/S, the object of which is to carry on Nykredit's activities. Foreningen Nykredit is the largest shareholder of Nykredit Holding

A/S, owning 89.80% of the shares. Its objects are to be a shareholder of Nykredit and through that carry on mortgage banking and other financial business.

It is standard practice at Nykredit that the eight members of the Board of Directors of Foreningen Nykredit elected by the Committee of Representatives are also elected for the Boards of Directors of Nykredit Holding A/S and Nykredit Realkredit A/S and that the last two members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting are also members of the Board of Directors of Nykredit Holding A/S. Formally speaking, the directors elected by the General Meeting represent the interests of a controlling shareholder and they are often borrowers of Nykredit Realkredit A/S. This is a natural consequence of Nykredit being a financial mutual and the shared objectives and interests of the companies. As the Board of Directors of Nykredit Realkredit A/S is considered to act independently of special interests, all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting are generally considered independent.

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

Further information on organisation and corporate governance is available at [nykredit.com/corporategovernanceuk](http://nykredit.com/corporategovernanceuk).

## REMUNERATION

### Risk-takers

At end-2014, the Group had identified a total of 81 risk-takers:

- Members of the Board of Directors: 29
- Group managing directors: 5
- Subsidiary managing directors: 10
- Other risk-takers: 37

The principles for designating the group of other risk-takers were adopted by the Board of Directors at the beginning of 2014, primarily based on the size of the loss that the individual risk-taker may inflict on Nykredit in terms of credit or market risk.

As Nykredit is the largest provider of domestic loans in Denmark, the majority of the risk-takers have been designated because of their potential ability to inflict credit losses on Nykredit.

As a result of new EU regulation concerning the designation of risk-takers, risk-takers will for 2015 be designated in accordance with these rules supplemented with Nykredit's current model.

### Remuneration of risk-takers

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

Members of the Board of Directors and group managing directors do not receive variable remuneration, nor bonus awards. The total remuneration of the Board of Directors and the Group Executive Board appears from note 11 of this report.

The 2014 bonus provisions in respect of subsidiary managing directors and other risk-takers amounted to DKK 14m compared with bonus of DKK 18m awarded for 2013. The 2014 bonus provisions corresponded to 19% of their fixed salaries.

### Female board representation

%	Actual 2014	Target 2016
Nykredit Holding	17	20
Nykredit Realkredit	20	25
Nykredit Bank	20	20
Totalkredit	14	20



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

### Bonus programmes

Individual bonus programmes apply to Nykredit's senior executives and specialists in key areas.

Special individual bonus programmes apply to some of the staff of Nykredit Markets, Nykredit Asset Management and Group Treasury who have major earnings responsibility, in line with market standards for such positions. The remuneration of these staff members is chiefly based on their job performance. The 2014 bonus provisions in respect of these staff members (excl risk-takers) amounted to DKK 46m compared with the awarded bonus of DKK 63m for 2013. The 2014 bonus provisions corresponded to 27% of the total salaries of these staff members.

In addition, a limited number of individual bonus programmes apply to staff with responsibility for corporate and institutional clients. The 2014 bonus provisions in respect of these staff members (excl risk-takers) amounted to DKK 6m compared with the awarded bonus of DKK 21m for 2013. The 2014 bonus provisions corresponded to 10% of the total salaries of these staff members. The decline from 2013 to 2014 is principally attributable to the discontinuation of bonus programmes in some of the units in 2014.

Management staff and certain senior staff members participate in an individual programme with a potential bonus of up to three months' salary. The 2014 bonus provisions in respect of these staff members (excl risk-takers) amounted to DKK 12m compared with the bonus of DKK 11m awarded for 2013. The 2014 bonus provisions corresponded to 5% of the total salaries of these staff members.

The bonus programmes do not apply to other management or staff members, but they may receive an individual performance award. For 2014, provisions of DKK 10m were made for performance awards, which was in line with the performance awards for 2013. The performance award provisions for 2014 corresponded to 0.5% of their total salaries.

Total provisions for bonuses and performance awards for 2014 came to DKK 88m against total bonuses and performance awards of DKK 123m for 2013. Total bonus and performance award provisions for 2014 corresponded to just below 4% of total salaries.

## INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

Nykredit's internal controls and risk management relating to the financial reporting process are designed to efficiently manage rather than eliminate the risk of errors and omissions in connection with financial reporting.

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

### Financial reporting process

The 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.

Group Finance undertakes the Group's total financial reporting and is responsible for ensuring that group financial reporting complies with policies laid down and current legislation.

The finance areas of subsidiaries contribute to the Group's financial management, 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.

Group Finance prepares monthly internal reports and performs budget control, which includes an explanation of the monthly, quarterly and annual development. Group Finance is responsible for the Group's external annual and interim financial reporting.

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

### Control environment

Business procedures are laid down and controls are implemented for all material risk areas. Overall principles and requirements for the preparation of business procedures and the annual process for the approval of business procedures in significant risk areas have been laid down at group level.

The Executive Board is responsible for risk delineation, management and monitoring. The Committees perform the continuous management and monitoring on behalf of the Executive Board.

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

### Risk assessment

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

- Periodical review of risk and financial reporting, including IT systems, general procedures and business procedures
- Review of the areas which include assumptions and estimates material to the financial statements
- Review of the 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 the Group's controls is to ensure that policies and guidelines laid down by the Executive Board are observed and to ensure timely prevention, detection and correction of any errors, deviations or omissions.

The controls comprise manual and physical controls as well as general IT controls and automatic application controls in the IT systems applied.

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

- *Business units* – the management of each unit is responsible for identifying, assessing and handling the risks arising in connection with the performance of the unit's duties and for implementing satisfactory permanent internal controls for the handling of business operations.

- *Risk functions* – comprise a number of cross-functional areas, such as Group Credits, Group Finance, decentralised finance functions, Capital & Risk including the Chief Risk Officer, Compliance and IT Security. These areas may be in charge of providing policies and procedures on behalf of Management. Further, they are responsible for testing whether policies and procedures are observed and whether internal controls performed by the business units are satisfactory.
- *Audit* – comprises internal and external audit. On the basis of an audit plan approved by the Board of Directors, Internal Audit is responsible for carrying out an independent audit of internal controls in Nykredit and performing the statutory audit of the Annual Report together with the external auditors. The internal and external auditors endorse the Annual Report and in this connection issue a long-form audit report to the Board of Directors on any matters of which the Board of Directors should be informed.

The three functional levels are to ensure:

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

In connection with the preparation of financial statements, a number of fixed procedures and internal controls are performed to ensure that the financial statements provide a fair presentation in accordance with current legislation.

#### **Information and communication**

The Board of Directors has adopted an information and communications policy, which lays down the general requirements for external financial reporting in accordance with legislation and relevant rules and regulations. Nykredit is committed to a transparent and credible business conduct – in compliance with legislation and the Stock Exchange Code of Ethics.

Internal and external financial reports are regularly submitted to the Group's Board of Directors and Executive Board. Internal reporting includes analyses of material matters in, for instance, Nykredit's business areas and subsidiaries.

Risk reports are submitted to the Board of Directors, the Executive Board, relevant management levels and the individual business areas and form the basis of Management's accounting estimates in the financial statements. For further information on the Group's risk and capital management, please refer to the publication Risk and Capital Management 2014 available at [nykredit.com/reports](http://nykredit.com/reports).

#### **Monitoring**

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

# GROUP ENTITIES

## NYKREDIT HOLDING A/S

Nykredit Holding is the Parent company of Nykredit Realkredit.

The company's main activity is the ownership of Nykredit Realkredit.

The parent company recorded a loss of DKK 3m excluding the profit of the subsidiary Nykredit Realkredit.

Reference is made to the Annual Report 2014 of Nykredit Holding.

## NYKREDIT REALKREDIT A/S

Nykredit Realkredit posted a profit before tax of DKK 1,030m against a profit of DKK 1,389m in 2013. Profit after tax was DKK 815m against DKK 1,331m the year before.

Results for 2014 were mainly affected by a loss on equity investments, lower investment portfolio income and decreasing operating costs and impairment losses relative to 2013.

Core income from mortgage operations increased by DKK 314m to DKK 5,286m. Gross new lending expanded by DKK 26bn to DKK 78bn at end-2014, and the loan portfolio decreased by DKK 17bn to DKK 570bn in nominal terms.

Core income from securities amounted to DKK 109m against DKK 87m in 2013.

Operating costs, depreciation and amortisation, excluding special value adjustments, were down by 21.2% to DKK 2,605m.

Impairment losses on loans and advances fell back by DKK 114m to DKK 1,723m. Personal customers accounted for DKK 173m of impairment losses for the year, equal to 0.12% of lending. Commercial customers accounted for DKK 1,550m, equal to 0.36% of lending.

Impairment losses represented 0.30% of total loans and advances at fair value of DKK 582bn.

Impairment provisions totalled DKK 4,270m at end-2014, up DKK 1,066m. Individual impairment provisions stood at DKK 2,869m and collective impairment provisions at DKK 1,401m.

A loss of DKK 231m on equity investments was recorded compared with a profit of DKK 714m in 2013.

Investment portfolio income was DKK 922m against DKK 1,600m in 2013.

Investment portfolio income from bonds, liquidity and interest rate instruments was DKK 437m in 2014, while income from portfolio equities and equity instruments came to DKK 228m. To this should be added value adjustment of strategic equities of DKK 258m. Unlike in the Consolidated Financial Statements, strategic equities are not value adjusted against equity but against investment portfolio income.

## Profit distribution

Profit for the year has been taken to equity in accordance with the Articles of Association and the guidelines laid down by the Board of Directors.

For the financial year 2014, Nykredit Realkredit continued the distribution practice applied in the year before as adopted by the Board of Directors. Consequently, no series reserve funds receive any share of results for the year directly.

Equity is allocated to the individual series in compliance with statutory capital requirements and the requirements of credit rating agencies for a given rating (generally AAA). The remaining part of equity is allocated to Nykredit Realkredit In General.

In accordance with the articles of association of a number of pre-1972 series, the reserve fund shares will be distributed when a loan is partially or fully redeemed. In case of losses or a need to provide for a non-performing mortgage of a pre-1972 series, the series in question will be reduced by an equivalent amount. The reserve funds of pre-1972 series will therefore chiefly be affected by distributed reserve fund shares for the year and any loan impairment. Any contributed capital resulting from the capital requirements is not distributable.

After distribution of profit for the year, equity landed at DKK 59.5bn at year-end. It will be recommended for adoption by the Annual General Meeting that no dividends be distributed for 2014.

## Nykredit Realkredit A/S Core earnings and investment portfolio income

DKK million	2014	2013
Core income from		
- business operations	5,286	4,973
- senior debt	(188)	(171)
- securities	109	87
<b>Total</b>	<b>5,207</b>	<b>4,889</b>
Operating costs, depreciation and amortisation, excluding special value adjustments	2,605	3,306
Operating costs, depreciation and amortisation – special value adjustments	13	211
<b>Core earnings before impairment losses</b>	<b>2,589</b>	<b>1,372</b>
Impairment losses on loans and advances	1,723	1,837
Profit (loss) from equity investments	(231)	714
<b>Core earnings after impairment losses</b>	<b>635</b>	<b>249</b>
Investment portfolio income	922	1,600
Net interest on AT1 capital	(528)	(460)
<b>Profit before tax</b>	<b>1,030</b>	<b>1,389</b>
Tax	215	58
<b>Profit for the year</b>	<b>815</b>	<b>1,331</b>

**Capital and capital adequacy**

The capital adequacy requirements governing Danish mortgage banks are laid down in Part 10 of the Danish Financial Business Act. Own funds must at any time make up at least 8% of the risk exposure amount (REA) of a mortgage bank.

At end-2014, own funds were DKK 65.6bn, corresponding to a total capital ratio of 17.2%.

The internal capital adequacy requirement (ICAAP) was 10.0% at year-end.

**Additional Tier 1 capital**

Pursuant to the Danish Financial Business Act, Nykredit may use Additional Tier 1 (AT1) capital to fulfil its capital requirement. Nykredit may freely limit/skip the payment of interest on the issued capital. If Nykredit should fail to fulfil the total capital requirement including Pillar II and buffers, the Danish FSA may demand that Nykredit limits/skips interest payments. Interest payments may gradually be resumed as Nykredit's capitalisation improves.

**Nykredit Realkredit A/S  
Capital and capital adequacy**

DKK million	2014	2013
Equity	59,502	58,716
CET1 capital deductions	(3,521)	(6,450)
<b>CET1 capital</b>	<b>55,981</b>	<b>52,266</b>
AT1 capital	6,699	10,444
AT1 capital deductions	(765)	-
<b>Tier 1 capital</b>	<b>61,915</b>	<b>62,710</b>
Tier 2 capital	4,466	34
Tier 2 capital deductions	(751)	(34)
<b>Own funds</b>	<b>65,630</b>	<b>62,710</b>
CET1 capital ratio, %	14.7	14.2
Tier 1 capital ratio, %	16.2	17.0
Total capital ratio, %	17.2	17.0

**Nykredit Realkredit A/S  
Required own funds and capital adequacy requirement**

DKK million	2014	2013
Credit risk	27,901	27,405
Market risk	1,741	2,791
Operational risk	776	772
<b>Total Pillar I</b>	<b>30,418</b>	<b>30,968</b>
<b>Total Pillar II</b>	<b>7,421</b>	<b>2,842</b>
<b>Required own funds</b>	<b>37,839</b>	<b>33,811</b>
Internal capital adequacy requirement (Pillar I and Pillar II), %	10.0	9.2

**TOTALKREDIT A/S**

Totalkredit recorded a profit before tax of DKK 1,932m against DKK 754m in 2013. Profit after tax was DKK 1,458m against DKK 565m the year before.

Results for 2014 were principally affected by rising business income, lower loan impairment losses and decreasing expenses for supplementary collateral for SDO-funded loans and advances (senior debt).

Core income from business operations was up DKK 872m to DKK 2,829m in 2014. This reflected gross new lending of DKK 114bn against DKK 71bn in 2013 and an increase in the loan portfolio of DKK 9bn to DKK 542bn in nominal terms. Results also mirrored previous price increases and a reduction in the commission payable to Jyske Bank following its exit from the Totalkredit partnership.

Core income from securities was a loss of DKK 8m compared with a loss of DKK 2m in 2013.

Operating costs, depreciation and amortisation fell by DKK 9m to DKK 388m compared with 2013.

Loan impairment losses declined by DKK 161m to DKK 406m in 2014, equal to 0.07% of lending and a fall relative to the year before (2013: 0.11%).

Totalkredit's business concept is based on partner banks being responsible for customer services and for hedging the credit risk relating to the loan portfolio.

Risk is hedged by agreement with the partner banks. Under the agreement, incurred losses corresponding to the part of a loan exceeding 60% of the mortgageable value at the time of granting are offset against future commission payments from Totalkredit to the partner banks.

Accordingly, the company has offset DKK 270m against commission for the year payable to the partner banks. The amount has been recognised in "Impairment losses on loans and advances".

After inclusion of profit for the year, equity stood at DKK 17.1bn at end-2014.

Own funds were DKK 19,540m at end-2014, corresponding to a total capital ratio of 20.9% against 21.3% at end-2013.

The internal capital adequacy requirement (ICAAP) was 10.6% at year-end.

Reference is made to the Annual Report 2014 of Totalkredit A/S.

**Totalkredit**  
**Core earnings and investment portfolio income**

DKK million	2014	2013
Core income from		
- business operations	2,829	1,957
- senior debt	(220)	(313)
- securities	(8)	(2)
<b>Total</b>	<b>2,601</b>	<b>1,642</b>
Operating costs, depreciation and amortisation	388	397
<b>Core earnings before impairment losses</b>	<b>2,213</b>	<b>1,245</b>
Impairment losses on loans and advances	406	567
<b>Core earnings after impairment losses</b>	<b>1,807</b>	<b>678</b>
Investment portfolio income	125	76
<b>Profit before tax</b>	<b>1,932</b>	<b>754</b>
Tax	(474)	(189)
<b>Profit for the year</b>	<b>1,458</b>	<b>565</b>

**Totalkredit**  
**Summary balance sheet, year-end**

DKK million	2014	2013
Mortgage loans at fair value	555,777	540,751
Bonds and equities	91,795	79,357
Bonds in issue, Totalkredit	36,229	46,568
Bonds in issue, Nykredit Realkredit	590,605	538,567
Subordinated debt	3,100	3,100
Equity	17,113	15,655
Total assets	674,753	639,824

**THE NYKREDIT BANK GROUP**

The Nykredit Bank Group recorded a loss before tax of DKK 2,371m against a profit before tax of DKK 85m in 2013. Loss after tax was DKK 1,772m against a profit after tax of DKK 77m in 2013.

The most important factor affecting results for 2014 was an upturn in expenses for negative value adjustment of interest rate swaps.

Core income from business operations was DKK 3,173m in 2014, equal to a 2.7% decline relative to DKK 3,261m in 2013.

Value adjustment of interest rate swaps grew by DKK 2,587m to a charge of DKK 3,362m in 2014 compared with a charge of DKK 775m in 2013. Of the value adjustment, DKK 1,229m stemmed from a decline in interest rates and new provisions of DKK 2,133m.

Core income from securities amounted to DKK 29m against DKK 33m in 2013.

Operating costs, depreciation and amortisation declined by DKK 66m to DKK 2,007m. Further, DKK 28m was provided for reorganisation costs against DKK 50m in 2013.

Impairment losses on loans and advances declined by DKK 130m to DKK 219m in 2014. The decline breaks down into a fall of DKK 319m in Retail and a rise of DKK 158m in Wholesale and DKK 31m in Group Items.

The investment portfolio yielded an income of DKK 43m in 2014 compared with a loss of DKK 40m in 2013.

Tax for the year was an income of DKK 599m against a tax expense of DKK 8m in 2013.

Equity was DKK 12,575m at end-2014 against DKK 14,347m at the beginning of the year.

The Nykredit Bank Group's own funds were DKK 12,365m at end-2014, corresponding to a total capital ratio of 13.1% against 16.8% at end-2013.

The internal capital adequacy requirement (ICAAP) was 11.7% at year-end against 12.0% at end-2013.

Reference is made to the Annual Report 2014 of the Nykredit Bank Group.

**Nykredit Bank Group  
Core earnings and investment portfolio income**

DKK million	2014	2013
<b>Core income from</b>		
- business operations	3,173	3,261
- value adjustment of derivatives due to interest rate changes	(1,229)	467
- other value adjustment of derivatives	(2,133)	(1,242)
- securities	29	33
<b>Total</b>	<b>(160)</b>	<b>2,519</b>
Operating costs, depreciation and amortisation	2,007	2,073
Provisions for reorganisation costs	28	50
Value adjustment of associate	-	78
<b>Core earnings before impairment losses</b>	<b>(2,195)</b>	<b>474</b>
Impairment losses on loans and advances	219	349
<b>Core earnings after impairment losses</b>	<b>(2,414)</b>	<b>125</b>
Investment portfolio income	43	(40)
<b>Profit (loss) before tax</b>	<b>(2,371)</b>	<b>85</b>
Tax	(599)	8
<b>Profit (loss) for the year</b>	<b>(1,772)</b>	<b>77</b>

**Nykredit Bank Group  
Summary balance sheet, year-end**

DKK million	2014	2013
Loans and advances	85,722	103,838
Bonds and equities	65,314	64,219
Payables to credit institutions and central banks	63,876	57,732
Deposits	65,350	65,405
Equity	12,575	14,347
Total assets	229,883	224,134



**NYKREDIT MÆGLER A/S**

Nykredit Mægler's core business is being the franchiser of the estate agency chain Nybolig and business partner of the estate agency chain Estate.

At end-2014, the agency network comprised 310 estate agencies, of which 234 Nybolig agencies and 76 Estate agencies.

Compared with 2013, the real estate market trended higher, both in terms of transaction volumes and sales prices, but the trend was characterised by regional variation. As a result of the upturn, the Nykredit Mægler franchisees recorded 15,603 property transactions in 2014, 9% more than the year before.

Nykredit Mægler recorded a profit after tax of DKK 35m for 2014 against a profit of DKK 28m the year before.

The company's equity was DKK 134m at year-end.

**NYKREDIT EJENDOMME A/S**

Nykredit Ejendomme's main activity is the letting of some of the commercial properties from which Nykredit operates.

The company posted a profit after tax of DKK 27m in 2014 against DKK 3m the year before. Impairment losses on the company's properties came to DKK 25m in 2014 against DKK 26m in 2013.

At end-2014, the company's equity was DKK 449m against DKK 475m at end-2013. The fall was prompted by negative value adjustment of properties charged directly against equity.

**THE EJENDOMSSKABET KALVEBOD GROUP**

The principal activity of the company is to temporarily own and manage non-performing exposures, directly or indirectly through subsidiaries, on behalf of the companies of Nykredit.

The company posted a profit after tax of DKK 21m in 2014 against DKK 41m in 2013. As in 2013, results for 2014 were favourably affected by profit from equity investments.

At end-2014, the property portfolio of Ejendomsselskabet Kalvebod totalled DKK 283m.

The company's equity was DKK 185m at year-end.

**Nykredit Mægler**

DKK million	2014	2013
Profit for the year	35	28
Total assets	161	154
Equity	134	129

**Nykredit Ejendomme**

DKK million	2014	2013
Profit for the year	27	3
Land and buildings	1.467	1.606
Total assets	1.497	1.633
Equity	449	475

**Ejendomsselskabet Kalvebod**

DKK million	2014	2013
Profit for the year	21	41
Investment properties	283	554
Total assets	323	734
Equity	185	259

# MANAGEMENT STATEMENT AND AUDIT REPORTS

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

The Board of Directors and the Executive Board have today reviewed and approved the Annual Report 2014 of Nykredit Realkredit A/S and the Nykredit Realkredit Group.

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

We are of the opinion that the Consolidated Financial Statements and the Financial Statements give a fair presentation of the Group's and the Company's assets, liabilities, equity and financial position at 31 December 2014 and of the results of the Group's and the Company's operations as well as the Group's cash flows for the financial year 2014.

We are furthermore of the opinion that the Management's Review gives a fair review of the development in the operations and financial circumstances of the Group and the Company as well as a description of the material risk and uncertainty factors which may affect the Group and the Company.

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

Copenhagen, 5 February 2015

### Executive Board

Michael Rasmussen  
Group Chief Executive

Kim Duus  
Group Managing Director

Søren Holm  
Group Managing Director

Anders Jensen  
Group Managing Director

Bente Overgaard  
Group Managing Director

### Board of Directors

Steen E. Christensen  
Chairman

Hans Bang-Hansen  
Deputy Chairman

Steffen Kragh  
Deputy Chairman

Kristian Bengaard

Michael Demsitz

Merete Eldrup

Marlene Holm

Allan Kristiansen

Bent Naur

Anders C. Obel

Erling Bech Poulsen

Lars Peter Skaarup

Nina Smith

Jens Erik Udsen

Leif Vinther

## INTERNAL AUDITORS' REPORT

### Report on the Consolidated Financial Statements and the Financial Statements

We have audited the Consolidated Financial Statements and the Financial Statements of Nykredit Realkredit A/S for the financial year 1 January – 31 December 2014. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds. The Financial Statements have been prepared in accordance with the Danish Financial Business Act.

#### *Basis of opinion*

We conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Undertakings etc. as well as Financial Groups and the International Standards on Auditing. This requires us to plan and perform the audit to obtain reasonable assurance that the Consolidated Financial Statements and the Financial Statements are free from material misstatement.

The audit has been performed in accordance with the division of work agreed with the external auditors and has included an assessment of business procedures and internal control established, including the risk management organised by Management relevant to the Company's reporting processes and significant business risks. Based on materiality and risk, we have examined, on a test basis, the basis of amounts and other disclosures in the Consolidated Financial Statements and the Financial Statements. Furthermore, the audit has included assessing the appropriateness of the accounting policies applied by Management, the reasonableness of the accounting estimates made by Management and the overall presentation of the Consolidated Financial Statements and the Financial Statements.

We have participated in the audit of risk and other material areas and believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

#### *Opinion*

In our opinion, the business procedures and internal control established, including the risk management organised by Management relevant to the Group's and the Company's reporting processes and significant business risks, are working satisfactorily.

Furthermore, in our opinion, the Consolidated Financial Statements and the Financial Statements give a fair presentation of the Group's and the Company's assets, liabilities, equity and financial position at 31 December 2014 and of the results of the Group's and the Company's operations as well as the Group's cash flows for the financial year 1 January – 31 December 2014 in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds in respect of the Consolidated Financial Statements, and in accordance with the Danish Financial Business Act in respect of the Financial Statements.

### Statement on the Management's Review

We have read the Management's Review pursuant to the Danish Financial Business Act. We have performed no further procedures in addition to the audit of the Consolidated Financial Statements and the Financial Statements.

On this basis, it is our opinion that the information in the Management's Review is consistent with the Consolidated Financial Statements and the Financial Statements.

Copenhagen, 5 February 2015

Claus Okholm  
Chief Audit Executive

Kim Stormly Hansen  
Deputy Chief Audit Executive

**INDEPENDENT AUDITORS' REPORT**

*To the shareholder of Nykredit Realkredit A/S*

**Report on the Consolidated Financial Statements and the Financial Statements**

We have audited the Consolidated Financial Statements and the Financial Statements of Nykredit Realkredit A/S for the financial year 1 January – 31 December 2014, comprising income statements, statements of comprehensive income, balance sheets, statement of changes in equity and notes, including the Group's and the Company's accounting policies as well as the Group's cash flow statement. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds. The Financial Statements have been prepared in accordance with the Danish Financial Business Act.

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

Management is responsible for the preparation and fair presentation of Consolidated Financial Statements in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds as well as for the preparation and fair presentation of Financial Statements in accordance with the Danish Financial Business Act. Management is also responsible for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Financial Statements that are free from material misstatement, whether due to fraud or error.

***Auditors' responsibilities***

Our responsibility is to express an opinion on the Consolidated Financial Statements and the Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements in Danish audit legislation. This requires us to comply with ethical requirements and to plan and perform the audit to obtain reasonable assurance that the Consolidated Financial Statements and the Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence for the amounts and disclosures in the Consolidated Financial Statements and the Financial Statements. The audit procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Statements and the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of Consolidated Financial Statements and Financial Statements 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 Company's internal control. An audit also includes assessing the appropriateness of the accounting policies adopted by Management, the reasonableness of the accounting estimates made by Management and the overall presentation of the Consolidated Financial Statements and the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

***Opinion***

In our opinion, the Consolidated Financial Statements and the Financial Statements give a fair presentation of the Group's and the Company's assets, liabilities, equity and financial position at 31 December 2014 and of the results of the Group's and the Company's operations as well as the Group's cash flows for the financial year 1 January – 31 December 2014 in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds in respect of the Consolidated Financial Statements, and in accordance with the Danish Financial Business Act in respect of the Financial Statements.

**Statement on the Management's Review**

We have read the Management's Review pursuant to the Danish Financial Business Act. We have performed no further procedures in addition to the audit of the Consolidated Financial Statements and the Financial Statements.

On this basis, it is our opinion that the information in the Management's Review is consistent with the Consolidated Financial Statements and the Financial Statements.

Copenhagen, 5 February 2015

Deloitte  
Statsautoriseret Revisionspartnerselskab

Anders O. Gjelstrup  
State-Authorised Public Accountant

Per Rolf Larssen  
State-Authorised Public Accountant

## Income statements for 1 January – 31 December

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group		
2013	2014		Note	2014	2013
29,194	28,711	Interest income	5	36,655	36,383
24,779	24,262	Interest expenses	6	25,301	26,058
4,415	4,449	<b>NET INTEREST INCOME</b>		<b>11,353</b>	<b>10,325</b>
228	55	Dividend on equities	7	82	254
854	855	Fee and commission income	8	2,167	1,872
289	130	Fee and commission expenses	9	2,115	2,111
5,208	5,229	<b>NET INTEREST AND FEE INCOME</b>		<b>11,486</b>	<b>10,340</b>
779	359	Value adjustments	10	(3,557)	150
17	8	Other operating income		185	210
2,580	2,389	Staff and administrative expenses	11	4,715	5,004
835	174	Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	12	234	896
103	55	Other operating expenses		154	225
1,837	1,723	Impairment losses on loans, advances and receivables	13	2,351	2,764
738	(225)	Profit (loss) from investments in associates and group enterprises	14	6	103
1,389	1,030	<b>PROFIT BEFORE TAX</b>		<b>666</b>	<b>1,914</b>
58	215	Tax	15	90	240
1,331	815	<b>PROFIT FOR THE YEAR</b>		<b>576</b>	<b>1,674</b>
-	-	<b>DISTRIBUTION OF PROFIT FOR THE YEAR</b>			
		- Shareholders of Nykredit Realkredit A/S		576	1,674
		<b>PROPOSAL FOR THE DISTRIBUTION OF PROFIT</b>			
703	(225)	Statutory reserves			
629	1,040	Retained earnings			

# Statements of comprehensive income for 1 January – 31 December

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
1,331	815	576	1,674
	<b>PROFIT FOR THE YEAR</b>		
	<b>OTHER COMPREHENSIVE INCOME</b>		
	<b>ITEMS NOT ELIGIBLE FOR RECLASSIFICATION TO THE INCOME STATEMENT:</b>		
(24)	22 Actuarial gains/losses on defined benefit plans	22	(24)
-	- Fair value adjustment of owner-occupied properties	(67)	(5)
-	- Tax on fair value adjustment of owner-occupied properties	13	1
-	- Change in deferred tax on fair value adjustment of owner-occupied properties due to a reduction in the corporation tax rate	-	6
2	(53) Share of comprehensive income in associates and group enterprises	-	-
(22)	(32) Total items not eligible for reclassification to the income statement	(32)	(22)
	<b>ITEMS ELIGIBLE FOR RECLASSIFICATION TO THE INCOME STATEMENT:</b>		
-	- Fair value adjustment of equities available for sale	258	395
-	- Tax on fair value adjustment of equities available for sale	(19)	(29)
-	- Realised value adjustment of equities available for sale reclassified to the income statement	-	(697)
-	- Tax on realised value adjustment of equities available for sale reclassified to the income statement	-	(13)
-	- Total items eligible for reclassification to the income statement	238	(343)
(22)	(32) OTHER COMPREHENSIVE INCOME	207	(364)
1,310	783	783	1,310
	<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		
	<b>DISTRIBUTION OF COMPREHENSIVE INCOME</b>		
-	- Shareholders of Nykredit Realkredit A/S	783	1,310



# Balance sheets at 31 December

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group		
2013	2014		Note	2014	2013
<b>ASSETS</b>					
1,761	227	Cash balances and demand deposits with central banks		4,644	4,810
23,736	29,570	Receivables from credit institutions and central banks	16	37,644	30,948
1,163,115	1,192,558	Loans, advances and other receivables at fair value	17	1,172,805	1,193,813
420	448	Loans, advances and other receivables at amortised cost	18	50,958	47,393
26,925	47,745	Bonds at fair value	19	127,972	90,091
<b>Equities</b>					
2,514	3,069	Equities measured at fair value through profit or loss		1,376	1,410
-	-	Equities available for sale		2,035	1,460
<b>2,514</b>	<b>3,069</b>	<b>Total</b>	<b>20</b>	<b>3,411</b>	<b>2,870</b>
117	119	Investments in associates	21	123	120
30,866	30,456	Investments in group enterprises	22	-	-
3,005	3,027	Intangible assets	23	3,104	3,054
<b>Land and buildings</b>					
-	-	Investment properties		283	554
18	16	Owner-occupied properties		1,484	1,626
<b>18</b>	<b>16</b>	<b>Total</b>	<b>24</b>	<b>1,767</b>	<b>2,180</b>
310	235	Other property, plant and equipment	25	273	355
46	13	Current tax assets	35	632	152
154	126	Deferred tax assets	34	128	159
436	476	Assets in temporary possession	26	552	676
14,105	14,642	Other assets	27	53,914	40,559
190	190	Prepayments		226	234
<b>1,267,720</b>	<b>1,322,918</b>	<b>TOTAL ASSETS</b>		<b>1,458,153</b>	<b>1,417,414</b>

## Balance sheets at 31 December

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group		
2013	2014		Note	2014	2013
<b>LIABILITIES AND EQUITY</b>					
12,668	22,811	Payables to credit institutions and central banks	28	44,863	44,393
-	-	Deposits and other payables	29	65,232	65,172
1,160,447	1,204,487	Bonds in issue at fair value	30	1,167,163	1,130,020
3,772	3,826	Bonds in issue at amortised cost	31	29,457	30,273
862	1,188	Other non-derivative financial liabilities at fair value	32	18,451	27,258
-	-	Current tax liabilities	35	146	-
-	-	Liabilities temporarily assumed		29	136
19,963	19,268	Other liabilities	33	61,161	49,629
-	-	Deferred income		3	4
<b>1,197,713</b>	<b>1,251,580</b>	<b>Total payables</b>		<b>1,386,506</b>	<b>1,346,886</b>
<b>Provisions</b>					
201	198	Provisions for pensions and similar obligations	36	203	207
151	126	Provisions for deferred tax	34	198	263
80	74	Repayable reserves in pre-1972 series	37	74	80
-	-	Provisions for losses under guarantees	38	107	103
126	87	Other provisions	39	169	194
<b>557</b>	<b>485</b>	<b>Total provisions</b>		<b>751</b>	<b>847</b>
<b>10,734</b>	<b>11,350</b>	<b>Subordinated debt</b>	40	<b>11,394</b>	<b>10,964</b>
<b>Equity</b>					
1,182	1,182	Share capital		1,182	1,182
<b>Accumulated changes in value</b>					
2	2	- revaluation reserves		151	205
-	-	- value adjustment of equities available for sale		641	403
<b>Other reserves</b>					
3,554	3,147	- statutory reserves		-	-
32,402	30,975	- series reserves		30,975	32,402
21,576	24,197	Retained earnings		26,553	24,525
<b>58,716</b>	<b>59,502</b>	<b>Total equity</b>		<b>59,502</b>	<b>58,716</b>
<b>1,267,720</b>	<b>1,322,918</b>	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,458,153</b>	<b>1,417,414</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
-	-	Contingent liabilities	41	7,546	6,311
1,208	1,121	Other commitments		5,843	7,925
<b>1,208</b>	<b>1,121</b>	<b>TOTAL</b>		<b>13,389</b>	<b>14,236</b>

## Statement of changes in equity for 1 January – 31 December

DKK million

Nykredit Realkredit A/S

	Share capital	Revaluation reserves	Statutory reserves*	Series reserves	Retained earnings	Proposed dividend	Total
<b>2014</b>							
Equity, 1 January	1,182	2	3,554	32,402	21,576	-	58,716
Profit for the year	-	-	(225)	-	1,040	-	815
Total other comprehensive income	-	-	(53)	-	22	-	(32)
Total comprehensive income for the year	-	-	(279)	-	1,062	-	783
Dividend from associates	-	-	(4)	-	4	-	-
Dividend from group enterprises	-	-	(125)	-	125	-	-
Adjustment pursuant to capital adequacy rules	-	-	-	(1,427)	1,427	-	-
Transferred from provisions – pre-1972 series	-	-	-	(0)	3	-	3
<b>Equity, 31 December</b>	<b>1,182</b>	<b>2</b>	<b>3,147</b>	<b>30,975</b>	<b>24,197</b>	<b>-</b>	<b>59,502</b>
<b>2013</b>							
Equity, 1 January	1,182	2	2,896	44,054	9,272	150	57,556
Profit for the year	-	-	703	-	629	-	1,331
Total other comprehensive income	-	-	2	-	(24)	-	(22)
Total comprehensive income for the year	-	-	705	-	605	-	1,310
Dividend from associates	-	-	(7)	-	7	-	-
Dividend from group enterprises	-	-	(40)	-	40	-	-
Distributed dividend	-	-	-	-	-	(150)	(150)
Adjustment pursuant to capital adequacy rules	-	-	-	(11,652)	11,652	-	-
Transferred from provisions – pre-1972 series	-	-	-	(0)	1	-	0
<b>Equity, 31 December</b>	<b>1,182</b>	<b>2</b>	<b>3,554</b>	<b>32,402</b>	<b>21,576</b>	<b>-</b>	<b>58,716</b>

\* The item relates to transfer to reserves for net revaluation according to the equity method. The reserves are non-distributable.

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.

**Dividend policy:**

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

# Statement of changes in equity for 1 January – 31 December

DKK million

Nycredit Realkredit Group

	Share capital	Revaluation reserves	Accumulated value adjustment of equities available for sale	Series reserves	Retained earnings	Proposed dividend	Total
<b>2014</b>							
Equity, 1 January	1,182	205	403	32,402	24,525	-	58,716
Profit for the year	-	-	-	-	576	-	576
Total other comprehensive income	-	(53)	238	-	22	-	207
Total comprehensive income for the year	-	(53)	238	-	598	-	783
Adjustment pursuant to capital adequacy rules	-	-	-	(1,427)	1,427	-	-
Transferred from provisions – pre-1972 series	-	-	-	(0)	3	-	3
Other adjustments	-	(1)	-	-	1	-	-
<b>Equity, 31 December</b>	<b>1,182</b>	<b>151</b>	<b>641</b>	<b>30,975</b>	<b>26,553</b>	<b>-</b>	<b>59,502</b>
<b>2013</b>							
Equity, 1 January	1,182	202	745	44,054	11,223	150	57,556
Profit for the year	-	-	-	-	1,674	-	1,674
Total other comprehensive income	-	2	(343)	-	(24)	-	(364)
Total comprehensive income for the year	-	2	(343)	-	1,650	-	1,310
Distributed dividend	-	-	-	-	-	(150)	(150)
Adjustment pursuant to capital adequacy rules	-	-	-	(11,652)	11,652	-	-
Transferred from provisions – pre-1972 series	-	-	-	(0)	1	-	0
<b>Equity, 31 December</b>	<b>1,182</b>	<b>205</b>	<b>403</b>	<b>32,402</b>	<b>24,525</b>	<b>-</b>	<b>58,716</b>

# Cash flow statement for 1 January – 31 December

DKK million

	Nykredit Realkredit Group	
	2014	2013
<b>Profit for the year</b>	<b>576</b>	<b>1,674</b>
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	234	896
Profit from investments in associates	(6)	(103)
Impairment losses on loans, advances and receivables	2,351	2,764
Prepayments/deferred income, net	7	(14)
Tax calculated on profit for the year	90	240
Other adjustments	286	(295)
<b>Total</b>	<b>2,962</b>	<b>3,488</b>
<b>Profit for the year adjusted for non-cash operating items</b>	<b>3,538</b>	<b>5,162</b>
<b>Change in working capital</b>		
Loans, advances and other receivables	15,092	(21,605)
Deposits and payables to credit institutions	530	(12,483)
Bonds in issue	36,326	28,880
Other working capital	(10,730)	(13,397)
<b>Total</b>	<b>41,218</b>	<b>(18,606)</b>
<b>Corporation tax paid, net</b>	<b>(467)</b>	<b>(265)</b>
<b>Cash flows from operating activities</b>	<b>44,289</b>	<b>(13,709)</b>
<b>Cash flows from investing activities</b>		
Divestment of associates	-	63
Dividend received	4	7
Purchase and sale of bonds and equities, net	(38,422)	(10,548)
Purchase of intangible assets	(133)	(83)
Purchase of property, plant and equipment	(54)	(120)
Sale of property, plant and equipment	313	139
<b>Total</b>	<b>(38,292)</b>	<b>(10,542)</b>
<b>Cash flows from financing activities</b>		
Subordinated debt raised	4,442	-
Redemption of subordinated debt	(3,872)	-
Purchase and sale of self-issued subordinated debt instruments	(37)	(15)
Distributed dividend	-	(150)
<b>Total</b>	<b>533</b>	<b>(165)</b>
<b>Total cash flows</b>	<b>6,530</b>	<b>(24,416)</b>
<b>Cash and cash equivalents, beginning of year</b>		
Cash balances and demand deposits with central banks	4,810	9,497
Receivables from credit institutions and central banks	30,948	50,677
<b>Total</b>	<b>35,758</b>	<b>60,174</b>
<b>Cash and cash equivalents, year-end</b>		
Cash balances and demand deposits with central banks	4,644	4,810
Receivables from credit institutions and central banks	37,644	30,948
<b>Total</b>	<b>42,288</b>	<b>35,758</b>

# Notes

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# Notes

DKK million

## 1. ACCOUNTING POLICIES

### GENERAL

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

All figures in the Annual Report are rounded to the nearest million kroner (DKK). The totals stated are calculated on the basis of actual figures. Due to the rounding-off, the sum of individual figures and the stated totals may differ slightly.

### Change in the presentation of business areas

The presentation of the Group's business areas has been adjusted to reflect the organisational changes implemented in H1/2014.

The primary change was the transfer of Nykredit Leasing A/S and the business unit Private Banking from Retail to Wholesale Clients. Also, business activities with partner banks carried out by the business unit Bank Distribution have been transferred from Group Items, Treasury, to Wholesale Clients.

Income and costs relating to Nykredit Leasing A/S that can be attributed to Retail activities are allocated to Retail.

In 2014 the most significant effect of the organisational changes was the allocation of profit before tax of around DKK 73m from Retail to Wholesale Clients.

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

Comparative figures have been restated. Please refer to note 4 of this report.

The accounting policies are otherwise unchanged compared with the Annual Report 2013.

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

### New and amended standards and interpretations

Implementation of new or amended standards and interpretations in force and effective for financial years beginning on 1 January 2014:

IFRS 10 "Consolidated Financial Statements" (new standard). The standard replaces the section on consolidated financial statements in the current IAS 27 and establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The standard has resulted in a

specification of the guidelines for determination of when an entity is considered to control another entity.

IFRS 11 "Joint Arrangements" (new standard). The standard replaces IAS 31 and has resulted in changes to the rules for the accounting treatment of investments in joint arrangements.

IFRS 12 "Disclosure of Interests in Other Entities" (new standard) is a consolidated disclosure standard for subsidiaries, joint ventures, associates and unconsolidated structured entities. The standard has further resulted in new disclosure requirements for consolidated entities as well as unconsolidated entities in which the reporting entity has an interest.

IFRS 10-12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance" (amendment to standards). The amendment specifies and eases the transition guidance for the new standards.

IFRS 10, IFRS 12 and IAS 27 "Consolidated Financial Statements, Disclosure of Interest in Other Entities and Separate Financial Statements: Investment Entities" (amendment to standards). As a result of the amendment, entities satisfying the definition of an investment entity are exempt from the consolidation requirements of subsidiaries.

IAS 27 "Separate Financial Statements" (amendment to standard). Parts of the standard have been replaced by IFRS 10.

IAS 28 "Investments in Associates" (amendment to standard). The standard has been consequentially amended following the release of IFRS 10-12.

IAS 32 "Financial Instruments: Presentation" (specification of standard). The amendments have resulted in a specification of the provisions on set-off.

IAS 36 "Impairment of Assets" (amendment to standard). The amendment specifies the disclosure requirements concerning the recoverable amount of assets and cash-generating units.

IAS 39 "Financial Instruments: Recognition and Measurement (novation of derivatives and continuation of hedge accounting)" (amendment to standard). As a result of the amendment, in certain circumstances, replacement of counterparties to hedging instruments is not considered as expiry of the instrument, which would otherwise also result in the discontinuation of accounting treatment as a hedge.

The implementation of the above has had no impact on profit/loss for the year, other comprehensive income, balance sheet or equity, but has solely resulted in amendments to the presentation of and an increase in the amount of notes.

### Reporting standards and interpretations not yet in force

At the time of presentation of the Annual Report, a number of new or amended standards and interpretations had not yet entered into force and/or had not been approved for use in the EU or were not effective for the financial year beginning on 1 January 2014.

IAS 19 "Employee Benefits" (specification of standard) (effective from 1 July 2014).

Annual improvements to IFRS 2010-2012 (minor amendments to a number of standards as a result of the IASB's annual improvements) (effective from 1 July 2014).

Annual improvements to IFRS 2011-2013 (minor amendments to a number of standards as a result of the IASB's annual improvements) (effective from 1 July 2014).

IFRS 14 "Regulatory Deferral Accounts" (new standard) (not approved for use in the EU, expected to be effective from 1 January 2016).

IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (amendment to standard) (not approved for use in the EU, expected to be effective from 1 January 2016).

IAS 27 "Equity Method in Separate Financial Statements" (amendment to standard) (not approved for use in the EU, expected to be effective from 1 January 2016).

Annual improvements to IFRS 2012-2014 (minor amendments to a number of standards as a result of the IASB's annual improvements) (not approved for use in the EU, expected to be effective from 1 January 2016).

IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (amendment to standards) (not approved for use in the EU, expected to be effective from 1 January 2016).

IAS 1 "Presentation of Financial Statements" (amendment to standard) (not approved for use in the EU, expected to be effective from 1 January 2016).

IFRS 10, IFRS 12 and IAS 28 "Consolidated Financial Statements, Disclosure of Interest in Other Entities and Investments in Associates and Joint Ventures" (amendment to standards) (not approved for use in the EU, expected to be effective from 1 January 2016).

IFRS 15 "Revenue from Contracts with Customers" (new standard) (not approved for use in the EU, expected to be effective for financial years beginning on 1 January 2017 or later).

IFRS 9 "Financial Instruments" (financial assets (November 2009) and financial liabilities (October 2010) (new standard) (not approved for use in the EU, expected to be effective for financial years beginning on 1 January 2018 or later).

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

For Nykredit, an important feature of IFRS 9 is the new principles for calculation of impairment of loans, advances and receivables measured at amortised cost. According to IFRS 9, measurement must be based on an expected loss principle whereas the method of the current IAS 39 is based on objective evidence of impairment (OEI).

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

In the event of later significant changes to loan loss probability, recognition of full-life expected losses may be required in certain circumstances. The standard thus implies earlier recognition of impairment and consequently higher total impairment at the time of implementation. The effect on the impairment charge is recognised directly in equity at the time of implementation.

A number of analyses, calculations and assessments of the effect on Nykredit's impairment charges still need to be performed. Due to significant uncertainty about the interpretation itself and the choice of model, etc, we do not consider it possible to estimate the effect on a sufficiently qualified basis.

IFRS 9 provisions on impairment of loans and advances do not include loans, nor mortgage loans, measured at fair value and are therefore not currently expected to result in any significant changes to the process or method of valuation of this loan category.

In Management's view, the implementation of the above standards and amendments to standards will have only a modest impact on the Annual Report, except for the implementation of IFRS 9 the impact of which had not been finally quantified before the presentation of the Annual Report.

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

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

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

Areas implying a higher degree of assessment or complexity or areas in which assumptions and estimates are material to the financial statements are:

##### *Determination of the fair value of certain financial instruments*

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

The fair value measurement of unlisted derivative financial instruments involves significant estimates and assessments in connection with the choice of calculation methods and valuation and estimation techniques.

The fair value determination of financial instruments for which no listed prices in an active market or observable data are available implies the use of significant estimates and assessments in connection with the choice of credit spread, maturities and extrapolation of each instrument.

The fair value of financial assets and liabilities measured at fair value based on level 2 or level 3 of the fair value hierarchy came to DKK 1,238bn and DKK 3.5bn, respectively, for assets, and DKK 95bn and DKK 0.3bn, respectively, for liabilities at end-2014.

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

Impairment of loans and advances involves significant estimates and assessments in the quantification of the risk of not receiving all future payments. If it can be established that not all future payments will be received, the determination of the time and amount of the expected payments is subject to significant estimates and assessments.

Furthermore, realisable values of security received and expected dividend payments from bankrupt estates are subject to a number of estimates. Reference is made to "Provisions for loan and receivable impairment" below for a detailed description. Loans and advances made up some 84.0% of the Group's assets at end-2014.

#### *Valuation of goodwill*

Purchased goodwill is subject to an ongoing impairment test in which the assessment of the future earning capacity of the companies is based on significant estimates. Reference is made to note 23 for a detailed description of the parameters of the impairment test and sensitivity to changes in relevant parameters. Goodwill made up DKK 2,782m, or 0.2%, of the Group's assets at end-2014.

#### *Investment and owner-occupied properties*

After initial recognition, investment and owner-occupied properties are measured at fair value or at a reassessed value when measurement is subject to significant estimates as regards determination of the discount rate and market rent, which are some of the elements forming part of the fair value measurement. Investment properties and owner-occupied properties made up DKK 1,767m, or 0.1%, of the Group's assets at end-2014.

#### *Provisions for losses under guarantees*

Provisions for losses under guarantees are subject to significant estimates where the determination of the extent to which a guarantee will become effective upon the financial collapse of the guarantee applicant is subject to uncertainty. Provisions for losses under guarantees and off-balance sheet contingent liabilities totalled DKK 7,653m at end-2014.

#### *Pensions and similar obligations*

The present value of pension obligations under defined benefit plans depends on the assumptions underlying the actuarial calculations. The determination of the future development in eg wages, interest rates, inflation and mortality as well as return on plan assets is based on significant estimates. Reference is made to note 27 for a detailed description. Defined benefit plans recognised in "Other assets" came to DKK 214m. Provisions for pensions and similar obligations made up DKK 203m at end-2014.

## **FINANCIAL INSTRUMENTS**

### **Recognition and classification of financial instruments**

Financial instruments, including derivative financial instruments, represented more than 95% of the Group's assets as well as liabilities.

#### **Recognition**

Financial instruments are recognised on the settlement date. Changes in the fair value of instruments purchased or sold in the period between the trade date and the settlement date are recognised as financial assets or liabilities in "Other assets"/"Other liabilities" 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. Subsequent measurement particularly depends on whether the instrument is measured at amortised cost or at fair value.

### **Valuation and classification**

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

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

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

#### *Loans, advances and receivables and other financial liabilities at amortised cost*

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

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

If fixed-rate financial instruments are effectively hedged by derivative financial instruments, the fair value of the hedged interest rate exposure is added to the amortised cost of the asset.

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

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

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

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

The Group's equity and bond portfolios (except strategic equities), derivative financial instruments, repo and reverse repurchase transactions and negative securities portfolios are included in this category.

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

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

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

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

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

Realised and unrealised gains and losses arising from changes in the fair value are recognised in "Value adjustments" in the income statement for the period in which they arose.

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

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

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

Mortgage loans granted in accordance with Danish mortgage legislation are funded by issuing listed covered bonds of uniform terms. Such mortgage loans may be prepaid by delivery of the underlying bonds. The Nykredit Realkredit Group buys and sells its self-issued covered bonds on a continuing basis as they constitute a key part of the Danish money market.

If mortgage loans and issued covered bonds 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. The purchase price of the portfolio would not equal the amortised cost of the bonds in issue, and the elimination would lead to the recognition of a random earnings impact. If the holding of self-issued covered bonds was subsequently sold, the new amortised cost of the "new issue" would not equal the amortised cost of the matching mortgage loans, and the difference would be amortised over the remaining term-to-maturity.

Mortgage loans are therefore measured at fair value involving an adjustment for the market risk based on the value of the underlying bonds and an adjustment for credit risk based on the impairment need.

After initial recognition, covered bonds, senior unsecured debt and the majority of senior secured debt in issue are measured at fair value based on listed prices or other generally accepted valuation methods based on observable inputs.

Realised and unrealised gains and losses arising from changes in the fair value of "Financial assets and liabilities at fair value through profit or loss" are recognised in "Value adjustments" through profit or loss for the period in which they arose. Value adjustments due to credit risk are recognised in "Impairment losses on loans, advances and receivables".

#### *Financial assets available for sale*

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

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

#### **Provisions for loan and receivable impairment**

Provisions for loan and receivable impairment are divided into individual and collective provisions. The Group's loans and advances are generally placed in groups of uniform credit risk. If there is objective evidence of impairment (OEI) and the event/s concerned is/are believed to have a reliably measurable effect on the size of expected future payments from the loan, individual impairment provisions are made for the loan, which is removed from the relevant group and treated separately.

#### *Individual impairment provisions*

The Nykredit Realkredit Group performs continuous individual reviews and risk assessments of all significant loans, advances and receivables to determine whether there is any OEI.

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

- The borrower has serious financial difficulties
- The borrower fails to honour its contractual payment obligations
- It is probable that the borrower will go bankrupt or be subject to other financial restructuring
- Nykredit has eased the borrower's loan terms, which would not have been relevant had the borrower not suffered financial difficulties.

The loan is impaired by the difference between the carrying amount before impairment and the present value of the expected future cash flows from the individual loan or exposure. In asset-backed financing, impairment is recognised for the difference between the carrying amount before impairment and the fair value of the security less all costs.

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

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

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

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

#### *Collective impairment provisions*

Every quarter collective assessments are made of loans and advances for which no individual provisions have been made, and collective provisions

for loan impairment are made where OEI is identified in one or more groups.

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

Collective impairment provisions are the sum of contributions from a rating model and management judgement.

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

#### *Impairment provisions in general*

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

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

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

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

### **Recognition and measurement**

Assets are recognised in the balance sheet if it is probable as a result of a previous event that future economic benefits will flow to the Group, and if the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet if it is probable as a result of a previous event that future economic benefits will flow from the Group, and if the value of the liability can be measured reliably.

Income is recognised in the income statement as earned. Furthermore, value adjustment of financial assets and liabilities measured at fair value or amortised cost is recognised in the income statement or in other comprehensive income for the period in which it arose.

All costs incurred by the Group are recognised in the income statement, including depreciation, amortisation, impairment losses, provisions and reversals as a result of changed accounting estimates of amounts previously recognised in the income statement.

### **Hedge accounting**

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

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

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

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

### **Offset**

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

### **Consolidation**

Nykredit Realkredit A/S (the Parent Company) and the enterprises in which Nykredit Realkredit A/S exercises direct or indirect control over the financial and operational management 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 do not form part of the Group are considered joint ventures. The Group's investments in joint ventures are recognised and measured according to the equity method.

The Consolidated Financial Statements are prepared on the basis of the financial statements of the individual enterprises by combining items of a uniform nature. The financial statements applied for the consolidation are prepared in accordance with the Group's accounting policies. 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.

### **Core earnings and investment portfolio income**

The Group's financial highlights in the Management's Review as well as its segment financial statements are presented in the statement of core earnings and investment portfolio income, as Management finds that this presentation best reflects the activities and earnings of the Group.

Core earnings mirror income from customer-oriented business and core income from securities less operating costs, depreciation, amortisation and impairment losses on loans and advances. The value adjustment of derivatives and corporate bonds is recognised as a separate item showing the effect of management adjustments, including CVA adjustment, of the fair value of particularly interest rate derivatives.

Nykredit Realkredit A/S's net costs relating to secured senior debt (previously junior covered bonds (JCBs)) and unsecured senior debt are also recognised as a separate item. Net costs consist of the difference between the interest payable on issued secured and unsecured senior debt and the interest receivable on assets in which the proceeds are



invested at the time of issuance. Value adjustment of issued senior secured and unsecured debt and the assets in which proceeds are invested is included in investment portfolio income.

Core income from securities includes the return the Group would have obtained by placing its investment portfolios at a risk-free interest rate corresponding to the Danish central bank's average lending rate. Core income from securities also includes net interest expenses relating to Tier 2 capital and interest expenses on payables relating to the purchase of Totalkredit shares determined relative to risk-free interest.

Investment portfolio income is the income exceeding risk-free interest obtained from investing in equities, bonds and derivative financial instruments. Price spreads and interest margins relating to the mortgage lending of Nykredit Realkredit and Totalkredit as well as the trading activities of Nykredit Markets are included not as investment portfolio income, but as core income from business operations.

### Segment information

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

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

The financial assets and liabilities underlying the financial income and expenses forming part of the business areas' profit or loss are allocated to the relevant business area. Assets in the segment include the assets used directly in segment operations, including intangible assets, property, plant, equipment and investments in associates.

Intangible assets recognised in connection with Nykredit's acquisition of Totalkredit A/S are included in the business area Totalkredit Partners, other intangible assets are included in Group Items.

The average equity requirement of the individual business areas is determined according to Nykredit's internal capital determination model, calculated as 15% of the risk exposure amount plus goodwill.

The business return is calculated as the business area's core earnings after impairment losses but before value adjustment of derivatives relative to average business capital.

No risk-free interest is calculated on capital allocated to the business areas. Risk-free interest is presented in Group Items.

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 Company. 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. Ex-

change gains and losses arising on the settlement of these transactions are recognised in the income statement.

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

Currency translation differences arisen on translation of non-monetary assets and liabilities are recognised in the income statement as part of the fair value gain or loss.

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

### Repo transactions/reverse repurchase lending

Securities sold as part of repo transactions are retained in the appropriate principal balance sheet item, eg "Bonds". Repo transactions are measured at fair value as they are considered an integral component of the trading book.

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

Securities acquired as part of reverse repurchase lending are stated as receivables from the counterparty or in "Loans, advances and other receivables at fair value". The receivables are fair value adjusted over the life of the agreement through profit or loss.

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

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

### Leases

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

Receivables from the lessee under finance leases are included in "Loans, advances and other receivables at amortised cost". The leases are valued so that the carrying amount equals the net investment in the lease. Interest income from finance leases is recognised in "Interest income". Principal payments made are deducted from the carrying amount as the receivable is amortised.

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

Other leases are classified as operating leases. Properties leased under operating leases are classified as investment properties.

### Business combinations

On acquisition of new enterprises where control is obtained over the acquired enterprise, the purchase method is applied. Acquisitions are reported using the uniting-of-interests method of accounting in case of mergers between enterprises with the same management.



## INCOME STATEMENT

### Interest income and expenses

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

Interest income comprises interest and similar income, including interest-like commission received and other income that forms an integral part of the effective interest rate of the underlying instruments. The item also includes index premium on assets, forward premium on securities and foreign exchange trades as well as adjustments over the life of financial assets measured at amortised cost and where the cost differs from the redemption price.

Interest income from impaired bank loans and advances is included in "Interest income" at an amount reflecting the effective interest rate of the impaired value of loans and advances. Any interest income from the underlying loans and advances exceeding this amount is included in "Impairment losses on loans, advances and receivables".

Interest expenses comprise interest and similar expenses including adjustment over the life of financial liabilities measured at amortised cost and where the cost differs from the redemption price.

### Dividend

Dividend from equity investments and equities is recognised as income in the income statement in the financial year in which the dividend is declared.

### Fees and commissions

Fees and commissions comprise income and costs relating to services, including management fees. Fee income relating to services provided on a current basis is accrued over their terms.

For accounting purposes, fees, commissions and transaction costs are treated as interest if they form an integral part of the effective interest of a financial instrument.

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

### Other operating income

"Other operating income" comprises operating income not attributable to other income statement items, including lease income.

### Staff and administrative expenses

Staff expenses comprise wages and salaries as well as social security costs, pensions etc. Jubilee benefit and redundancy payment obligations are recognised successively.

### Tax

Tax for the year, consisting of current tax for the year and changes to deferred tax, is recognised in the income statement, unless the tax effect concerns items recognised in "Other comprehensive income". Adjustments relating to entries recognised directly in "Other comprehensive income" are recognised accordingly.

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

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

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

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

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

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

## ASSETS

### Investments in associates

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

Investments in associates are recognised and measured according to the equity method and are therefore measured at the proportionate ownership share of the enterprises' equity value carried less/plus the proportionate share of unrealised intercompany profits or losses plus goodwill.

The proportionate share of associates' and joint ventures' profit or loss after tax, after elimination of the proportionate share of intercompany profit or loss, is recognised in the consolidated income statement.

### Intangible assets

#### Goodwill

Goodwill comprises positive balances between the cost of enterprises acquired and the fair value of the net assets of such enterprises at the time of acquisition. Goodwill is tested for impairment at least once a year, and the carrying amount is written down to the lower of the recoverable amount and the carrying amount in the income statement. Reference is made to note 23 for a detailed description of the parameters of the impairment test and sensitivity to changes in relevant parameters.

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

#### Other intangible assets

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

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

Development costs not meeting the criteria for recognition in the balance sheet are recognised as costs in the income statement as incurred.

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

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

Customer relationships are recognised at cost less accumulated amortisation. Customer relationships are amortised on a straight-line basis over the estimated useful lives of the assets. The amortisation period of customer relationships is 13 years for Nykredit Realkredit and 3 years for Nykredit Bank.

Other intangible assets are written down to the recoverable amount where OEI is identified.

Impairment losses recognised in the income statement are not reversed.

## Land and buildings

### *Owner-occupied properties*

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

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

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

Fair value is determined in accordance with the return method, under which operating income from the properties is considered in relation to the required rates of return on the properties. The required rates of return under this method take into account the nature, location and state of repair of the property concerned as well as sales efforts within a reasonable period. The valuation is performed by an internal valuer.

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

The asset 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 useful life expected when the asset is ready for entry into service. Land is not depreciated.

Profits and losses on divested assets are determined by comparing sales proceeds with carrying amounts. Gains and losses are recognised in the income statement. On divestment of revalued assets, revaluation

amounts contained in the revaluation reserves are transferred to retained earnings.

### *Investment properties*

Properties which are not occupied by the Group and which are held for the purpose of obtaining rental income and/or capital gains are classified as investment properties.

On acquisition, investment properties are recognised at cost, which includes the purchase price of the property and direct costs. Subsequently, investment properties are measured at fair value, and value adjustments are carried in the income statement.

Fair value is determined on the basis of open market prices or the return method. Where open market prices are applied, adjustment is made for any differences in the nature, location or state of repair of the asset concerned.

Under the return method, operating income from the properties is considered in relation to the required rates of return on the properties. The required rates of return under this method take into account the nature, location and state of repair of the property concerned as well as sales efforts within a reasonable period. The valuation is performed by an internal valuer.

## Other property, plant and equipment

### *Equipment*

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

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

- Computer equipment and machinery up to 5 years
- Equipment and motor vehicles up to 5 years
- Leasehold improvements; maximum term of the lease is 15 years.

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

Gains and losses on the current replacement 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 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.

sion and the fair value less selling costs. Assets are not depreciated or amortised once classified as assets in temporary possession.

Impairment losses arising on initial classification as asset in temporary possession and gains or losses on subsequent measurement at the lower of the carrying amount and the fair value less selling costs are recognised in "Impairment losses on loans, advances and receivables" in the income statement. Income and expenses relating to subsidiaries in temporary possession are recognised separately in the income statement if the effect is significant.

## LIABILITIES AND EQUITY

### Provisions

Provisions are recognised where, as a result of an event occurred on or before the balance sheet date, the Group has a legal or constructive obligation which can be measured reliably and where it is probable that economic benefits must be given up to settle the obligation. Provisions are measured at Management's best estimate of the amount considered necessary to honour the obligation.

### Provisions for losses under guarantees

Provisions for losses under guarantees and loss-making contracts are recognised if it is probable that the guarantee or the contract will become effective and if the liability can be measured reliably.

### Repayable reserves

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

### 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 at the due date, and any contributions payable are recognised in "Other payables" in the balance sheet.
- Defined benefit plans according to which the Group is obliged to make certain contributions 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 is based on assumptions of the future development in eg wages, interest rates, inflation and mortality. The value in use is only calculated for benefits to which staff members have become entitled through their employment with the Group.

The actuarially calculated value in use less the fair value of plan assets is recognised in "Other assets"/"Other liabilities" in the balance sheet. Actuarial gains and losses are recognised in the income statement in the year in which they arose. The discount curve for company pension funds is applied for discounting purposes.

A number of the Group's staff members are entitled to receive a fixed amount on attaining retirement age and when having been employed by the Group for 25 and 40 years (jubilee benefits).

The obligations are recognised successively up to the date when the staff member is entitled to receive the benefit. The measurement of the size of the obligation allows for actuarial conditions, including the prob-

ability 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 yield curve plus a risk margin.

The present value changes prompted by changes to the discount rate within the financial year are recognised in "Other interest income" or "Other interest expenses".

### 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.

Nykredit has raised subordinated debt in the form of bonds in issue carrying a trigger entailing permanent write-down through profit or loss if Nykredit's Common Equity Tier 1 capital ratio drops to 7%. Until this level is reached, Nykredit is obliged to pay interest to bondholders, which combined with the current high capital level has resulted in the issue being classified as subordinated debt.

### Equity

#### Share capital

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

#### Revaluation reserves

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

#### Accumulated value adjustment of equities available for sale

The reserve includes unrealised value adjustment of equities available for sale. If there is impairment of a significant or permanent nature, the accumulated unrealised loss is reclassified from the reserve to the income statement.

#### Statutory reserves

Statutory reserves relate to transfer to reserves for net revaluation according to the equity method. The reserves are non-distributable.

#### Series reserves

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

#### Retained earnings

Retained earnings comprise reserves distributable to the Company's shareholders. However, under the Danish Financial Business Act, distribution must, in certain circumstances, be in respect of Nykredit's compliance with the so-called combined capital buffer requirement.

#### Proposed dividend

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

## 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.

Furthermore, the consolidated cash flow statement shows the changes in cash and cash equivalents for the year and the Group's cash and cash equivalents at the beginning and end of the year.

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

## SPECIAL ACCOUNTING POLICIES FOR THE PARENT COMPANY NYKREDIT REALKREDIT A/S

The Annual Report of Nykredit Realkredit A/S is prepared in accordance with the Danish Financial Business Act and the FSA Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. In all material respects, these rules comply with the International Financial Reporting Standards (IFRS) and the Nykredit Group's accounting policies. Exceptions to these accounting policies include recognition of "Equities available for sale" and recognition of equity investments in group enterprises. These exceptions and other special circumstances relating to the Parent Company are described below.

### Changes to the Executive Order on the presentation of financial reports

In 2014 the Danish FSA issued a new Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

The changes result in new note disclosures on revenue, staff numbers and profit/loss in the countries in which Nykredit has operations as well as requirements for disclosure of return on capital employed.

Otherwise, the implementation of the amended Executive Order on Financial Reports has not had any impact on the Parent Company's results, other comprehensive income, balance sheet or equity.

### Financial assets available for sale

Unlike the IFRS, the FSA Executive Order on Financial Reports does not allow the classification of financial assets as available for sale with fair value adjustment recognised in "Other comprehensive income". In the Parent Company, equities available for sale are classified as equities measured at fair value through profit or loss.

### Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. The IFRS do not allow the equity method in the separate financial statements of parent companies until the expected amendment to IAS 27 has entered into force as at 1 January 2016. The IFRS currently prescribe measurement either at cost or at fair value.

The proportionate ownership share of the equity value of the enterprises less/plus unrealised intercompany profits or losses is recognised in "Investments in group enterprises" in the balance sheet. Any positive difference between the total cost of investments in group enterprises and the fair value of the net assets at the time of acquisition is recognised in "Intangible assets" in the balance sheet.

Nykredit's share of the enterprises' profit or loss after tax and elimination of unrealised intercompany profits and losses less depreciation, amortisation and impairment losses is recognised in the income statement.

Total net revaluation of investments in group enterprises is transferred through the profit distribution to equity in "Statutory reserves". The reserves are reduced by dividend distribution to the Parent Company and are adjusted for other changes in the equity of group enterprises.

### Statutory reserves

The 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 Company and are adjusted for other changes in the equity of subsidiaries and associates.

### Loans, advances and other receivables at fair value

#### *Totalcredit mortgage loan funding*

Nykredit Realkredit A/S issues covered bonds for the funding of loans granted by Totalcredit A/S. Totalcredit A/S is therefore under an obligation to pay interest, redemption and prepayment amounts to Nykredit Realkredit A/S which will transfer such payments to bond investors.

Mortgage loans are measured at fair value adjusted for market risk based on the value of the underlying bonds and any impairment for credit risk.

# Notes

## 2. CAPITAL AND CAPITAL ADEQUACY

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. Required own funds are the minimum capital required, in Management's judgement, to cover all significant risks.

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

### Stress tests and countercyclical buffer

Nykredit conducts model-based stress tests and capital projections to determine required own funds in the current economic climate and in a severe recession scenario.

The capital projection model includes the macroeconomic factors of greatest importance historically to Nykredit's customers. An essential element of the capital projection model is the correlation between the development in the macroeconomic factors and borrower credit risk parameters in different scenarios.

The most important macroeconomic factors identified are:

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

Nykredit operates with three scenarios of the macroeconomic development: a base case scenario, a slightly weaker economic climate and a severe recession. Both in a slightly weaker economic climate and during a severe recession, the capital requirement for credit risk builds on correlations between the macroeconomic factors, customer default rates (PD) and the size of the loss in case of customer default (LGD).

Nykredit regularly participates in the stress test exercises of the European Banking Authority EBA, most recently in the EU-wide stress test and Asset Quality Review (AQR). AQR is a comprehensive review of lending, credit and risk management, etc. Nykredit assesses the results and compares them with the internal stress tests under the capital projection model. These results are a key element of our capital planning.

#### Scenario: Base case

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

#### Scenario: Slightly weaker economic climate in 2015-2017

The scenario is designed to illustrate a slightly weaker economic climate relative to the base case scenario. The capital charge reflects how much Nykredit's capital requirement would increase if this scenario occurred.

The capital charge for a slightly weaker economic climate came to DKK 3.5bn at end-2014.

#### Scenario: Severe recession

A central element of Nykredit's capital policy is to have the required own funds, also in the long term. The assessments are also factored into the current assessment of equity targets going forward.

Nykredit continually calculates the impact of severe recession combined with a relatively high interest rate level. It is assumed that the current lending volume is maintained regardless of the economic downturn.

Nykredit's severe recession scenario reflects an extreme, but not unlikely, situation.

In case of a severe recession, REA will increase by approximately DKK 100bn.

The report Risk and Capital Management 2014, available at [nykredit.com/reports](http://nykredit.com/reports), contains a detailed description of the determination of required own funds and internal capital adequacy requirement of Nykredit as well as all group companies. The report is not audited.

### Nykredit Realkredit Group Stress scenarios for determination of capital requirement

%	2015	2016	2017
<b>Base case</b>			
GDP, growth	1.7	1.6	1.7
Interest rates <sup>1</sup>	0.9	1.0	1.0
Property prices, growth	1.3	2.4	2.5
Unemployment	3.7	3.6	3.6
Danish equity index, growth	2.0	2.0	2.0
<b>Slightly weaker economic climate (scenario applied under Pillar II)</b>			
GDP, growth	0.5	0.0	0.4
Interest rates <sup>1</sup>	1.9	2.4	3.0
Property prices, growth	-2.5	-2.5	0.0
Unemployment	5.0	5.8	6.0
Danish equity index, growth	-5.0	-5.0	0.0
<b>Severe recession (scenario applied under countercyclical buffer)</b>			
GDP, growth	-3.0	-2.0	0.0
Interest rates <sup>1</sup>	5.5	6.5	7.0
Property prices, growth	-12.0	-10.0	-5.0
Unemployment	6.5	9.0	10.0
Danish equity index, growth	-10.0	-10.0	-5.0

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

## NYKREDIT'S CAPITAL REQUIREMENTS

### *Regulatory framework*

In the European Union, the CRR/CRD IV have been adopted. In Denmark, the systemically important financial institutions (SIFIs) have been designated, including Nykredit as expected. The designation as a SIFI comes with a SIFI buffer requirement of 2%, which is phased in over five years.

Nykredit has developed new IRB models and submitted the statutory application for approval to introduce advanced IRB models in respect of Nykredit Bank's commercial lending in 2014. The application has awaited the collection of sufficient loss data to develop statistical models. The approval process is expected to take about a year.

Nykredit's future capital targets are based on the statutory capital requirements – supplemented with credit rating agencies' and bond investors' expectations for the capitalisation of Nykredit as one of the largest private bond issuers in Europe.

The statutory capital requirements may be met using different types of capital. Both applicable legislation and financial markets require that the main part of capital is equity. Going forward, the most important capital instruments will be:

- Equity generated through retained earnings is the most important element in the capital structure. Equity is to contribute to safeguarding a strong Nykredit that is able to issue covered bonds with high credit ratings and attractive prices. The return on equity should be market-consistent and form the financial foundation for continuing business growth.
- Nykredit is now entitled to issue non-voting shares for capitalisation purposes.
- A moderate part of the capital requirement may presumably be met by Additional Tier 1 capital. Additional Tier 1 capital is expected to be a somewhat cheaper capital instrument than preference shares.
- A small part of the capital requirement (Pillar II capital requirement) and most likely capital for credit rating purposes may be met by a special form of subordinate loan capital with a so-called write-down trigger which is activated if equity falls below 7% of REA. Nykredit issued EUR 600m of CoCo bonds in 2014.
- Lastly, a small part of the formal capital requirements may be met by conventional subordinated debt. This type of capital cannot be used to fulfil the capital requirements set out by credit rating agencies.

The proposed rules imply that the minimum statutory equity requirement will be at least 9-11.5% of REA (11.5% in a favourable economic climate; 9% during other economic trends), to which should be added a requirement of 5-6% of REA to be met by either equity or certain other types of capital instruments, cf above.

In addition, capital is required to cover statutory deductions from equity carried for accounting purposes.

However, rating agencies and bond investors are expected to require a somewhat higher capital level of a financial business such as Nykredit, probably equity to the tune of 15% of REA and a total capital ratio of 18-20% of REA. On top of that comes equity to cover statutory deductions.

As part of Nykredit's risk appetite, which is described in the report Risk and Capital Management 2014, capital targets are a central element. A robust capital position is essential to be able to maintain active lending to the Nykredit's full-service customers, also in a challenging economic climate. The overall capital policy and risk appetite are determined annually by the Board of Directors. In this connection, the Group's capital targets are set out.



## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>2. CAPITAL AND CAPITAL ADEQUACY (continued)</b>				
<b>58,716</b>	<b>59,502</b>	<b>Equity</b>	<b>59,502</b>	<b>58,716</b>
-	(111)	Prudent valuation adjustment	(551)	-
(3,005)	(2,968)	Intangible assets excluding deferred tax liabilities	(3,040)	(3,054)
(960)	(1,877)	Provisions for expected losses in accordance with IRB approach	(1,433)	(90)
(2,485)	(237)	Other additions/deductions	(237)	(907)
-	1,673	Transitional adjustment of deductions	1,318	-
<b>(6,451)</b>	<b>(3,521)</b>	<b>Common Equity Tier 1 capital deductions</b>	<b>(3,944)</b>	<b>(4,050)</b>
<b>52,266</b>	<b>55,981</b>	<b>Common Equity Tier 1 capital</b>	<b>55,559</b>	<b>54,666</b>
10,444	6,699	Additional Tier 1 capital (incl transitional adjustment)	6,746	10,678
-	(75)	Additional Tier 1 capital deductions	(75)	-
-	(691)	Transitional adjustment of deductions	(513)	-
<b>10,444</b>	<b>5,933</b>	<b>Total Additional Tier 1 capital after deductions</b>	<b>6,158</b>	<b>10,678</b>
<b>62,710</b>	<b>61,915</b>	<b>Tier 1 capital</b>	<b>61,717</b>	<b>65,344</b>
34	4,466	Tier 2 capital (incl transitional adjustments)	4,463	237
(1,737)	-	- Tier 2 capital additions/deductions	-	(514)
-	(751)	Transitional adjustment of deductions	(573)	-
1,703	-	- Set-off of excess deductions	-	277
<b>62,710</b>	<b>65,630</b>	<b>Own funds</b>	<b>65,606</b>	<b>65,344</b>
342,562	348,763	Credit risk	305,321	298,574
15,744	21,769	Market risk	35,335	28,571
9,599	9,705	Operational risk	17,933	18,818
<b>367,905</b>	<b>380,237</b>	<b>Total risk exposure amount</b>	<b>358,589</b>	<b>345,963</b>
<b>Financial ratios</b>				
14.2	14.7	Common Equity Tier 1 capital ratio, %	15.4	15.8
17.0	16.2	Tier 1 capital ratio, %	17.2	18.9
17.0	17.2	Total capital ratio, %	18.2	18.9

Capital and capital adequacy have been determined in accordance with Regulation (EU) No 575/2013 of the European Parliament and the Council of 26 June 2013 (the Capital Requirements Regulation) as well as the Danish transitional rules laid down by the Danish FSA.

The statements as at 31 December 2013 are based on the then applicable rules of the Danish Financial Business Act. The layout has been adjusted to reflect the new presentation format.



## Notes

DKK million

Nycredit Realkredit Group

## 3. CORE EARNINGS AND INVESTMENT PORTFOLIO INCOME

	2014				2013			
	Core earnings	Investment portfolio income	Cost of capital	Total	Core earnings	Investment portfolio income	Cost of capital	Total
Net interest income	10,809	1,071	(526)	11,353	9,471	1,313	(458)	10,325
Dividend on equities	19	62	-	82	14	240	-	254
Fee and commission income, net	80	(28)	-	52	(143)	(96)	-	(239)
<b>Net interest and fee income</b>	<b>10,908</b>	<b>1,105</b>	<b>(526)</b>	<b>11,486</b>	<b>9,342</b>	<b>1,457</b>	<b>(458)</b>	<b>10,340</b>
Value adjustments	(3,224)	(332)	(2)	(3,557)	(246)	398	(2)	150
Other operating income	185	-	-	185	202	8	-	210
Staff and administrative expenses	4,715	-	-	4,715	5,005	-	-	5,005
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	234	-	-	234	896	-	-	896
Other operating expenses	154	-	-	154	225	-	-	225
Impairment losses on loans and advances	2,351	-	-	2,351	2,764	-	-	2,764
Profit from investments in associates	-	6	-	6	78	24	-	103
<b>Profit (loss) before tax</b>	<b>416</b>	<b>779</b>	<b>(528)</b>	<b>666</b>	<b>486</b>	<b>1,887</b>	<b>(460)</b>	<b>1,914</b>

## Notes

DKK million

Nykredit Realkredit Group

## 4. RESULTS BY BUSINESS AREA

2014	Retail	Totalkredit Partners	Wholesale Clients	Group Items	Total
<b>Core income from</b>					
- customer activities, gross	5,836	2,650	3,004	20	11,509
- allocation of income for distribution	536	-	(536)	-	-
<b>Total business operations</b>	<b>6,372</b>	<b>2,650</b>	<b>2,468</b>	<b>20</b>	<b>11,509</b>
- value adjustment of derivatives	(1,857)	-	(1,505)	-	(3,362)
- senior debt	(129)	(210)	(16)	(53)	(408)
- securities	-	-	-	130	130
<b>Total core income</b>	<b>4,386</b>	<b>2,440</b>	<b>947</b>	<b>96</b>	<b>7,869</b>
Transactions between business areas represent	580	(20)	(883)	323	-
Operating costs	2,987	394	852	635	4,868
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	9	0	8	217	234
<b>Core earnings before impairment losses</b>	<b>1,389</b>	<b>2,045</b>	<b>87</b>	<b>(755)</b>	<b>2,766</b>
Impairment losses on loans and advances	1,574	362	399	15	2,351
<b>Core earnings after impairment losses</b>	<b>(185)</b>	<b>1,683</b>	<b>(312)</b>	<b>(770)</b>	<b>416</b>
Investment portfolio income <sup>1</sup>	-	-	-	779	779
<b>Profit (loss) before cost of capital</b>	<b>(185)</b>	<b>1,683</b>	<b>(312)</b>	<b>9</b>	<b>1,194</b>
Net interest on subordinated debt	-	-	-	(528)	(528)
<b>Profit (loss) before tax</b>	<b>(185)</b>	<b>1,683</b>	<b>(312)</b>	<b>(520)</b>	<b>666</b>

The most significant change resulting from the reorganisation was a negative earnings impact of DKK 73m in Retail and a positive earnings impact of DKK 73m in Wholesale Clients.

2013	Retail	Totalkredit Partners	Wholesale Clients	Group Items	Total
<b>Core income from</b>					
- customer activities, gross	5,401	1,875	3,227	(63)	10,440
- allocation of income for distribution	645	-	(645)	-	-
<b>Total business operations</b>	<b>6,046</b>	<b>1,875</b>	<b>2,582</b>	<b>(63)</b>	<b>10,440</b>
- value adjustment of derivatives	(179)	-	(597)	-	(776)
- senior debt	(119)	(302)	(20)	(43)	(484)
- securities	-	-	-	118	118
<b>Total core income</b>	<b>5,748</b>	<b>1,572</b>	<b>1,966</b>	<b>11</b>	<b>9,297</b>
Transactions between business areas represent	501	(22)	(906)	427	-
Operating costs	2,996	409	946	800	5,151
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	9	521	6	360	896
<b>Core earnings before impairment losses</b>	<b>2,742</b>	<b>642</b>	<b>1,014</b>	<b>(1,148)</b>	<b>3,250</b>
Impairment losses on loans and advances	1,987	554	239	(16)	2,764
<b>Core earnings after impairment losses</b>	<b>755</b>	<b>88</b>	<b>775</b>	<b>(1,132)</b>	<b>486</b>
Investment portfolio income <sup>1</sup>	-	-	-	1,887	1,887
<b>Profit before cost of capital</b>	<b>755</b>	<b>88</b>	<b>775</b>	<b>754</b>	<b>2,373</b>
Net interest on subordinated debt	-	-	-	(460)	(460)
<b>Profit before tax</b>	<b>755</b>	<b>88</b>	<b>775</b>	<b>295</b>	<b>1,914</b>

As a result of the reorganisation, comparative figures have been restated, thus increasing Retail and Wholesale Clients profit by DKK 95m and DKK 26m, respectively, while reducing Totalkredit Partners and Group Items profit/loss by DKK 8m and DKK 112m, respectively. Core income was particularly affected by a transfer of about DKK 111m from Retail to Wholesale Clients. Operating costs were down DKK 189m in Retail, whereas Wholesale Clients and Group Items recorded an increase of DKK 125m and DKK 64m, respectively. Impairment losses in Retail dropped DKK 17m, which was allocated to Wholesale Clients.

## Geographical markets

Core income from international lending came to DKK 509m in 2014 against DKK 449m in 2013. At a total of DKK 56bn, the international loan portfolio was unchanged on end-2013.

<sup>1</sup> Investment portfolio income includes a profit from investments in associates of DKK 6m against DKK 32m in 2013.

# Notes

DKK million

Nykredit Realkredit Group

## 4. RESULTS BY BUSINESS AREA (continued)

### Summary balance sheet, year-end

#### 2014

##### Assets

	Retail	Totalkredit Partners	Wholesale Clients	Group Items	Total
Receivables from credit institutions	-	-	33,642	8,646	42,288
Mortgage loans at fair value	437,826	484,607	184,356	30,789	1,137,578
Reverse repurchase lending	-	-	35,228	-	35,228
Bank loans at amortised cost	25,533	42	24,903	481	50,958
Bonds and equities	-	-	45,917	85,466	131,383
Investments in associates	-	-	-	123	123
Property, plant and equipment as well as intangible assets	39	1,907	44	3,155	5,144
Remaining assets	14,801	-	28,154	12,496	55,452
<b>Total assets</b>	<b>478,199</b>	<b>486,556</b>	<b>352,243</b>	<b>141,156</b>	<b>1,458,153</b>

##### Liabilities and equity

Payables to credit institutions	-	-	24,719	20,144	44,863
Deposits and other payables	40,637	-	23,170	1,425	65,232
Bonds in issue	462,012	544,900	209,124	(19,416)	1,196,620
Remaining liabilities	410	-	61,130	30,396	91,936
Equity	-	-	-	59,502	59,502
<b>Total liabilities and equity</b>	<b>503,059</b>	<b>544,900</b>	<b>318,143</b>	<b>92,051</b>	<b>1,458,153</b>

Off-balance sheet items	5,443	10	5,574	2,362	13,389
Investments in property, plant and equipment as well as intangible assets	-	-	-	188	188

#### 2013

##### Assets

	Retail	Totalkredit Partners	Wholesale Clients	Group Items	Total
Receivables from credit institutions	-	-	22,713	13,045	35,758
Mortgage loans at fair value	442,964	493,676	179,399	20,959	1,136,998
Reverse repurchase lending	-	-	56,814	-	56,814
Bank loans at amortised cost	23,348	36	23,525	484	47,393
Bonds and equities	31	-	21,537	71,393	92,961
Investments in associates	-	-	-	120	120
Property, plant and equipment as well as intangible assets	94	1,907	14	3,574	5,589
Remaining assets	19	-	31,927	9,835	41,781
<b>Total assets</b>	<b>466,457</b>	<b>495,619</b>	<b>335,928</b>	<b>119,409</b>	<b>1,417,414</b>

##### Liabilities and equity

Payables to credit institutions	-	29,440	-	14,953	44,393
Deposits and other payables	36,427	-	27,023	1,723	65,173
Bonds in issue	468,455	519,745	195,816	(23,723)	1,160,293
Remaining liabilities	624	-	58,759	29,456	88,840
Equity	-	-	-	58,716	58,716
<b>Total liabilities and equity</b>	<b>505,506</b>	<b>549,185</b>	<b>281,598</b>	<b>81,126</b>	<b>1,417,414</b>

Off-balance sheet items	4,524	11	7,238	2,463	14,236
Investments in property, plant and equipment as well as intangible assets	-	1	-	202	203

Nykredit's business areas include: Retail, which serves Nykredit's personal customers and SMEs. The business area includes mortgage lending to Nykredit's personal customers arranged via Totalkredit. Totalkredit Partners, which arranges the Group's mortgage loans to personal customers via local and regional banks. Wholesale Clients, which comprises Corporate & Institutional Banking and the business units Nykredit Markets and Nykredit Asset Management. Group Items comprises other income and costs not allocated to business areas.

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>5. INTEREST INCOME</b>			
12,278	12,355	65	62
11,995	11,111	26,220	27,260
4,106	4,248	8,377	7,440
<b>Bonds</b>			
644	469	1,087	1,458
354	529	1,523	1,092
(21)	33	67	(3)
128	112	303	294
<b>Derivative financial instruments</b>			
(41)	(12)	4	(60)
339	249	101	337
-	-	(55)	(46)
-	-	22	(4)
59	92	104	81
<b>29,842</b>	<b>29,186</b>	<b>37,819</b>	<b>37,910</b>
(644)	(469)	(1,087)	(1,458)
(4)	(5)	(77)	(69)
<b>29,194</b>	<b>28,711</b>	<b>36,655</b>	<b>36,383</b>
<b>Of which interest income from reverse repurchase lending entered as:</b>			
11	1	19	33
-	-	139	164
<b>Of total interest income:</b>			
181	165	2,395	2,589
-	-	90	106
-	-	90	101
-	-	124	118
Interest income accrued on individually impaired bank loans totalled DKK 90m (2013: DKK 106m). Nykredit Bank A/S generally does not charge interest on individually impaired loans. Interest income attributable to the impaired part of loans after the first time of impairment is offset against subsequent impairment.			

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>6. INTEREST EXPENSES</b>				
50	40	Credit institutions and central banks	201	145
-	-	- Deposits and other payables	352	456
24,506	23,725	Bonds in issue	25,013	26,152
805	860	Subordinated debt	869	816
66	112	Other interest expenses	31	15
<b>25,426</b>	<b>24,737</b>	<b>Total</b>	<b>26,465</b>	<b>27,585</b>
(644)	(469)	Set-off of interest from self-issued covered bonds – note 5	(1,087)	(1,458)
(4)	(5)	Set-off of interest from self-issued other bonds – note 5	(77)	(69)
<b>24,779</b>	<b>24,262</b>	<b>Total</b>	<b>25,301</b>	<b>26,058</b>
<b>Of which interest expenses from repo transactions entered as:</b>				
44	37	Credit institutions and central banks	141	88
-	-	- Deposits and other payables	39	70
<b>Of total interest expenses:</b>				
862	1,044	Interest expenses accrued on financial liabilities measured at amortised cost	1,690	1,824
<b>7. DIVIDEND ON EQUITIES</b>				
228	55	Dividend	58	245
-	-	- Dividend on equities available for sale	23	9
<b>228</b>	<b>55</b>	<b>Total</b>	<b>82</b>	<b>254</b>
<b>8. FEE AND COMMISSION INCOME</b>				
-	-	Fees relating to financial instruments measured at amortised cost	153	190
7	8	Fees from asset management activities and other fiduciary activities	818	749
847	848	Other fees	1,196	933
<b>854</b>	<b>855</b>	<b>Total</b>	<b>2,167</b>	<b>1,872</b>
<b>9. FEE AND COMMISSION EXPENSES</b>				
-	-	Fees relating to financial instruments measured at amortised cost	19	21
-	-	Fees from asset management activities and other fiduciary activities	58	60
289	130	Other fees	2,037	2,031
<b>289</b>	<b>130</b>	<b>Total</b>	<b>2,115</b>	<b>2,111</b>

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>10. VALUE ADJUSTMENTS</b>			
<b>Assets measured at fair value through profit or loss</b>			
(4,631)	4,162	Mortgage loans, a)	9,913 (8,726)
(3,774)	6,340	Totalkredit mortgage loan funding, a)	- -
288	110	Other loans, advances and receivables at fair value, b)	2 16
(109)	871	Bonds, b)	293 (502)
453	501	Equities, b)	327 130
-	-	Investment properties	8 27
22	29	Foreign exchange	(3) 79
(110)	(1,009)	Foreign exchange, interest rate and other contracts as well as derivative financial instruments, b)	(4,041) (529)
<b>Assets measured at fair value and recognised in "Other comprehensive income"</b>			
-	-	Realised value adjustment of equities available for sale reclassified to the income statement	- 697
<b>Liabilities measured at fair value through profit or loss</b>			
4,865	(4,305)	Bonds in issue, a)	(10,055) 8,960
3,774	(6,340)	Totalkredit mortgage loan funding, a)	- -
-	-	Other liabilities, b)	(0) (1)
<b>779</b>	<b>359</b>	<b>Total</b>	<b>(3,557) 150</b>
a) Financial assets and liabilities classified at fair value on initial recognition.			
b) Financial assets and liabilities classified under the trading book.			
<b>Of which value adjustment relating to fair value hedging for accounting purposes</b>			
-	-	Fair value hedge	115 10
<b>11. STAFF AND ADMINISTRATIVE EXPENSES</b>			
98	54	Remuneration of Board of Directors and Executive Board	54 98
2,062	1,958	Staff expenses	2,855 3,014
420	377	Other administrative expenses	1,806 1,892
<b>2,580</b>	<b>2,389</b>	<b>Total</b>	<b>4,715 5,004</b>
<b>Remuneration of Board of Directors and Executive Board</b>			
<b>Board of Directors</b>			
3	3	Remuneration	3 3
<b>Executive Board</b>			
50	39	Fixed salaries	39 50
1	0	Expenses for defined contribution plans	0 1
45	11	Expenses for defined benefit plans	11 45
<b>98</b>	<b>54</b>	<b>Total</b>	<b>54 98</b>

In 2013 expenses for defined benefit plans for executive board members were affected by a change in the calculated retirement age from 65 years to 60 years. The change resulted in a DKK 20m increase in provisions. In 2013 the item was further affected by provisions of DKK 16m for the former Group Chief Executive.

# Notes

## 11. STAFF AND ADMINISTRATIVE EXPENSES (continued)

### Terms and conditions applying to the Board of Directors

The 15 members of the Board of Directors receive fixed fees and a refund of any costs incurred in connection with board meetings. The remuneration is unchanged relative to end-2013.

### Annual remuneration (DKK 1,000), end-2014

	Chairman	Deputy Chairman	Director
Nykredit Realkredit A/S	390	315	120
Nykredit Holding A/S	555	370	185
Foreningen Nykredit	195	130	75

In addition, Allan Kristiansen received remuneration of DKK 60,000 as staff-elected board member of Nykredit Bank A/S.

The chairmen of the Audit, Risk and Remuneration Boards receive remuneration of DKK 150,000, DKK 150,000 and DKK 75,000, respectively. Other members of the Audit, Risk and Remuneration Boards receive remuneration of DKK 100,000, DKK 100,000 and DKK 50,000, respectively. Members of the Nomination Board do not receive separate remuneration.

A combination of Chairman of the Audit or Risk Board and an ordinary member of one of the two boards will not result in remuneration exceeding DKK 200,000.

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



# Notes

## 11. STAFF AND ADMINISTRATIVE EXPENSES (continued)

### Terms and conditions applying to the Executive Board

	Michael Rasmussen	Anders Jensen	Bente Overgaard	Kim Duus	Søren Holm
Fixed annual salary (DKK 1,000), year-end	11,837	5,951	5,951	5,951	5,951
Pension plan	-	Defined contribution	Defined benefit <sup>1</sup>	Defined benefit <sup>1</sup>	Defined benefit <sup>1</sup>
Pension terms	-	Nykredit contributes 23% of fixed salary	60% of fixed salary for up to 5 years after attain- ing the age of 60	60% of fixed salary for up to 5 years after attain- ing the age of 60	60% of fixed salary for up to 5 years after attain- ing the age of 60
Termination benefit	23 mths	12 mths	22 mths	22 mths	22 mths
Mutual term of notice	6 mths	6 mths	6 mths	6 mths	6 mths

<sup>1</sup> Group Managing Directors may resign by giving 12 months' notice from the age of 60 until the age of 70 and are entitled to pension benefits equal to 60% of their fixed salaries. Pension benefits are paid for a maximum of 5 years, and the benefits entitlement lapses when the Group Managing Director attains the age of 70. Similarly, Nykredit may request a Group Managing Director to retire in this period subject to 6 months' notice.

Members of the Executive Board receive fixed salaries covering all directorships and executive positions in Foreningen Nykredit and its group enterprises and associates.

Neither bonus nor other variable remuneration plans have been established for the members of the Executive Board. Group Managing Directors will resign in the month they attain the age of 70 at the latest.

Karsten Knudsen and Per Ladegaard resigned from the Group Executive Board on 1 March 2014 and have performed selected tasks up until their retirement at end-August 2014. As at 1 October 2014, Anders Jensen was appointed Group Managing Director with responsibility for Retail. No additional changes have been made to the composition of the Executive Board.

### Fixed salary, including defined contribution plans (DKK 1,000)

	FY 2014	FY 2013
Michael Rasmussen	11,837	3,204
Anders Jensen	1,830	-
Bente Overgaard	5,951	5,951
Karsten Knudsen	3,967	5,951
Kim Duus	5,951	5,951
Peter Engberg Jensen	-	8,390
Per Ladegaard	3,967	5,951
Søren Holm	5,951	5,951
<b>Total</b>	<b>39,454</b>	<b>41,349</b>

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>11. STAFF AND ADMINISTRATIVE EXPENSES (continued)</b>				
<b>Staff expenses</b>				
1,634	1,549	Salaries	2,279	2,404
191	189	Pensions	265	268
216	198	Payroll tax	284	303
21	21	Other social security expenses	27	38
<b>2,062</b>	<b>1,958</b>	<b>Total</b>	<b>2,855</b>	<b>3,014</b>
29	32	In addition to the Board of Directors and Executive Board, Nykredit has designated the following number of staff whose activities significantly affect Nykredit's risk profile (risk-takers)	47	49
		Details of Nykredit's remuneration policy appear from page 38 of the Management's Review under Remuneration and at nykredit.com.		
		Remuneration of risk-takers is included in "Staff expenses" and breaks down into:		
42	43	Fixed salaries	71	75
9	7	Variable remuneration	14	18
0	(0)	Adjustment of variable remuneration provided for in previous years	(0)	1
<b>51</b>	<b>49</b>	<b>Total</b>	<b>85</b>	<b>94</b>
		Risk-takers are only covered by 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".		
<b>Number of staff</b>				
3,008	2,981	Average number of staff for the financial year, full-time equivalents	3,971	4,052
<b>Fee to auditor appointed by the General Meeting</b>				
7	4	Deloitte	8	11
		Total fees include:		
2	2	- Statutory audit of the Financial Statements	5	6
0	0	- Other assurance engagements	0	0
1	0	- Tax advice	0	1
4	2	- Other services	3	4
<b>7</b>	<b>4</b>	<b>Total</b>	<b>8</b>	<b>11</b>
<b>12. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES FOR PROPERTY, PLANT AND EQUIPMENT AS WELL AS INTANGIBLE ASSETS</b>				
<b>Intangible assets</b>				
633	76	- Amortisation	82	636
98	-	- Impairment losses	-	98
<b>Property, plant and equipment</b>				
103	97	- Depreciation	127	137
-	-	- Impairment losses	35	29
-	-	- Reversal of impairment losses	(10)	(4)
<b>835</b>	<b>174</b>	<b>Total</b>	<b>234</b>	<b>896</b>

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>13. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES</b>				
<b>13 a. Earnings impact</b>				
1,014	1,234	Change in individual impairment provisions for loans and advances	1,643	1,640
10	11	Change in individual impairment provisions for receivables from credit institutions	15	29
507	237	Change in collective impairment provisions for loans and advances	365	898
208	173	Write-offs for the year, not previously written down for impairment	522	584
(31)	(35)	Recoveries on claims previously written off	(75)	(243)
-	-	Provisions for guarantees, net	4	22
<b>1,708</b>	<b>1,619</b>	<b>Total impairment losses on loans, advances and receivables, and provisions for guarantees</b>	<b>2,473</b>	<b>2,928</b>
136	111	Value adjustment of assets in temporary possession	157	186
(8)	(7)	Value adjustment of claims previously written off	(13)	(28)
-	-	Write-offs offset against commission payments to partner banks	(267)	(322)
<b>1,837</b>	<b>1,723</b>	<b>Total</b>	<b>2,351</b>	<b>2,764</b>
<b>13 b. Specification of impairment provisions for loans, advances and receivables</b>				
2,049	2,890	Individual impairment provisions	6,509	6,144
1,165	1,401	Collective impairment provisions	2,602	2,237
<b>3,214</b>	<b>4,291</b>	<b>Total impairment provisions</b>	<b>9,110</b>	<b>8,381</b>
<b>Impairment provisions have been offset against the following items:</b>				
3,077	4,168	Mortgage loans – note 17	5,268	4,157
127	102	Arrears and outlays – note 17	238	221
-	-	Bank loans and advances – note 18	3,560	3,974
10	21	Receivables from credit institutions – note 16	44	29
<b>3,214</b>	<b>4,291</b>	<b>Total impairment provisions</b>	<b>9,110</b>	<b>8,381</b>
<b>13 c. Individual impairment provisions for loans and advances</b>				
<b>1,394</b>	<b>2,039</b>	<b>Impairment provisions, beginning of year</b>	<b>6,116</b>	<b>5,673</b>
1,246	1,547	Impairment provisions for the year	2,661	2,630
(232)	(314)	Impairment provisions reversed	(1,018)	(990)
(113)	(119)	Transferred to acquired properties	(160)	(150)
(256)	(285)	Impairment provisions written off	(1,134)	(1,048)
<b>2,039</b>	<b>2,869</b>	<b>Impairment provisions, year-end</b>	<b>6,465</b>	<b>6,116</b>
<p>Of total individual impairment provisions for bank lending to commercial customers, equal to about DKK 2.3bn, around 24% can be attributed to exposures to customers whose financial circumstances have led to bankruptcy, bankruptcy proceedings or compulsory dissolution.</p> <p>Of total individual impairment provisions for mortgage lending, around 9% or DKK 316m can be attributed to customers subject to bankruptcy, bankruptcy proceedings or compulsory dissolution. Further, around 11% or DKK 369m of total individual impairment provisions for mortgage lending can be attributed to customers in arrears.</p>				

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>13. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES (continued)</b>				
<b>13 d. Collective impairment provisions for loans and advances</b>				
657	1,165	<b>Impairment provisions, beginning of year</b>	2,237	1,339
507	237	Impairment provisions for the year, net	365	898
<b>1,165</b>	<b>1,401</b>	<b>Impairment provisions, year-end</b>	<b>2,602</b>	<b>2,237</b>
<b>13 e. Individual impairment provisions for receivables from credit institutions</b>				
-	10	<b>Impairment provisions, beginning of year</b>	29	-
10	11	Impairment provisions for the year	15	29
<b>10</b>	<b>21</b>	<b>Impairment provisions, year-end</b>	<b>44</b>	<b>29</b>
<b>13 f. Specification of loans, advances and receivables from credit institutions with objective evidence of impairment</b>				
10,463	13,612	Loans and advances subject to individual provisioning before impairment	20,619	18,108
2,039	2,869	Impairment provisions	6,465	6,116
<b>8,424</b>	<b>10,743</b>	<b>Loans and advances after impairment</b>	<b>14,155</b>	<b>11,992</b>
44,671	37,553	Loans and advances subject to collective provisioning before impairment	116,681	121,558
1,165	1,401	Impairment provisions	2,602	2,237
<b>43,506</b>	<b>36,152</b>	<b>Loans and advances after impairment</b>	<b>114,079</b>	<b>119,321</b>
29	29	Receivables from credit institutions subject to individual provisioning before impairment	54	54
10	21	Impairment provisions	44	29
<b>19</b>	<b>8</b>	<b>Receivables after impairment</b>	<b>10</b>	<b>25</b>
<b>13 g. Impairment provisions for acquired properties</b>				
320	365	<b>Impairment provisions, beginning of year</b>	469	448
113	119	Transfer from impairment provisions for loans and advances – note 13 c.	160	150
151	117	Impairment provisions for the year	167	206
(15)	(6)	Impairment provisions reversed	(10)	(20)
(204)	(280)	Impairment provisions written off	(372)	(315)
<b>365</b>	<b>315</b>	<b>Impairment provisions, year-end</b>	<b>414</b>	<b>469</b>
Impairment provisions for acquired properties have been offset against "Assets in temporary possession".				
<b>14. PROFIT FROM INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES</b>				
24	6	Profit from investments in associates	6	103
714	(231)	Profit (loss) from investments in group enterprises	-	-
<b>738</b>	<b>(225)</b>	<b>Total</b>	<b>6</b>	<b>103</b>

Profit from investments in associates in 2013 was positively affected by DKK 78m stemming from a partial reversal of provisions relating to Dansk Pantebrevsbørs A/S under konkurs (in bankruptcy).

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
	<b>15. TAX</b>		
	<b>15 a. Tax on profit for the year</b>		
	<b>Tax on profit for the year has been calculated as follows:</b>		
258	203 Current tax	85	380
(226)	6 Deferred tax	(7)	(173)
27	7 Adjustment of tax relating to previous years	25	29
(1)	(2) Adjustment of deferred tax relating to previous years	(14)	7
0	- Adjustment of deferred tax due to a reduction in the corporation tax rate	-	(2)
<b>58</b>	<b>215 Total</b>	<b>90</b>	<b>240</b>
	<b>Tax on profit for the year can be specified as follows:</b>		
347	252 Calculated 24.5% tax on profit before tax	163	478
	<b>Tax effect of:</b>		
(450)	(52) Non-taxable income	(104)	(417)
134	9 Non-deductible expenses and other adjustments	18	144
26	5 Adjustment of tax relating to previous years	12	36
0	- Adjustment of deferred tax due to a reduction in the corporation tax rate	-	(2)
<b>58</b>	<b>215 Total</b>	<b>90</b>	<b>240</b>
4.2	20.9 Effective tax rate, %	13.5	12.5

In 2013 and 2014, Nykredit's effective tax rate was affected by tax-exempt gains on equities and value adjustment of the Group's owner-occupied properties. Adjusted for such gains, the effective tax rate was 24.1% in 2014 and 24.5% in 2013.

**15 b. Payroll tax**

In addition to corporation tax, the Nykredit Group paid payroll tax of DKK 284m (2013: DKK 303m). Payroll tax has been included in "Staff expenses", cf note 11.

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>16. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS</b>				
-	-	Receivables from central banks	8,000	-
21,627	28,230	Receivables from credit institutions	24,670	18,401
-	-	Reverse repurchase lending to central banks	746	2,069
2,110	1,340	Reverse repurchase lending to credit institutions	4,228	10,477
<b>23,736</b>	<b>29,570</b>	<b>Total</b>	<b>37,644</b>	<b>30,948</b>
<b>Receivables from credit institutions and central banks by time-to-maturity</b>				
3,838	10,194	On demand	22,791	13,025
11,490	9,090	Up to 3 months	9,996	14,014
5,290	7,178	Over 3 months and up to 1 year	4,850	3,890
-	3,100	Over 1 year and up to 5 years	-	-
3,119	8	Over 5 years	8	19
<b>23,736</b>	<b>29,570</b>	<b>Total</b>	<b>37,644</b>	<b>30,948</b>
<b>17. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE</b>				
597,200	582,417	Mortgage loans	1,137,099	1,136,644
246	268	Arrears and outlays	479	354
-	-	Reverse repurchase lending to undertakings other than credit institutions and central banks	35,228	56,814
27,129	19,294	Loans to Totalkredit serving as collateral in capital centres	-	-
538,541	590,579	Totalkredit mortgage loan funding	-	-
<b>1,163,115</b>	<b>1,192,558</b>	<b>Total</b>	<b>1,172,805</b>	<b>1,193,813</b>
<b>17 a. Mortgage loans</b>				
<b>600,042</b>	<b>588,670</b>	<b>Balance, beginning of year, nominal value</b>	<b>1,119,970</b>	<b>1,108,796</b>
50,499	76,191	New loans	190,529	122,167
467	164	Indexation	164	467
(981)	(1,279)	Foreign currency translation adjustment	(1,279)	(981)
(11,939)	(12,412)	Ordinary principal payments	(18,861)	(18,051)
(49,418)	(80,420)	Prepayments and extraordinary principal payments	(178,780)	(92,427)
<b>588,670</b>	<b>570,913</b>	<b>Balance, year-end, nominal value</b>	<b>1,111,744</b>	<b>1,119,970</b>
(316)	(360)	Loans transferred relating to properties in temporary possession	(411)	(365)
255	244	Loans assumed by the Danish Agency for Governmental Management	244	255
<b>588,609</b>	<b>570,797</b>	<b>Total</b>	<b>1,111,577</b>	<b>1,119,859</b>
<b>11,668</b>	<b>15,788</b>	<b>Adjustment for interest rate risk</b>	<b>30,789</b>	<b>20,942</b>
<b>Adjustment for credit risk</b>				
(1,912)	(2,767)	Individual impairment provisions	(3,176)	(2,290)
(1,165)	(1,401)	Collective impairment provisions	(2,092)	(1,867)
<b>597,200</b>	<b>582,417</b>	<b>Balance, year-end, fair value</b>	<b>1,137,099</b>	<b>1,136,644</b>

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>17. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE (continued)</b>			
For total loans and advances, Nykredit has received mortgages over real estate and:			
27,540	28,328	49,507	37,532
853	1,014	10,412	9,731
2,028	6,776	7,549	7,177
<b>Mortgage loans at nominal value by property category</b>			
Loans and advances as %, year-end			
25	22	59	58
2	2	3	3
17	17	9	9
13	15	8	7
4	4	2	2
19	20	10	10
17	17	9	9
3	3	2	2
<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
For further specification of mortgage loans by loan type and property category, please refer to page 31 of the Management's Review.			
<b>17 b. Arrears and outlays</b>			
331	296	431	441
43	74	287	134
(127)	(102)	(238)	(221)
<b>246</b>	<b>268</b>	<b>479</b>	<b>354</b>
Mortgage arrears up to and including the September 2014 due date, for which no provisions have been made, amounted to DKK 18m (2013: DKK 17m).			
<b>Mortgage loans, arrears and outlays as well as other loans and advances by time-to-maturity</b>			
6,937	6,576	44,876	66,740
12,272	11,629	17,365	17,852
86,916	82,579	123,245	126,482
491,322	481,900	987,320	982,739
<b>597,446</b>	<b>582,685</b>	<b>1,172,805</b>	<b>1,193,813</b>
Mortgage loans recognised at fair value, arrears and outlays as well as other loans and advances by time-to-maturity are stated after impairment provisions.			
<b>17 c. Loans to Totalkredit serving as collateral in capital centres</b>			
<b>Loans to Totalkredit serving as collateral in capital centres by time-to-maturity</b>			
2,059	1,518	-	-
3,202	1,982	-	-
21,644	14,800	-	-
224	995	-	-
<b>27,129</b>	<b>19,294</b>	<b>-</b>	<b>-</b>



## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>17. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE (continued)</b>			
<b>17 d. Totalkredit mortgage loan funding</b>			
<b>509,107</b>	<b>531,206</b>	<b>Balance, beginning of year, nominal value</b>	-
218,461	252,757	New loans	-
(3,602)	(4,293)	Ordinary principal payments	-
(192,760)	(202,760)	Prepayments and extraordinary principal payments	-
<b>531,206</b>	<b>576,910</b>	<b>Balance, year-end, nominal value</b>	-
7,335	13,669	Adjustment for interest rate risk	-
<b>538,541</b>	<b>590,579</b>	<b>Balance, year-end, fair value</b>	-
<b>Totalkredit mortgage loan funding by time-to-maturity</b>			
41,602	54,828	Up to 3 months	-
127,150	143,741	Over 3 months and up to 1 year	-
208,262	200,714	Over 1 year and up to 5 years	-
161,526	191,297	Over 5 years	-
<b>538,541</b>	<b>590,579</b>	<b>Total</b>	-
Totalkredit mortgage loan funding by time-to-maturity is stated at fair value.			
<b>18. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST</b>			
-	-	Bank loans and advances	54,054
26	26	Totalkredit mortgage loan funding	-
-	-	- Mortgage loans	27
426	449	Other loans and advances	465
<b>452</b>	<b>476</b>	<b>Balance, year-end</b>	<b>54,546</b>
<b>Adjustment for credit risk</b>			
-	-	Individual impairment provisions	(3,051)
-	-	Collective impairment provisions	(509)
<b>452</b>	<b>476</b>	<b>Balance after impairment, year-end</b>	<b>50,986</b>
(32)	(28)	Set-off of self-issued "Other loans and advances" against "Bonds in issue at amortised cost" – note 31	(28)
<b>420</b>	<b>448</b>	<b>Total</b>	<b>50,958</b>
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.			
-	-	Of total loans and advances, fixed-rate bank loans represent	1,519
-	-	Fair value of fixed-rate loans	1,547

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>18. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (continued)</b>			
<b>Loans, advances and other receivables at amortised cost by time-to-maturity</b>			
-	-	10,340	10,911
1	3	12,194	10,385
3	5	5,965	5,323
201	232	11,322	10,754
216	208	11,137	10,020
<b>420</b>	<b>448</b>	<b>50,958</b>	<b>47,393</b>
Loans and advances by time-to-maturity are stated after impairment and after set-off of self-issued securities.			
<b>18 a. Bank loans and advances</b>			
<b>Non-accrual loans or loans carrying a reduced interest rate</b>			
-	-	789	656
-	-	6	3
<b>Bank loans, advances and guarantee debtors by sector</b>			
Loans and advances as %, year-end			
-	-	0	0
<b>Public sector</b>			
<b>Commercial customers</b>			
-	-	4	3
-	-	10	10
-	-	2	4
-	-	3	3
-	-	6	5
-	-	5	5
-	-	2	2
-	-	7	7
-	-	20	19
-	-	16	15
-	-	<b>75</b>	<b>73</b>
-	-	25	27
-	-	<b>100</b>	<b>100</b>
The sector distribution is based on the official Danish activity codes.			
<b>Finance leases</b>			
Of total loans and advances at amortised cost, finance leases represent			
-	-	2,963	2,669
-	-	1,780	1,369
-	-	(1,286)	(1,075)
-	-	<b>3,457</b>	<b>2,963</b>
-	-	34	43
Non-guaranteed residual values on expiry of the leases represent DKK 0.			

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>18. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (continued)</b>				
<b>Finance leases by time-to-maturity</b>				
-	-	Up to 3 months	255	294
-	-	Over 3 months and up to 1 year	617	536
-	-	Over 1 year and up to 5 years	2,217	1,905
-	-	Over 5 years	368	227
-	-	<b>Total</b>	<b>3,457</b>	<b>2,963</b>
Where loans and advances under finance leases are concerned, amortised cost represents their fair value. The leases comprise equipment as well as real estate. The leases have been concluded on an arm's length basis. The term of the leases is 3 to 8 years.				
<b>Gross investments in finance leases</b>				
<b>Gross investments in finance leases by time-to-maturity</b>				
-	-	Up to 1 year	996	903
-	-	Over 1 year and up to 5 years	2,495	2,155
-	-	Over 5 years	384	236
-	-	<b>Total</b>	<b>3,875</b>	<b>3,294</b>
-	-	Non-earned income	418	331
<b>19. BONDS AT FAIR VALUE</b>				
47,467	69,776	Self-issued covered bonds (særligt dækkede obligationer, SDOs)	121,334	105,984
52,831	35,460	Self-issued ROs	59,926	73,017
-	-	- Self-issued corporate bonds	2,342	2,830
750	-	- Self-issued senior debt	410	1,335
24,372	34,306	Other ROs	99,523	80,337
147	10,445	Government bonds	18,556	4,653
2,406	2,994	Other bonds	9,893	5,101
<b>127,973</b>	<b>152,981</b>	<b>Total</b>	<b>311,982</b>	<b>273,257</b>
(47,440)	(69,750)	Set-off of self-issued SDOs against "Bonds in issue at fair value" – note 30	(121,307)	(105,958)
(26)	(26)	Set-off of self-issued SDOs against "Bonds in issue at amortised cost" – note 31	(26)	(26)
(52,831)	(35,460)	Set-off of self-issued ROs against "Bonds in issue at fair value" – note 30	(59,926)	(73,017)
-	-	Set-off of self-issued corporate bonds against "Bonds in issue at amortised cost" – note 31	(2,342)	(2,830)
(750)	-	Set-off of self-issued senior debt against "Bonds in issue at fair value" – note 30	(410)	(1,335)
<b>26,925</b>	<b>47,745</b>	<b>Total</b>	<b>127,972</b>	<b>90,091</b>
2,409	3,679	As collateral security for the Danish central bank and foreign clearing centres, bonds have been deposited of a total market value of	20,142	17,327
Collateral security was provided on an arm's length basis.				
As the majority – around DKK 127bn – of the Group's bond portfolio is included in the Group's trading activities, the actual maturities of these bonds are expected to be less than 1 year. Of the Group's bond portfolio, bonds of approximately DKK 1bn are expected to have a maturity of up to 5 years.				

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>20. EQUITIES</b>				
2,514	3,069	Equities measured at fair value through profit or loss	1,376	1,410
-	-	- Equities available for sale	2,035	1,460
<b>2,514</b>	<b>3,069</b>	<b>Total</b>	<b>3,411</b>	<b>2,870</b>
<b>20 a. Equities measured at fair value through profit or loss</b>				
730	1,215	Listed on Nasdaq Copenhagen	194	303
49	9	Listed on other stock exchanges	17	63
1,735	1,846	Unlisted equities carried at fair value	1,164	1,042
<b>2,514</b>	<b>3,069</b>	<b>Total</b>	<b>1,376</b>	<b>1,410</b>
<b>20 b. Equities available for sale</b>				
-	-	- Listed on Nasdaq Copenhagen	1,143	618
-	-	- Unlisted equities measured at fair value	892	842
<b>-</b>	<b>-</b>	<b>Total</b>	<b>2,035</b>	<b>1,460</b>
-	-	<b>Balance, beginning of year</b>	<b>1,460</b>	<b>1,766</b>
-	-	- Additions	317	600
-	-	- Disposals	-	(1,300)
-	-	- Fair value adjustment	258	395
<b>-</b>	<b>-</b>	<b>Balance, year-end</b>	<b>2,035</b>	<b>1,460</b>
Equities in Spar Nord Bank A/S, Sydbank A/S, DLR Kredit A/S, DADES A/S and VP Securities A/S have been classified as equities available for sale. Equities available for sale are fair value adjusted in "Other comprehensive income" until a potential sale.				
<b>21. INVESTMENTS IN ASSOCIATES</b>				
<b>132</b>	<b>113</b>	<b>Cost, beginning of year</b>	<b>114</b>	<b>134</b>
0	-	- Additions	-	0
(20)	-	- Disposals	-	(20)
<b>113</b>	<b>113</b>	<b>Cost, year-end</b>	<b>114</b>	<b>114</b>
<b>23</b>	<b>5</b>	<b>Revaluations and impairment losses, beginning of year</b>	<b>6</b>	<b>24</b>
24	6	Profit	6	24
(7)	(4)	Dividend	(4)	(7)
(36)	-	- Reversal of revaluations and impairment losses	-	(36)
<b>5</b>	<b>7</b>	<b>Revaluations and impairment losses, year-end</b>	<b>8</b>	<b>6</b>
<b>117</b>	<b>119</b>	<b>Balance, year-end</b>	<b>123</b>	<b>120</b>

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>22. INVESTMENTS IN GROUP ENTERPRISES</b>				
25,938	25,938	Cost, beginning of year	-	-
-	-	Additions	-	-
<b>25,938</b>	<b>25,938</b>	<b>Cost, year-end</b>	<b>-</b>	<b>-</b>
4,250	4,927	Revaluations and impairment losses, beginning of year	-	-
714	(231)	Profit (loss)	-	-
(40)	(125)	Dividend	-	-
2	(53)	Other movements in capital	-	-
<b>4,927</b>	<b>4,518</b>	<b>Revaluations and impairment losses, year-end</b>	<b>-</b>	<b>-</b>
<b>30,866</b>	<b>30,456</b>	<b>Balance, year-end</b>	<b>-</b>	<b>-</b>
30,002	29,688	Of which credit institutions	-	-
<b>Subordinated receivables</b>				
3,100	3,100	Group enterprises	-	-
1,935	1,555	Other enterprises	1,823	2,242
<b>5,035</b>	<b>4,655</b>	<b>Total</b>	<b>1,823</b>	<b>2,242</b>
<b>23. INTANGIBLE ASSETS</b>				
2,759	2,759	Goodwill	2,782	2,782
-	-	Fixed-term rights	22	26
113	123	Software	123	113
66	87	Development projects in progress	87	66
66	57	Customer relationships	90	66
<b>3,005</b>	<b>3,027</b>	<b>Total</b>	<b>3,104</b>	<b>3,054</b>
<b>23 a. Goodwill</b>				
2,759	2,759	Cost, beginning of year	2,782	2,782
-	-	Additions	-	-
<b>2,759</b>	<b>2,759</b>	<b>Cost, year-end</b>	<b>2,782</b>	<b>2,782</b>
<b>2,759</b>	<b>2,759</b>	<b>Balance, year-end</b>	<b>2,782</b>	<b>2,782</b>
Goodwill of DKK 1,907m (2013: DKK 1,907m) relates to the business area Totalkredit Partners.				
Goodwill of DKK 852m (2013: DKK 852m) relates to the business area Group Items.				
Goodwill has not been amortised, and an impairment test has provided no evidence of goodwill impairment.				
The impairment test compared the discounted value of expected future cash flows with the carrying amount. Future cash flows are estimated on the basis of a 10-year budget period and a subsequent terminal period with a fixed annual growth rate. The cash flows of the 10-year budget period are based on the budget for 2015 and projections for the following 9 years. The determination of cash flows takes into account business plans for the coming years as well as expected amendments to the capital requirement.				
The required rate of return before tax for 2014 comprises a long-term risk-free interest rate of 1.3% and a risk premium of 9%.				

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group		
2013	2014	2014	2013	
<b>23. INTANGIBLE ASSETS (continued)</b>				
<b>23 a. Goodwill (continued)</b>				
<b>The impairment test of Nykredit Bank A/S is based on the following assumptions:</b>				
		2014	2013	
Acquired goodwill		852	852	
Required rate of return before tax, %		10.3	11.3	
Average annual business growth in the budget period, %		4.3	2.5	
Fixed annual business growth in the terminal period, %		2.0	2.0	
If average annual growth in the budget period declines by 1.0 percentage points, it will result in impairment losses. A 0.4 percentage point increase in the required rate of return will also result in impairment losses. A 1 percentage point increase will result in impairment losses of DKK 852m.				
<b>The impairment test of Totalkredit A/S is based on the following assumptions:</b>				
		2014	2013	
Acquired goodwill		1,907	1,907	
Required rate of return before tax, %		10.3	11.3	
Average annual business growth in the budget period, %		2.7	3.5	
Fixed annual business growth in the terminal period, %		2.0	2.0	
If average annual growth in the budget period declines by 1.8 percentage points, it will result in impairment losses. A 0.6 percentage point increase in the required rate of return will also result in impairment losses. A 1 percentage point increase will result in impairment losses of DKK 881m.				
<b>23 b. Fixed-term rights</b>				
4,506	4,506	<b>Cost, beginning of year</b>	4,580	4,579
-	-	- Additions	1	1
-	-	- Disposals	(7)	-
4,506	4,506	<b>Cost, year-end</b>	4,575	4,580
3,986	4,506	<b>Amortisation and impairment losses, beginning of year</b>	4,554	4,030
521	-	- Amortisation for the year	3	523
-	-	- Reversal of amortisation	(4)	-
4,506	4,506	<b>Amortisation and impairment losses, year-end</b>	4,553	4,554
-	-	<b>Balance, year-end</b>	22	26
Fixed-term rights are amortised over 9 years.				
-	-	- Residual amortisation period at 31 December (average number of years)	5	3

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>23. INTANGIBLE ASSETS (continued)</b>			
<b>23 c. Software</b>			
817	853	853	817
36	78	78	36
<b>853</b>	<b>931</b>	<b>931</b>	<b>853</b>
<b>23 d. Development projects in progress</b>			
537	740	740	537
104	68	68	104
98	-	-	98
<b>740</b>	<b>807</b>	<b>807</b>	<b>740</b>
<b>113</b>	<b>123</b>	<b>123</b>	<b>113</b>
1	2	2	1
<b>23 e. Customer relationships</b>			
20	66	66	20
82	99	99	82
(36)	(78)	(78)	(36)
<b>66</b>	<b>87</b>	<b>87</b>	<b>66</b>
<b>66</b>	<b>87</b>	<b>87</b>	<b>66</b>
130	110	110	130
-	-	35	-
(20)	-	-	(20)
<b>110</b>	<b>110</b>	<b>145</b>	<b>110</b>
56	44	44	56
8	8	11	8
(20)	-	-	(20)
<b>44</b>	<b>53</b>	<b>55</b>	<b>44</b>
<b>66</b>	<b>57</b>	<b>90</b>	<b>66</b>
8	7	7	8



## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>24. LAND AND BUILDINGS</b>			
-	-	283	554
18	16	1,484	1,626
<b>18</b>	<b>16</b>	<b>1,767</b>	<b>2,180</b>
<b>24 a. Investment properties</b>			
-	-	<b>554</b>	<b>652</b>
-	-	0	-
-	-	(278)	(125)
-	-	8	27
-	-	<b>283</b>	<b>554</b>
-	-	273	544
-	-	32	50
-	-	10	18
-	-	0	0
The valuation was carried out by an internal valuer based on the return method. The required rate of return is determined based on property type, location and state of repair. In 2014 the required rate of return ranged between 7% and 10% for commercial property and between 5% and 7% for residential property (an average of 8% and 5%, respectively).			
-	-	254	510
<b>Rental income under non-cancellable operating leases</b>			
-	-	23	29
-	-	19	26
-	-	-	0
-	-	<b>42</b>	<b>55</b>

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
	<b>24. LAND AND BUILDINGS (continued)</b>		
	<b>24 b. Owner-occupied properties</b>		
<b>18</b>	<b>18 Cost, beginning of year</b>	<b>2,211</b>	<b>2,201</b>
-	- Additions, including improvements	-	10
-	(2) Disposals	(38)	-
<b>18</b>	<b>16 Cost, year-end</b>	<b>2,173</b>	<b>2,211</b>
<b>3</b>	<b>3 Revaluations, beginning of year</b>	<b>367</b>	<b>373</b>
-	- Additions for the year recognised in "Other comprehensive income"	6	8
-	- Disposals for the year recognised in "Other comprehensive income"	(73)	(13)
-	(1) Reversal of revaluations	(2)	-
<b>3</b>	<b>2 Revaluations, year-end</b>	<b>299</b>	<b>367</b>
<b>2</b>	<b>2 Depreciation and impairment losses, beginning of year</b>	<b>952</b>	<b>906</b>
0	0 Depreciation for the year	19	20
-	- Impairment losses for the year	35	26
-	(0) Reversal of depreciation and impairment losses	(17)	-
<b>2</b>	<b>2 Depreciation and impairment losses, year-end</b>	<b>989</b>	<b>952</b>
<b>18</b>	<b>16 Balance, year-end</b>	<b>1,484</b>	<b>1,626</b>
6	6 Owner-occupied properties are depreciated over a period of 10-50 years. Residual depreciation period at 31 December (average number of years)	13	13
	The latest revaluation of owner-occupied properties was made at end-2014.		
	The valuations were carried out by an internal valuer based on the return method. In 2014 the required rate of return ranged between 5.0% and 7.75% (5.5% on average) depending on the nature, location and state of repair of the owner-occupied property.		
16	14 If no revaluations had been made, the carrying amount of owner-occupied properties would have been:	1,184	1,259

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>25. OTHER PROPERTY, PLANT AND EQUIPMENT</b>			
<b>1,011</b>	<b>741</b>	<b>931</b>	<b>1,205</b>
96	48	53	101
(366)	(131)	(150)	(375)
<b>741</b>	<b>658</b>	<b>834</b>	<b>931</b>
<b>687</b>	<b>431</b>	<b>576</b>	<b>827</b>
103	97	108	116
(359)	(105)	(124)	(367)
<b>431</b>	<b>423</b>	<b>561</b>	<b>576</b>
<b>310</b>	<b>235</b>	<b>273</b>	<b>355</b>
3	2	3	3
Other assets are depreciated over 4-15 years. Residual depreciation period at 31 December (average number of years)			
<b>26. ASSETS IN TEMPORARY POSSESSION</b>			
436	476	552	676
<b>436</b>	<b>476</b>	<b>552</b>	<b>676</b>
If the Nykredit Group acquires a mortgaged property through a forced sale by public auction to reduce its loss on exposures in default, the Group will seek to realise the mortgaged property at the highest obtainable price within 12 months. The assets are recognised in Group Items in the segment financial statements.			
<b>27. OTHER ASSETS</b>			
10,324	9,893	9,503	10,878
270	257	-	-
3,179	3,689	41,937	27,796
188	214	214	188
144	589	2,260	1,698
<b>14,105</b>	<b>14,642</b>	<b>53,914</b>	<b>40,559</b>
<b>27 a. Netting</b>			
-	-	51,045	29,475
-	-	9,154	4,795
-	-	(18,261)	(6,474)
-	-	<b>41,937</b>	<b>27,796</b>
<b>168</b>	In connection with derivatives transactions, Nykredit has received security not included in netting of		<b>1,645</b>
The netting of market values is exclusively attributable to clearing of derivatives through a central clearing house (CCP clearing).			

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>27. OTHER ASSETS (continued)</b>			
<b>27 b. Defined benefit plans</b>			
The majority of the Group's pension plans are defined contribution plans. The contributions are charged against income on a current basis, cf note 11.			
The Group's defined benefit plans are funded through contributions from Nykredit Realkredit A/S into a pension fund acting in the members' interest by investing the contributions made to cover the pension obligations. Due to the excess coverage of the pension fund, Nykredit Realkredit A/S has not made any contributions since 2009. The pension fund is subject to Danish legislation on company pension funds.			
The plans are closed to new members and concern staff employed before 1972.			
(548)	(555)	(555)	(548)
736	769	769	736
<b>188</b>	<b>214</b>	<b>214</b>	<b>188</b>
<b>Net assets, year-end</b>			
<b>(588)</b>	<b>(548)</b>	<b>(548)</b>	<b>(588)</b>
<b>Obligation, beginning of year</b>			
(11)	(13)	(13)	(11)
(9)	5	5	(9)
18	(38)	(38)	18
0	-	-	0
41	39	39	41
<b>(548)</b>	<b>(555)</b>	<b>(555)</b>	<b>(548)</b>
<b>Obligation, year-end</b>			
<b>792</b>	<b>736</b>	<b>736</b>	<b>792</b>
<b>Plan assets, beginning of year</b>			
19	17	17	19
(33)	54	54	(33)
(41)	(39)	(39)	(41)
<b>736</b>	<b>769</b>	<b>769</b>	<b>736</b>
<b>Plan assets, year-end</b>			
<b>188</b>	<b>214</b>	<b>214</b>	<b>188</b>
<b>Net assets, year-end</b>			
<b>Pension costs/income relating to defined benefit plans recognised in "Staff and administrative expenses" in the income statement</b>			
8	4	4	8
0	-	-	0
<b>8</b>	<b>4</b>	<b>4</b>	<b>8</b>
<b>Total</b>			
<b>Pension costs/income relating to defined benefit plans recognised in "Other comprehensive income" in "Actuarial gains/losses on defined benefit plans"</b>			
(9)	5	5	(9)
(15)	17	17	(15)
<b>(24)</b>	<b>22</b>	<b>22</b>	<b>(24)</b>
<b>Total</b>			
<b>Plan assets break down as follows:</b>			
818	846	846	818
10	19	19	10
(92)	(95)	(95)	(92)
<b>736</b>	<b>769</b>	<b>769</b>	<b>736</b>
<b>Total assets</b>			
All pension fund assets are measured on the basis of listed prices (level 1 input).			
The pension fund extensively seeks to match the term of its assets with the expected term of its obligations. Further, expected pension benefit increases are matched with investments in index-linked bonds.			

# Notes

DKK million

## 27. OTHER ASSETS (continued)

### 27 b. Defined benefit plans (continued)

Average actuarial calculation assumptions	2014	2013	2012	2011	2010
Inflation, %	2.0	2.0	2.0	2.0	2.0
Discount rate, %	2.1	1.8	2.8	3.5	3.9
Wage rate, %	2.0	2.0	2.0	2.0	2.3

### Net actuarial adjustments

The Nykredit Group's pension obligations for this year and the preceding four years are as follows:

	2014	2013	2012	2011	2010
Plan liabilities	(555)	(548)	(588)	(657)	(643)
Plan assets	769	736	792	780	757
<b>Net assets</b>	<b>214</b>	<b>188</b>	<b>204</b>	<b>123</b>	<b>115</b>
Actuarial adjustments to plan liabilities	(33)	9	43	(36)	(110)
Actuarial adjustments to plan assets	58	(46)	35	27	55
Tax adjustments	(3)	13	(17)	1	14
<b>Total actuarial adjustments</b>	<b>22</b>	<b>(24)</b>	<b>61</b>	<b>(7)</b>	<b>(41)</b>

### Expected expiry of the pension obligations

	2014	2013
Up to 1 year	(38)	(35)
1-5 years	(136)	(126)
5-10 years	(137)	(131)
Over 10 years	(244)	(256)
<b>Total pension obligations</b>	<b>(555)</b>	<b>(548)</b>

The expected expiry of the pension obligation is based on the discounted obligation.

### Sensitivities

#### Impact on pension obligation (in DKK million) on adjustment of:

	End-2014		End-2013	
	+1%/+10%	-1%/-10%	+1%/+10%	-1%/-10%
Discount rate (+/- 1 percentage point)	47	(54)	44	(51)
Wage growth and pension increases (+/- 1 percentage point)	(61)	52	(57)	49
Life expectancy (+/- 10 percentage points)	(25)	25	(24)	24

Sensitivities are computed subject to "all things being equal", meaning that one parameter is adjusted, while the remaining parameters are left unchanged. This will rarely be the case in practice, and assumption changes may also be correlated.

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>28. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS</b>				
1,315	1,525	Payables to credit institutions	14,848	12,593
-	-	- Payables to central banks	34	-
11,353	21,286	Repo transactions with credit institutions	29,235	31,392
-	-	- Repo transactions with central banks	746	407
<b>12,668</b>	<b>22,811</b>	<b>Total</b>	<b>44,863</b>	<b>44,393</b>
<b>Payables to credit institutions and central banks by time-to-maturity</b>				
865	1,165	On demand	3,251	6,249
11,353	21,286	Up to 3 months	38,316	35,564
450	360	Over 3 months and up to 1 year	2,104	1,123
-	-	- Over 1 year and up to 5 years	1,154	1,454
-	-	- Over 5 years	37	3
<b>12,668</b>	<b>22,811</b>	<b>Total</b>	<b>44,863</b>	<b>44,393</b>
<b>29. DEPOSITS AND OTHER PAYABLES</b>				
-	-	- On demand	45,806	23,087
-	-	- At notice	5,306	12,012
-	-	- Time deposits	11,097	16,209
-	-	- Special deposits	3,022	13,865
-	-	<b>Total</b>	<b>65,232</b>	<b>65,172</b>
<b>Deposits and other payables by time-to-maturity</b>				
-	-	- On demand	47,059	43,615
-	-	- Up to 3 months	7,406	7,834
-	-	- Over 3 months and up to 1 year	5,901	7,873
-	-	- Over 1 year and up to 5 years	2,944	3,946
-	-	- Over 5 years	1,921	1,904
-	-	<b>Total</b>	<b>65,232</b>	<b>65,172</b>
<b>30. BONDS IN ISSUE AT FAIR VALUE</b>				
294,560	290,664	ROs	329,773	343,421
925,324	989,633	SDOs	989,633	925,324
41,585	25,103	Senior secured debt	25,103	41,585
-	4,297	Senior unsecured debt	4,297	-
<b>1,261,469</b>	<b>1,309,697</b>	<b>Total</b>	<b>1,348,806</b>	<b>1,310,330</b>
(101,022)	(105,210)	Self-issued bonds transferred from "Bonds at fair value" – note 19	(181,643)	(180,310)
<b>1,160,447</b>	<b>1,204,487</b>	<b>Total</b>	<b>1,167,163</b>	<b>1,130,020</b>

Changes in the fair values of covered bonds (ROs and SDOs) and senior bonds 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 2014 or since the issue, as there are no measurable price differences between bonds with identical properties issued by different lenders.

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>30. BONDS IN ISSUE AT FAIR VALUE (continued)</b>				
<p>The yield spread between government bonds and senior bonds remained unchanged, whereas the spread between government bonds and ROs/SDOs widened in 2014. The yield spread changes in 2014 caused a decline in the fair value of bonds in issue of approx DKK 10bn attributable to Nykredit's own credit risk. Since 2008 spread widening between government bonds and ROs/SDOs has resulted in a fair value decline of approx DKK 2bn attributable to Nykredit's own credit risk, whereas spread tightening between government bonds and senior bonds has resulted in a fair value increase of senior bonds in issue of approx DKK 1bn.</p> <p>Equity and profit/loss have not been affected by the changes in fair value for ROs and SDOs, as the value of mortgage loans has changed correspondingly.</p> <p>The determination allows for both maturity and nominal holding, but is to some extent based on estimates.</p>				
<b>30 a. ROs</b>				
285,706	280,572	ROs at nominal value	318,349	332,616
8,854	10,092	Fair value adjustment	11,424	10,806
<b>294,560</b>	<b>290,664</b>	<b>ROs at fair value</b>	<b>329,773</b>	<b>343,421</b>
(52,831)	(35,460)	Self-issued ROs transferred from "Bonds at fair value" – note 19	(59,926)	(73,017)
<b>241,728</b>	<b>255,204</b>	<b>Total</b>	<b>269,847</b>	<b>270,404</b>
125	163	Of which pre-issuance	163	125
10,314	31,039	ROs redeemed at next creditor payment date	34,988	11,568
<b>30 b. SDOs</b>				
915,154	970,263	SDOs at nominal value	970,263	915,154
10,170	19,370	Fair value adjustment	19,370	10,170
<b>925,324</b>	<b>989,633</b>	<b>SDOs at fair value</b>	<b>989,633</b>	<b>925,324</b>
(47,440)	(69,750)	Self-issued SDOs transferred from "Bonds at fair value" – note 19	(121,307)	(105,958)
<b>877,884</b>	<b>919,883</b>	<b>Total</b>	<b>868,325</b>	<b>819,367</b>
630	587	Of which pre-issuance	587	630
105,692	117,327	SDOs redeemed at next creditor payment date	117,327	105,692
<b>30 c. Senior secured debt</b>				
40,652	24,122	Senior secured debt at nominal value	24,122	40,652
933	982	Fair value adjustment	982	933
<b>41,585</b>	<b>25,103</b>	<b>Senior secured debt at fair value</b>	<b>25,103</b>	<b>41,585</b>
(750)	-	Self-issued senior secured debt transferred from "Bonds in issue at fair value" – note 19	(410)	(1,335)
<b>40,835</b>	<b>25,103</b>	<b>Total</b>	<b>24,694</b>	<b>40,250</b>
-	1,430	Senior secured debt redeemed at next creditor payment date	1,430	-



## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group		
2013	2014	2014	2013	
<b>30. BONDS IN ISSUE AT FAIR VALUE (continued)</b>				
<b>30 d. Senior unsecured debt</b>				
-	4,291	Senior unsecured debt at nominal value	4,291	-
-	5	Fair value adjustment	5	-
-	<b>4,297</b>	<b>Senior unsecured debt at fair value</b>	<b>4,297</b>	-
<b>Bonds in issue at fair value by time-to-maturity</b>				
83,634	99,078	Up to 3 months	72,095	71,161
274,901	295,110	Over 3 months and up to 1 year	290,349	265,655
501,424	493,759	Over 1 year and up to 5 years	477,842	475,544
300,489	316,540	Over 5 years	326,877	317,659
<b>1,160,447</b>	<b>1,204,487</b>	<b>Total</b>	<b>1,167,163</b>	<b>1,130,020</b>
Bonds in issue by time-to-maturity are stated at fair value after set-off against self-issued bonds.				
<b>31. BONDS IN ISSUE AT AMORTISED COST</b>				
-	-	Corporate bonds	27,965	29,309
26	26	SDOs	26	26
3,664	3,774	Senior secured debt	3,774	3,664
105	48	Employee bonds	55	127
35	33	Other securities	33	35
<b>3,831</b>	<b>3,880</b>	<b>Total</b>	<b>31,852</b>	<b>33,162</b>
-	-	Self-issued corporate bonds transferred from "Bonds at fair value" – note 19	(2,342)	(2,830)
(26)	(26)	Self-issued SDOs transferred from "Bonds at fair value" – note 19	(26)	(26)
(32)	(28)	Other self-issued securities transferred from "Loans, advances and other receivables at amortised cost" – note 18	(28)	(32)
<b>3,772</b>	<b>3,826</b>	<b>Total</b>	<b>29,457</b>	<b>30,273</b>
<b>Bonds in issue at amortised cost by time-to-maturity</b>				
58	-	Up to 3 months	9,517	8,124
-	-	Over 3 months and up to 1 year	7,263	5,495
3,715	3,797	Over 1 year and up to 5 years	12,201	15,998
-	29	Over 5 years	476	657
<b>3,772</b>	<b>3,826</b>	<b>Total</b>	<b>29,457</b>	<b>30,273</b>
Bonds in issue by time-to-maturity are stated at amortised cost after set-off against self-issued bonds.				
<b>31 a. Corporate bonds</b>				
<b>Issues</b>				
-	-	EMTN issues*	17,575	20,610
-	-	ECP issues*	10,096	8,699
-	-	Other issues*	294	-
-	-	<b>Total</b>	<b>27,965</b>	<b>29,309</b>

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

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>32. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE</b>				
-	-	Repo transactions with undertakings other than credit institutions and central banks	13,855	18,513
862	1,188	Negative securities portfolios	4,596	8,745
<b>862</b>	<b>1,188</b>	<b>Total</b>	<b>18,451</b>	<b>27,258</b>
<b>Other non-derivative financial liabilities by time-to-maturity</b>				
-	-	On demand	499	-
862	1,188	Up to 3 months	17,952	27,258
<b>862</b>	<b>1,188</b>	<b>Total</b>	<b>18,451</b>	<b>27,258</b>
<b>33. OTHER LIABILITIES</b>				
13,944	13,163	Interest and commission payable	16,218	19,022
3,924	4,324	Negative market value of derivative financial instruments	40,958	26,118
222	113	Payables relating to the purchase of Totalkredit shares	101	198
1,873	1,668	Other	3,885	4,291
<b>19,963</b>	<b>19,268</b>	<b>Total</b>	<b>61,161</b>	<b>49,629</b>
<b>33 a. Netting</b>				
-	-	Negative market value of derivative financial instruments, gross	56,365	31,247
-	-	Other liabilities included by netting	2,854	1,345
-	-	Netting of positive and negative market values	(18,261)	(6,474)
<b>-</b>	<b>-</b>	<b>Net market value</b>	<b>40,958</b>	<b>26,118</b>
779		In connection with derivatives transactions, Nykredit has provided security not included in netting of	12,447	
		The netting of market values is exclusively attributable to clearing of derivatives through a central clearing house (CCP clearing).		

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>34. PROVISIONS FOR DEFERRED TAX/DEFERRED TAX ASSETS</b>			
<b>Deferred tax</b>			
(223)	<b>4</b>	<b>(104)</b>	<b>(281)</b>
226	(6)	7	173
1	2	14	(7)
(0)	-	-	9
-	-	13	1
<b>4</b>	<b>(1)</b>	<b>(70)</b>	<b>(104)</b>
<b>Deferred tax recognised in the balance sheet:</b>			
154	126	128	159
(151)	(126)	(198)	(263)
<b>4</b>	<b>(1)</b>	<b>(70)</b>	<b>(104)</b>
<b>Deferred tax relates to:</b>			
4	(3)	(106)	(74)
9	21	21	9
(56)	(60)	(64)	(60)
5	9	(2)	(27)
(5)	10	38	3
-	-	(62)	63
53	26	107	(17)
71	57	58	73
(76)	(61)	(61)	(76)
-	-	0	3
<b>4</b>	<b>(1)</b>	<b>(70)</b>	<b>(104)</b>
<b>Deferred tax assets not recognised in the balance sheet:</b>			
21	18	132	140
<b>21</b>	<b>18</b>	<b>132</b>	<b>140</b>
The asset has not been recognised, as it is not likely to crystallise in the near future.			
<b>35. CURRENT TAX ASSETS AND LIABILITIES</b>			
<b>Current tax assets</b>			
141	<b>46</b>	<b>152</b>	<b>353</b>
-	-	(42)	(17)
(258)	(203)	414	(380)
189	177	151	265
(27)	(7)	(25)	(29)
-	-	(19)	(41)
<b>46</b>	<b>13</b>	<b>632</b>	<b>152</b>
<b>Current tax liabilities</b>			
-	-	-	<b>17</b>
-	-	(42)	(17)
-	-	499	-
-	-	(312)	-
-	-	1	-
<b>-</b>	<b>-</b>	<b>146</b>	<b>-</b>

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>36. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS</b>			
<b>161</b>	<b>201</b>	<b>207</b>	<b>167</b>
(17)	(26)	(26)	(17)
65	37	37	65
3	10	10	2
(11)	(24)	(24)	(11)
<b>201</b>	<b>198</b>	<b>203</b>	<b>207</b>
<b>37. REPAYABLE RESERVES IN PRE-1972 SERIES</b>			
<b>87</b>	<b>80</b>	<b>80</b>	<b>87</b>
(12)	(13)	(13)	(12)
5	7	7	5
<b>80</b>	<b>74</b>	<b>74</b>	<b>80</b>
<p>Repayable reserves in pre-1972 series stem from loan agreements under which the borrowers on full or partial repayment of their outstanding amounts are paid their share of the series reserve fund in compliance with the terms of the series concerned. This obligation will be gradually reduced up until 2033 as the borrowers repay their loans.</p>			
<b>38. PROVISIONS FOR LOSSES UNDER GUARANTEES</b>			
-	-	<b>103</b>	<b>82</b>
-	-	32	77
-	-	(28)	(56)
-	-	<b>107</b>	<b>103</b>
<b>39. OTHER PROVISIONS</b>			
<b>26</b>	<b>126</b>	<b>194</b>	<b>150</b>
(8)	(47)	(61)	(140)
108	9	37	184
0	(0)	(0)	0
(1)	-	-	(1)
<b>126</b>	<b>87</b>	<b>169</b>	<b>194</b>

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
		<b>40. SUBORDINATED DEBT</b>		
		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 in accordance with the EU's Capital Requirements Regulation.		
		<b>Subordinate loan capital</b>		
		Nom EUR 600m. The loan falls due on 3 June 2036, but may be redeemed at par (100) from 3 June 2021. The loan carries a fixed interest rate of 4.0% pa up to 3 June 2021, after which date the interest rate will be fixed every 5 years. If the Common Equity Tier 1 capital ratios of Nykredit Realkredit, the Nykredit Realkredit Group or the Nykredit Holding Group fall below 7%, the loan will be subject to impairment provisioning.		
-	4,609		4,609	-
-	<b>4,609</b>	<b>Total subordinate loan capital</b>	<b>4,609</b>	<b>-</b>
		<b>Additional Tier 1 capital</b>		
		- Nom DKK 100m. The loan is perpetual and carries an interest rate of 1.7% pa above 3M Cibur	100	100
		- Nom DKK 150m. The loan is perpetual and carries a fixed interest rate of 6.3% pa	-	150
		Nom EUR 500m. The loan is perpetual, but may be redeemed at par (100) from 22 September 2014. The loan carries a fixed interest rate of 4.9% pa up to 22 September 2014, after which date it will carry a floating interest rate	-	3,831
3,831				
		Nom EUR 900m. The loan is perpetual, but may be redeemed at par (100) from 1 April 2015. The loan carries a fixed interest rate of 9.0% pa up to 1 April 2015, after which date the interest rate will be fixed every 5 years.	6,741	6,903
6,903	6,741		6,741	6,903
<b>10,734</b>	<b>6,741</b>	<b>Total Additional Tier 1 capital</b>	<b>6,841</b>	<b>10,984</b>
		- Portfolio of self-issued bonds	(56)	(19)
-	-			
<b>10,734</b>	<b>11,350</b>	<b>Total subordinated debt</b>	<b>11,394</b>	<b>10,964</b>
10,444	11,165	Subordinated debt that may be included in own funds	11,209	10,678
-	36	Costs related to raising and redeeming subordinated debt	36	-
-	3,722	Extraordinary principal payments and redemption of subordinated debt in the financial period	3,872	-
		<b>Hedge accounting</b>		
		The exposure to fair value changes in the price of the bonds as a result of changes in market rates is hedged. The Nykredit Group has counteracted this risk by entering into interest rate swaps:		
102	-	Market value of interest rate swaps of EUR 500m (nominal)	-	102
-	177	Market value of interest rate swaps of EUR 600m (nominal)	177	-
208	46	Market value of interest rate swaps of EUR 900m (nominal)	46	208
3,730	-	Market value of Additional Tier 1 capital of EUR 500m (nominal)	-	3,730
-	4,466	Market value of subordinate loan capital of EUR 600m (nominal)	4,466	-
6,714	6,699	Market value of Additional Tier 1 capital of EUR 900m (nominal)	6,699	6,714

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>41. OFF-BALANCE SHEET ITEMS</b>			
Guarantees and warranties provided, irrevocable credit commitments and similar obligations not recognised in the balance sheets are presented below.			
-	-	7,546	6,311
1,208	1,121	5,843	7,925
<b>1,208</b>	<b>1,121</b>	<b>13,389</b>	<b>14,236</b>
<b>41 a. Contingent liabilities</b>			
-	-	2,843	3,173
-	-	295	336
-	-	4,408	2,801
<b>-</b>	<b>-</b>	<b>7,546</b>	<b>6,311</b>
"Other contingent liabilities" chiefly comprises purchase price and payment guarantees.			
<b>Contingent liabilities by time-to-maturity</b>			
-	-	3,299	3,790
-	-	2,758	2,300
-	-	1,489	221
<b>-</b>	<b>-</b>	<b>7,546</b>	<b>6,311</b>
The time-to-maturity is partly based on estimates as not all guarantees have a fixed expiry date and as the expiry date may depend on registration etc.			

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>41. OFF-BALANCE SHEET ITEMS (continued)</b>				
<b>41 b. Other commitments</b>				
2	1	Irrevocable credit commitments	4,508	6,529
1,206	1,121	Other liabilities	1,334	1,396
<b>1,208</b>	<b>1,121</b>	<b>Total</b>	<b>5,843</b>	<b>7,925</b>
"Other liabilities" under "Other commitments" comprises obligations to and charges in favour of securities depositaries, investment commitments to private equity funds and non-callable lease payments.				
<b>The following non-callable lease payments are recognised in "Other liabilities":</b>				
182	170	Up to 1 year	87	94
385	333	Over 1 year and up to 5 years	252	247
56	16	Over 5 years	13	42
<b>623</b>	<b>519</b>	<b>Total</b>	<b>352</b>	<b>384</b>

**Other 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 Bank participates in the mandatory Danish Guarantee Fund for Depositors and Investors. Participating banks must pay a fixed annual amount of 2.5% of the covered net deposits. Payment to the Fund's bank department is mandatory until the assets of the scheme exceed 1% of the covered net deposits of the sector, which is expected by end-2015. The bank department bears any direct losses from the winding-up of Danish banks, cf Bank Rescue Packages III and IV, to the extent the loss is attributable to the covered net deposits.

Any losses arising from the final winding-up are covered by the Guarantee Fund for Depositors and Investors through its winding-up and restructuring department. Nykredit Bank's share of the expense will amount to about 3%.

Nykredit Bank's IT solutions are provided by Bankernes EDB Central (BEC). According to BEC's articles of association, Nykredit Bank may terminate its membership of BEC giving 5 years' notice to the end of a financial year. Should the membership terminate for other reasons related to Nykredit Bank, withdrawal compensation must be paid 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 with a possible transition scheme.

Nykredit Realkredit has issued a letter of comfort stating that Nykredit Realkredit will contribute capital to Nykredit Bank to ensure that Nykredit Bank's Tier 1 capital calculated according to the Basel II rules does not fall below 12-13%. However, Nykredit Realkredit will not contribute capital to Nykredit Bank if that will bring Nykredit Realkredit's total capital ratio below the statutory capital requirement plus 0.5% or the internal capital adequacy requirement (ICAAP) plus 0.5%.

In June 2014, Jyske Bank instituted arbitration proceedings against Totalkredit. The dispute has been settled after the close of the financial year.

At 31 December 2014, Jyske Bank had referred customers to Totalkredit corresponding to lending of DKK 61bn. In compliance with the partnership agreement, Totalkredit has paid commission to Jyske Bank and offset losses incurred on the customer portfolio on a current basis.

As from mid-March, Totalkredit considered Jyske Bank to have exited the partnership and consequently ceased its current payments to the bank. Net payments would have come to DKK 200m had Jyske Bank not exited the partnership.

Nykredit Realkredit is jointly taxed in Denmark with Foreningen Nykredit (the Nykredit Association) 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 as of the financial year 2013 and for any obligations to withhold tax at source on interest, royalties and dividends of these companies as of 1 July 2012. Receivable corporation tax determined by Foreningen Nykredit as at 31 December 2014 netted DKK 490m as account tax paid in 2014 exceeded the calculated tax charge on the income of the companies jointly taxed with the association.



# Notes

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## 42. RELATED PARTY TRANSACTIONS AND BALANCES

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

No unusual related party transactions occurred in 2014.

The companies have entered into various agreements as a natural part of the Group's day-to-day operations. The agreements typically involve financing, provision of guarantees, sales commission, tasks relating to IT support and IT development projects, payroll and staff administration as well as other administrative tasks. Inter-company 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 2014 include:

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

Nykredit Realkredit A/S has granted a loan to Totalkredit A/S serving as collateral in Totalkredit's capital centres. At 31 December 2014, the loan amounted to DKK 19.3bn.

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

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

Nykredit Realkredit A/S has granted loans of DKK 3.1bn to Totalkredit A/S in the form of subordinated debt.

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>42. RELATED PARTY TRANSACTIONS AND BALANCES (continued)</b>			
<b>42 a. Transactions with subsidiaries</b>			
<b>Income statement</b>			
12,314	12,282	-	-
839	668	-	-
533	473	-	-
214	69	-	-
(3,584)	6,168	-	-
(725)	(749)	-	-
<b>Asset items</b>			
14,186	18,885	-	-
28,327	20,179	-	-
538,541	590,579	-	-
26	26	-	-
946	916	-	-
7,456	6,719	-	-
<b>Liability items</b>			
495	3,399	-	-
80,069	76,918	-	-
2,012	1,752	-	-
<b>42 b. Transactions with parent companies</b>			
<b>Income statement</b>			
-	-	-	0
-	-	-	68
<b>Liability items</b>			
-	-	32	40
-	-	25	19
<b>42 c. Transactions with joint ventures</b>			
<b>Income statement</b>			
335	353	359	346
<b>Asset items</b>			
0	0	0	0

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>42. RELATED PARTY TRANSACTIONS AND BALANCES (continued)</b>			
<b>42 d. Transactions with associates</b>			
<b>Income statement</b>			
-	-	-	0
-	-	0	0
<b>Liability items</b>			
-	-	1	1
<b>42 e. Transactions with the Board of Directors and Executive Board</b>			
<b>Interest expenses of the members of:</b>			
0	0	0	0
1	1	1	1
1	1	1	1
<b>Loans, charges or guarantees granted to the members of:</b>			
13	5	23	25
41	28	40	54
52	89	93	58
<b>Deposits from the members of:</b>			
-	-	8	6
-	-	18	25
-	-	9	20
<p>Related party facilities have been granted on standard business terms. Rates applying to ordinary loans range between 1.25% and 10.75% (2013: 1.95% and 10.75%), while deposits carry interest ranging between 0.0% and 0.75% (2013: 0.0% and 1.3%).</p> <p>Facilities granted to the Executive Board, the Board of Directors or related parties thereof have not given rise to impairment provisions or impairment losses.</p>			

# Notes

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Nykredit Realkredit Group

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## 43. FAIR VALUE DISCLOSURES

### Valuation principles

Financial instruments are measured at fair value or amortised cost in the balance sheets. The tables in notes 43 a. and 43 b. show the fair values of all instruments compared with the carrying amounts at which the instruments are recognised in the balance sheets.

The fair value is the amount at which a financial asset may be traded, or the amount at which a financial liability may be transferred, between independent and willing parties.

The Group's fair value assets and liabilities are generally recognised based on publicly listed prices or market terms on active markets at the balance sheet date. 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 recognised at fair value using valuation methods according to which the fair value is estimated as the price of an asset traded between independent parties or based on the company's equity value, if the equity value is assumed equal to the fair value of the instrument.

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:

- The interest rate risk of certain financial instruments recognised at amortised cost has been hedged by means of derivatives, cf note 47. The measurement of these financial instruments in the financial statements includes value changes deriving from changes in the hedged interest rate risk, cf the provisions on hedge accounting of interest rate risk.
- The carrying amounts of loans, advances and receivables as well as other financial liabilities due within 12 months are also regarded as their fair values.
- For loans, advances and receivables as well as other financial liabilities measured at amortised cost, carrying a variable interest rate and entered into on standard credit terms, the carrying amounts are estimated to correspond to the fair values.
- 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 deposits and other payables without a fixed term is assumed to be the value payable at the balance sheet date.

# Notes

Nykredit Realkredit Group

## 43. FAIR VALUE DISCLOSURES (continued)

### 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.

### Observable inputs

When an instrument is not traded in an active market, measurement is based on observable inputs and the use of generally accepted calculation methods as well as valuation and estimation techniques such as discounted cash flows and option models.

Observable inputs are typically yield curves, volatilities and market prices of similar instruments which are usually obtained through ordinary providers such as Reuters, Bloomberg and market makers. If the fair value is based on transactions in similar instruments, measurement is exclusively based on transactions at arm's length. Reverse repurchase lending and repo transactions as well as unlisted derivatives generally belong in this category.

Valuation techniques are generally applied to measure derivatives, unlisted assets and liabilities and properties.

Further, the valuation of derivatives implies the use of so-called Credit Value Adjustment (CVA), thus including counterparty credit risk in the valuation.

The CVA adjustment, comprising DKK 0.4bn of the positive market value of the derivatives, is primarily based on external credit curves such as Itraxx Main, but also on intercompany data as regards customers without OEI in the lowest rating categories, as there are no available external curves suitable for calculation of credit risk on these customers. Upon entering into derivatives contracts, further provisions are made in the form of a so-called minimum margin for liquidity, credit risk and return on capital. The minimum margin is amortised at valuation of derivatives over the time-to maturity. At 31 December 2014, the non-amortised minimum margin amounted to DKK 470m compared with DKK 507m at end-2013. Finally, in some instances further value adjustment based on management judgement is made if the models do not take into account all known risks, including eg legal risks.

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

### Unobservable inputs

When it is not possible to measure financial instruments at fair value based on prices in active markets or observable inputs, measurement is based on own assumptions and extrapolations etc. Where possible and appropriate, measurement is based on actual transactions adjusted for differences in eg the liquidity, credit spreads and maturities of the instruments. The Group's unlisted equities are generally classified under this heading although valuation is based on the IPEV Valuation Guidelines.

Positive market values of individual product types/customer groups, including housing cooperatives, have been adjusted for increased credit risk by means of management judgement. 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 1,067m at 31 December 2014 and thus represents the majority of derivatives with positive market values in this category. Credit value adjustments came to DKK 4,832m at 31 December 2014.

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 200m.

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 2014, the proportion was 0.3% against 0.3% at end-2013. The share of financial liabilities was 0.0% against 0.0% at 31 December 2013.

Valuation, notably of instruments classified as unobservable inputs, is subject to some uncertainty. Of total assets and liabilities, DKK 3.5bn (2013: DKK 3.6bn) and DKK 0.3bn (2013: DKK 0.2bn), respectively, derived from this category. Assuming that an actual market price will deviate by +/- 10% from the calculated fair value, the earnings impact will be approximately DKK 380m in 2014 (0.6% of equity at 31 December 2014). The earnings impact for 2013 has been estimated at DKK 389m (0.7% of equity at 31 December 2013).

Reclassifications 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. In 2014 and 2013, reclassifications between the categories Observable inputs and Unobservable inputs mainly resulted from changes to the rating categories (credit risk) of counterparties and in all material respects derived from interest rate swaps. Reclassifications between the categories Listed prices and Observable inputs in all material respects resulted from redeemed bonds that were categorised differently on redemption and came to DKK 15bn at 31 December 2014.

## Notes

DKK million

Nykredit Realkredit Group

## 43. FAIR VALUE DISCLOSURES (continued)

43 a. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES  
RECOGNISED AT AMORTISED COST

2014	Carrying amount	Fair value	Balance	Fair value calculated on the basis of		
				Listed prices	Observable inputs	Unobserva- ble inputs
<b>Assets</b>						
Cash balances and demand deposits with central banks	4,644	4,644	-	137	-	4,507
Receivables from credit institutions and central banks	32,670	32,670	-	8,000	-	24,670
Loans, advances and other receivables at amortised cost	50,958	51,062	104	-	27	51,035
Other assets	11,989	11,989	-	-	-	11,989
<b>Total</b>	<b>100,260</b>	<b>100,364</b>	<b>104</b>	<b>8,137</b>	<b>27</b>	<b>92,200</b>
<b>Liabilities</b>						
Payables to credit institutions and central banks	14,882	14,884	(1)	-	-	14,884
Deposits and other payables	65,232	65,208	24	-	-	65,208
Bonds in issue at amortised cost	29,457	29,866	(409)	-	19,955	9,911
Other payables	20,207	20,207	-	-	-	20,207
Subordinated debt	11,394	11,459	(65)	-	11,359	100
<b>Total</b>	<b>141,172</b>	<b>141,623</b>	<b>(451)</b>	<b>-</b>	<b>31,313</b>	<b>110,309</b>
Transfer from assets			104			
<b>Total balance</b>			<b>(347)</b>			
<b>2013</b>						
	Carrying amount	Fair value	Balance	Listed prices	Observable inputs	Unobserva- ble inputs
<b>Assets</b>						
Cash balances and demand deposits with central banks	4,810	4,810	-	122	-	4,688
Receivables from credit institutions and central banks	18,401	18,401	-	-	-	18,401
Loans, advances and other receivables at amortised cost	47,393	47,463	70	-	36	47,427
Other assets	12,810	12,810	-	-	-	12,810
<b>Total</b>	<b>83,415</b>	<b>83,484</b>	<b>70</b>	<b>122</b>	<b>36</b>	<b>83,326</b>
<b>Liabilities</b>						
Payables to credit institutions and central banks	12,593	12,591	2	-	-	12,591
Deposits and other payables	65,172	65,114	58	-	-	65,114
Bonds in issue at amortised cost	30,273	30,578	(304)	-	22,229	8,348
Other payables	23,515	23,515	-	-	-	23,515
Subordinated debt	10,964	10,987	(22)	-	10,736	251
<b>Total</b>	<b>142,518</b>	<b>142,784</b>	<b>(266)</b>	<b>-</b>	<b>32,965</b>	<b>109,819</b>
Transfer from assets			70			
<b>Total balance</b>			<b>(196)</b>			

## Notes

DKK million

Nycredit Realkredit Group

## 43. FAIR VALUE DISCLOSURES (continued)

## 43 b. FAIR VALUE OF ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE

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

31 December 2014

## Assets:

## Recognised as trading book:

	Listed prices	Observable inputs	Unobservable inputs	Total fair value
- reverse repurchase lending to credit institutions and central banks	-	4,975	-	4,975
- other reverse repurchase lending	-	35,228	-	35,228
- bonds at fair value	109,795	17,997	180	127,972
- equities measured at fair value through profit or loss	254	-	1,122	1,376
- positive fair value of derivative financial instruments	1,182	39,443	1,312	41,937

## Recognised through the fair value option:

- mortgage loans, arrears and outlays	-	1,137,578	-	1,137,578
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## Recognised as available for sale:

- equities available for sale	1,143	-	892	2,035
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## Other assets recognised at fair value:

- owner-occupied properties	-	1,484	-	1,484
- investment properties	-	283	-	283
- assets in temporary possession	-	552	-	552

<b>Total</b>	<b>112,374</b>	<b>1,237,539</b>	<b>3,506</b>	<b>1,353,419</b>
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<b>Percentage</b>	<b>8.3</b>	<b>91.4</b>	<b>0.3</b>	<b>100</b>
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## Liabilities:

## Recognised as trading book:

- repo transactions with credit institutions and central banks	-	29,981	-	29,981
- other non-derivative financial liabilities at fair value	4,596	13,855	-	18,451
- negative fair value of derivative financial instruments	1,178	39,484	297	40,958

## Recognised through the fair value option:

- bonds in issue at fair value	1,155,269	11,894	-	1,167,163
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<b>Total</b>	<b>1,161,043</b>	<b>95,213</b>	<b>297</b>	<b>1,256,553</b>
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<b>Percentage</b>	<b>92.4</b>	<b>7.6</b>	<b>0.0</b>	<b>100</b>
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## Assets and liabilities measured on the basis of unobservable inputs

<b>Fair value, beginning of year, assets</b>	<b>3,643</b>
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Unrealised capital gains and losses recognised in "Value adjustments" in the income statement	(2,204)
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Realised capital gains and losses recognised in "Value adjustments" in the income statement	179
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Unrealised capital gains and losses recognised in "Fair value adjustment of equities available for sale" in "Other comprehensive income"	50
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Purchases for the year	172
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Sales for the year	(314)
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Redemptions for the year	(284)
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Transferred to Listed prices and Observable inputs	(1,179)
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Transferred from Listed prices and Observable inputs	3,443
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<b>Fair value, year-end, assets</b>	<b>3,506</b>
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<b>Fair value, beginning of year, liabilities</b>	<b>242</b>
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Unrealised capital gains and losses recognised in "Value adjustments" in the income statement	148
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Redemptions for the year	(93)
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<b>Fair value, year-end, liabilities</b>	<b>297</b>
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Reclassifications from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.



## Notes

DKK million

Nykredit Realkredit Group

## 43. FAIR VALUE DISCLOSURES (continued)

## 43 b. FAIR VALUE OF ASSETS AND LIABILITIES RECOGNISED AT FAIR VALUE (continued)

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

	Listed prices	Observable inputs	Unobservable inputs	Total fair value
<b>31 December 2013</b>				
<b>Assets:</b>				
<b>Recognised as trading book:</b>				
- reverse repurchase lending to credit institutions and central banks	-	12,547	-	12,547
- other reverse repurchase lending	-	56,814	-	56,814
- bonds at fair value	78,059	11,535	496	90,091
- equities measured at fair value through profit or loss	399	-	1,011	1,410
- positive fair value of derivative financial instruments	509	25,993	1,294	27,796
<b>Recognised through the fair value option:</b>				
- mortgage loans, arrears and outlays	-	1,136,999	-	1,136,999
<b>Recognised as available for sale:</b>				
- equities available for sale	618	-	842	1,460
<b>Other assets recognised at fair value:</b>				
- owner-occupied properties	-	1,626	-	1,626
- investment properties	-	554	-	554
- assets in temporary possession	-	676	-	676
<b>Total</b>	<b>79,586</b>	<b>1,246,743</b>	<b>3,643</b>	<b>1,329,972</b>
<b>Percentage</b>	<b>6.0</b>	<b>93.7</b>	<b>0.3</b>	<b>100</b>
<b>Liabilities:</b>				
<b>Recognised as trading book:</b>				
- repo transactions with credit institutions and central banks	-	31,800	-	31,800
- other non-derivative financial liabilities at fair value	8,745	18,513	-	27,258
- negative fair value of derivative financial instruments	545	25,331	242	26,118
<b>Recognised through the fair value option:</b>				
- bonds in issue at fair value	1,107,501	22,519	-	1,130,020
<b>Total</b>	<b>1,116,791</b>	<b>98,162</b>	<b>242</b>	<b>1,215,195</b>
<b>Percentage</b>	<b>91.9</b>	<b>8.1</b>	<b>0.0</b>	<b>100</b>

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

<b>Fair value, beginning of year, assets</b>	<b>2,751</b>
Unrealised capital gains and losses recognised in "Value adjustments" in the income statement	(1,154)
Realised capital gains and losses recognised in "Value adjustments" in the income statement	89
Unrealised capital gains and losses recognised in "Fair value adjustment of equities available for sale" in "Other comprehensive income"	(6)
Purchases for the year	828
Sales for the year	(603)
Redemptions for the year	(156)
Transferred to Listed prices and Observable inputs	(113)
Transferred from Listed prices and Observable inputs	2,006
<b>Fair value, year-end, assets</b>	<b>3,643</b>
<b>Fair value, beginning of year, liabilities</b>	<b>166</b>
Unrealised capital gains and losses recognised in "Value adjustments" in the income statement	76
<b>Fair value, year-end, liabilities</b>	<b>242</b>

Reclassifications from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.

## Notes

DKK million

Nykkredit Realkredit Group

## 44. DERIVATIVE FINANCIAL INSTRUMENTS

## By time-to-maturity

	Net market value				Positive market value	Gross market value		Nominal value
	Up to 3 months	3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years		Negative market value	Net market value	
<b>2014</b>								
<b>Foreign exchange contracts</b>								
Forward contracts/futures, purchased	130	103	(11)	-	326	105	221	42,567
Forward contracts/futures, sold	(27)	(69)	(10)	-	183	289	(105)	27,496
Swaps	24	87	218	184	707	193	514	18,900
Options, purchased	19	1	-	-	20	-	20	3,553
Options, written	(18)	(1)	-	-	-	19	(19)	3,590
<b>Interest rate contracts</b>								
Forward contracts/futures, purchased	32	(1)	(1)	-	63	33	30	142,371
Forward contracts/futures, sold	(108)	1	(4)	-	32	144	(111)	131,578
Forward rate agreements, purchased	(90)	(319)	(167)	-	0	576	(576)	339,329
Forward rate agreements, sold	87	304	175	-	565	0	565	332,308
Swaps	(32)	124	(1,584)	2,032	38,155	37,614	541	1,390,105
Options, purchased	-	313	434	1,112	1,874	15	1,859	58,045
Options, written	-	(375)	(432)	(1,125)	-	1,933	(1,933)	45,828
<b>Equity contracts</b>								
Forward contracts/futures, sold	0	-	-	-	0	0	0	14
Options, purchased	2	-	-	-	2	-	2	2
<b>Unsettled spot transactions</b>	<b>(28)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>38</b>	<b>(28)</b>	<b>46,990</b>
<b>Total</b>	<b>(10)</b>	<b>167</b>	<b>(1,381)</b>	<b>2,203</b>	<b>41,937</b>	<b>40,958</b>	<b>979</b>	<b>2,582,674</b>

## Notes

DKK million

Nykredit Realkredit Group

## 44. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

## By time-to-maturity

	Net market value				Positive market value	Gross market value		Nominal value
	Up to 3 months	3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years		Negative market value	Net market value	
<b>2013</b>								
<b>Foreign exchange contracts</b>								
Forward contracts/futures, purchased	(52)	(1)	(3)	-	80	136	(56)	30,974
Forward contracts/futures, sold	11	(11)	3	-	88	84	3	17,819
Swaps	(24)	(21)	211	88	640	386	253	26,348
Options, purchased	0	4	-	-	4	-	4	2,660
Options, written	(0)	(3)	-	-	-	3	(3)	2,605
<b>Interest rate contracts</b>								
Forward contracts/futures, purchased	(10)	7	(9)	-	1	13	(11)	109,395
Forward contracts/futures, sold	45	(0)	-	-	59	13	45	213,883
Forward rate agreements, purchased	(56)	(135)	(29)	-	12	231	(219)	290,192
Forward rate agreements, sold	74	127	17	-	232	13	218	300,620
Swaps	24	112	2,151	(391)	24,998	23,102	1,896	1,336,725
Options, purchased	111	-	441	1,070	1,630	9	1,622	62,831
Options, written	(102)	(476)	(470)	(1,028)	10	2,086	(2,076)	57,237
<b>Equity contracts</b>								
Forward contracts/futures, sold	(3)	-	-	-	0	3	(3)	0
Options, purchased	7	-	-	-	7	-	7	4
Options, written	(1)	-	-	-	-	1	(1)	0
<b>Credit contracts</b>								
Credit default swaps, purchased	-	-	(18)	-	-	18	(18)	187
Credit default swaps, sold	-	-	2	-	2	-	2	112
<b>Unsettled spot transactions</b>								
	15	-	-	-	35	20	15	50,968
<b>Total</b>	<b>41</b>	<b>(397)</b>	<b>2,296</b>	<b>(262)</b>	<b>27,796</b>	<b>26,118</b>	<b>1,678</b>	<b>2,502,560</b>

## Notes

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2013	2014	2014	2013
<b>45. REPO TRANSACTIONS AND REVERSE REPURCHASE LENDING</b>			
The Nykredit Group applies repo transactions and reverse repurchase lending in its day-to-day business operations. All transactions were entered into using bonds as the underlying asset.			
Of the asset items below, reverse repurchase lending represents:			
2,110	1,340	4,975	12,547
-	-	35,351	56,872
-	-	(123)	(58)
-	-	<b>35,228</b>	<b>56,814</b>
Of the liability items below, repo transactions represent:			
11,353	21,286	29,981	31,800
-	-	13,978	18,571
-	-	(123)	(58)
-	-	<b>13,855</b>	<b>18,513</b>
Assets sold as part of repo transactions:			
11,451	22,011	44,556	50,110

# Notes

## 46. RISK MANAGEMENT

### Nykredit's characteristics

Nykredit's activities mainly consist of match-funded mortgage lending secured by real estate. Danish legislation provides limits to the mortgaging of properties, and losses on mortgage loans are therefore limited. Mortgage lending and the underlying funding are regulated by the balance principle, which means that Nykredit incurs negligible interest rate risk, foreign exchange risk and liquidity risk on mortgage lending and the underlying funding. Liquidity and market risk has been reduced further by a new Danish act that ensures the refinancing of mortgage loans in special situations. Therefore, credit risk is Nykredit's largest risk.

Nykredit's activities also include bank deposits and lending, trading in securities and financial instruments, debt capital, asset management, pension products and insurance mediation. The business activities combined with the investment portfolio involve credit, market, liquidity and operational risks.

### Nykredit Realkredit Group

#### REA – credit risk

DKK million	2014	01.01.2014	2013
Standardised approach	20,114	15,173	15,173
IRB approach	283,501	283,388	283,388
Securitisation positions, IRB approach	-	14	14
New capital adequacy rules	-	2,357	-
Credit value adjustment (CVA)	1,394	-	-
Default fund contribution	313	-	-
<b>Total credit risk</b>	<b>305,321</b>	<b>300,931</b>	<b>298,574</b>

#### Elements of credit risk determination

PD	Probability of Default is the probability of a customer defaulting on an obligation to Nykredit.
LGD	Loss Given Default is the loss rate of an exposure in case of a customer's default.
EAD	Exposure At Default is the total estimated exposure to a customer in DKK at the time of default, including any drawn part of a credit commitment.
REA	Risk exposure amount
Default	An exposure is in default where it is deemed improbable that the customer will repay all debt in full, or where a significant amount has been in arrears for 90 days. For mortgage products, Nykredit considers 75 days past due to be a clear sign that a customer is unable to repay its debt in full, while for bank products the third reminder will constitute such a sign. Exposures for which individual impairment provisions have been made or a direct loss has been incurred are also considered in default.

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

### Types of risk

Risk management is the responsibility of the Board of Directors and the Executive Board and is a key element of Nykredit's day-to-day operations. Nykredit's internal controls and risk management are designed to ensure efficient management of relevant exposures.

Nykredit distinguishes between four main types of risk. Each type of risk has its own special features, and risk management is structured accordingly.

- Credit risk reflects the risk of loss following the non-performance of parties with whom Nykredit has contracted. An element of credit risk is counterparty risk, which is the risk of loss that Nykredit may sustain if a counterparty defaults on its obligations under financial instruments.
- Market risk reflects the risk of loss as a result of movements in financial markets (interest rate, foreign exchange, equity price, volatility risks, etc).
- Liquidity risk reflects the risk of loss as a result of insufficient liquidity to cover current payment obligations.
- Operational risk reflects the risk of loss as a result of inadequate or failed internal processes, people and systems or external events.

Credit, market and operational risks are mitigated by the holding of adequate capital, while liquidity risk is mitigated through a sufficient stock of liquid assets.

The determination of the risk exposure amount (REA) is to ensure that credit institutions hold adequate capital to withstand potential losses. The new liquidity measures, LCR and NSFR, aim to ensure to a greater extent than previously that credit institutions hold sufficient liquid assets to fulfil the claims of their creditors.

Each year, Nykredit publishes a detailed report entitled Risk and Capital Management. The report contains a wide selection of risk key figures in accordance with the disclosure requirements of the CRR. It also describes Nykredit's risk and capital management. The report is not audited and it is available at [nykredit.com/reports](http://nykredit.com/reports).

Nykredit publishes detailed quarterly reports on the loan portfolio by capital centre. The reports are available under "Cover pool disclosure reports" at [nykredit.com/coverpool](http://nykredit.com/coverpool).

### Credit risk

Credit risk denotes the risk of loss following the non-performance of payment obligations by counterparties. This applies to counterparties in the form of Nykredit's borrowers and counterparties under financial contracts.

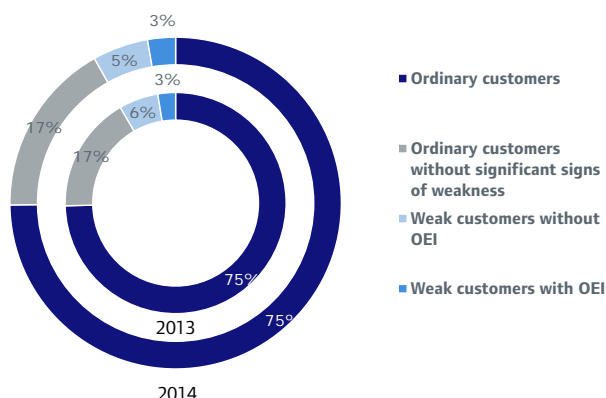
The Board of Directors lays down the overall framework of credit approval and is presented with Nykredit's largest credit applications for approval or briefing on a current basis.

Within the framework laid down by the Board of Directors, the Executive Board sets out the policies governing the individual business areas and Treasury. Nykredit's local centres are authorised to decide on most credit applications in line with the Group's aim to process most credit applications locally. Credit applications exceeding the authority

assigned to the centres are processed centrally by Group Credits. At both group and subsidiary level, exposures over a specified amount are subject to approval by the Credits Committee or the board of directors of the group company concerned.

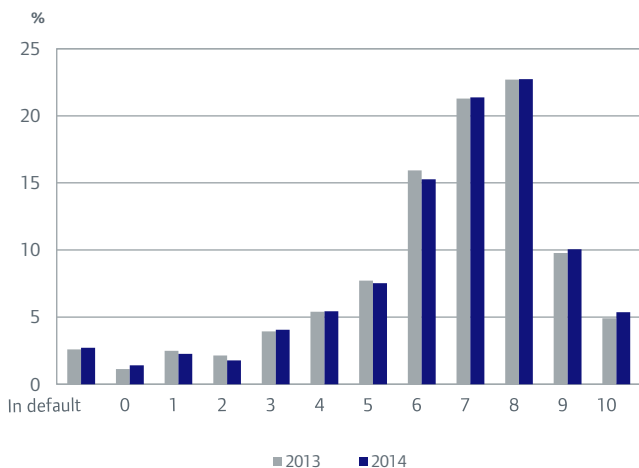
Group Credits is responsible for managing and monitoring credit risk in accordance with the guidelines laid down by the Board of Directors and the Executive Board. The Credits Committee undertakes the reporting on individual credit exposures. The Risk Committee is responsible for approving credit risk models and reporting credit risk at portfolio level.

**Nykredit Realkredit Group  
Breakdown of customers**



Note: [The capital charge for liquidity risk is not quantified.]

**Nykredit Realkredit Group  
Outstanding amount by rating category**



Note: The breakdown shows the total outstanding amounts by rating category, reflecting customers' probability of defaulting on their obligations to Nykredit. 10 is the highest rating.

When processing credit applications, an assessment of the individual customer is conducted. The assessment is based on a customer rating computed by Nykredit's own credit models as well as the customer's financial position and any other relevant matters. In connection with mortgage loan applications, the statutory property valuations are also performed, and at least once a year, exposures of a certain size are reviewed, as are exposures showing signs of risk.

Nykredit has the approval of the Danish FSA to apply a statistical model in the valuation of certain owner-occupied properties with no physical inspection. Another statistical model is used for the ongoing monitoring of the market values of certain residential properties. The statistical valuations are performed centrally and supplemented with local valuations.

For mortgage loans provided through local and regional banks, the bank performs the initial assessment of the customer and valuation of the property. As a main rule, these loans are covered by a set-off agreement for incurred losses. The right of set-off applies to the part of the loan that exceeds 60% of the property value at the time of loan disbursement, and it applies for the entire loan term. Totalkredit is entitled to offset the losses against the commission subsequently paid to the banks for arranging the loans.

**Credit risk models**

Nykredit uses internal ratings-based (IRB) models in the determination of credit risk for the greater part of the loan portfolio. Credit risk is determined using three key parameters: Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The models used to determine PD and LGD are built on historical data allowing for periods of low as well as high business activity. PDs are calibrated by weighting current data against data dating back to the early 1990s. The weighting of current observations is 40%, and the weighting of historical observations is 60%. LGD ratios are calibrated so that the parameters reflect an economic downturn equal to the beginning of the 1990s. However, for Nykredit Bank's personal lending, some models use a gross unemployment rate of 10% to indicate an economic downturn, which is almost twice as high as the current level.

Nykredit calculates a PD for each individual customer. For personal customers and SMEs, a statistical calculation of the customer's credit-worthiness is applied for credit scoring. The PD is determined on the basis of a customer's credit score and payment behaviour. With respect to other customer segments, statistical models have been developed based on conditional probabilities estimating PDs that factor in business-specific circumstances such as financial data, arrears and loan impairment as well as industry-specific conditions.

The PDs of individual customers are converted into ratings from 0 to 10, 10 being the highest rating. Loans in default fall outside the rating scale and constitute a separate category. Customer ratings are an important element of the credit policy and customer assessment.

The LGDs of the majority of Nykredit's exposures are determined using internal approaches based on loss and default data. The calculations factor in any security such as mortgages over real estate, including the type and quality of security and the ranking in the order of priority.

Mortgage banking is usually characterised by low LGDs as the security provided by way of mortgages over real estate offers good protection against losses.

***Risk exposure amount for credit risk***

In the determination of Nykredit's credit risk, exposures are calculated as the sum of the carrying amounts of actual loans as well as credit commitments and guarantees in respect of individual customers. The exposures are adjusted for the expected utilisation of the undrawn part of credit commitments made and outstanding credit offers. The determination of credit risk also includes counterparty risk.

The risk exposure amount (REA) for credit risk is mainly calculated using the Internal Ratings-Based (IRB) approach. REA calculated using the IRB approach primarily includes exposures to commercial and personal customers and makes up 95% of total REA. REA calculated using the standardised approach primarily includes credit institution and sovereign exposures and makes up 5% of total REA for credit risk.

75% of Nykredit's customers make timely payments, while possessing solid financial strength. Nykredit denotes these customers as "ordinary customers".

Of the remaining 25% of Nykredit's customers, 17% are considered "ordinary customers without significant signs of weakness". These customers also make timely payments, but their financial strength is lower than that of "ordinary customers".

The remaining share of the Group's customers are considered weak customers with and without objective evidence of impairment (OEI). 3% of Nykredit's customers show OEI.

***Concentration risk***

Concentration risk is a natural element of Nykredit's risk management. Nykredit aims to have very low concentration risk.

Nykredit had no large exposures to non-financial counterparties that exceeded 10% of own funds. Nykredit's largest approved exposure to non-financial counterparties amounted to DKK 6.8bn, equivalent to 9% of own funds.

Nykredit's 20 largest approved exposures to non-financial counterparties amounted to an aggregate DKK 58.9bn, equivalent to 90% of own funds against 103% at end-2013. The vast majority of these exposures are mortgage loans with underlying security.

Nykredit had 20 non-financial counterparties to which the approved exposure represented over 2% of own funds (large exposures). The majority of these have good ratings, but 4 groups are assessed as weak (rating 0-2).



**Statutory LTV limits by property category**

Private residential property for all-year habitation	80% <sup>1</sup>
Private cooperative housing	
Private residential rental properties	
Non-profit housing	
Youth housing	
Senior housing	
Properties used for social, cultural or educational purposes	60%
Holiday homes	
Agricultural and forestry properties, market gardens, etc <sup>2</sup>	
Office and retail properties	
Industry and trades properties	
Utilities	
Other properties – including undeveloped land	40%

<sup>1</sup>Some loan types offered for residential properties are subject to a lower LTV limit than 80%, but no supplementary collateral is required unless the LTV ratio subsequently exceeds 80%.

<sup>2</sup>The LTV limit may be extended up to 70% against supplementary collateral for the part in excess of 60%.

**Loan-to-value ratios (LTVs)**

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.

Subsequently, the LTV ratio will change with the amortisation of the loan and/or as a result of changes in the market value of the property or mortgage loan.

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 effects of significant price decreases in the housing market.

The table "Debt outstanding relative to estimated property values" shows the LTVs of Nykredit's mortgage lending. The proportion of lending covered by guarantees provided by public authorities has been deducted. Public authority guarantees reduce the credit risk relating to subsidised housing that forms part of lending to the non-profit housing segment. For this reason, LTVs of non-profit housing offer no relevant risk data.

It should be noted that homeowners with negative equity (LTV >100%) do not as such result in losses for Nykredit. The typical loss triggers are socioeconomic events such as unemployment, divorce or illness.

**Nykredit Realkredit Group  
Debt outstanding relative to estimated property values**

DKK million/%	LTV (loan-to-value)						Total	LTV average, %
	0-40	40-60	60-80	80-90	90-100	>100		
Private residential property	392,835	156,397	103,462	19,342	8,568	7,753	688,356	75
Private residential rental	77,032	28,397	15,075	2,293	1,132	1,261	125,190	69
Industry and trades	18,592	4,711	1,418	259	137	140	25,257	56
Office and retail	80,472	24,530	5,708	821	423	668	112,622	58
Agriculture	71,479	18,710	7,102	1,153	576	730	99,750	59
Non-profit housing	-	-	-	-	-	-	68,879	-
Other	13,404	3,055	1,250	77	46	97	17,929	55
<b>Total 2014</b>	<b>653,815</b>	<b>235,800</b>	<b>134,014</b>	<b>23,945</b>	<b>10,883</b>	<b>10,648</b>	<b>1,137,983</b>	<b>69</b>
Total 2013	656,393	234,719	132,155	25,063	11,416	10,536	1,137,843	68

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

Note: The figures are actual LTV ratios including any financed costs. Public authority guarantees reduce the credit risk relating to subsidised housing that forms part of lending to the non-profit housing segment. For this reason, LTVs of non-profit housing offer no relevant risk data.

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 category 0-40% and one third in the LTV category 40-60%.

**Nykredit Realkredit Group  
Debt outstanding relative to estimated property values**

%	LTV (loan-to-value)					
	0-40	40-60	60-80	80-90	90-100	>100
Private residential property	57	23	15	3	1	1
Private residential rental	62	23	12	2	1	1
Industry and trades	74	19	6	1	1	1
Office and retail	71	22	5	1	0	1
Agriculture	72	19	7	1	1	1
Non-profit housing	-	-	-	-	-	-
Other	75	17	7	0	0	1
<b>Total 2014<sup>1</sup></b>	<b>61</b>	<b>22</b>	<b>12</b>	<b>2</b>	<b>1</b>	<b>1</b>
Total 2013	57	23	15	3	1	1

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

Note: The figures are actual LTV ratios including any financed costs. Public authority guarantees reduce the credit risk relating to subsidised housing that forms part of lending to the non-profit housing segment. For this reason, LTVs of non-profit housing offer no relevant risk data.

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 category 0-40% and one third in the LTV category 40-60%.

**Counterparty risk**

Nykredit applies financial instruments, such as derivatives and repurchase agreements (repos), for serving customers and for managing liquidity and market risks. In addition, repos are applied in the day-to-day liquidity management.

Counterparty risk is a measure of the maximum loss which Nykredit may sustain in case of non-payment by a counterparty. For the purpose of calculating the capital requirement, counterparty risk exposures are calculated as any positive market value of the transaction plus a potential future credit exposure.

Counterparty risk exposures amounted to DKK 27.6bn at end-2014, and REA accounted for DKK 11.5bn. Repos represented DKK 2.7bn of this amount and derivatives represented DKK 24.9bn.

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 GRMA agreements.

The use of derivative financial instruments is governed by the ordinary credit approval rules and credit policies, supplemented with a number of restrictions and policy rules. In addition to limits to amounts and terms, examples are requirements related to the type, size and credit-worthiness of customers.

Nykredit uses central counterparties for derivatives clearing. Interest rate swaps, FRAs and repo transactions are cleared through a direct member of Nordic OMX Stockholm, and interest rate swaps are cleared through an indirect member of the London Clearing House.

**Value adjustment of derivatives**

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

Nykredit's interest rate risk on this portfolio is very limited. The risk is hedged by entering into offsetting financial contracts with major European and US banks under netting and financial collateral agreements.

A number of commercial customers with variable-rate mortgage loans have hedged their interest rate risk through swaps with Nykredit Bank. The decline in interest rates in recent years has resulted in increasing market values of interest rate swaps and other instruments and has also increased the credit risk in respect of customers that have not pledged collateral on an ongoing basis. As a consequence, a number of fair value adjustments have been made in recent years.

**Nykredit Realkredit Group  
Counterparty risk**

DKK million	Repos	Derivatives	Total
Exposure before netting	41,809	89,403	131,212
Netting	-	61,436	61,436
Exposure after netting	41,809	27,967	69,776
Collateral received	39,109	3,057	42,166
<b>Exposure after netting and collateral</b>	<b>2,700</b>	<b>24,910</b>	<b>27,610</b>
Total 2013	3,482	17,473	20,955

Note: The figures in the table are not directly comparable with note 27a, as the capital requirements rules allow further netting than the accounting rules.

Credit value adjustment (CVA) and individual value adjustments are calculated on an ongoing basis for derivatives entered into with customers based on the customer's current credit quality. Current value adjustment is generally made according to the same method as for loan impairment. However, the counterparty value of customers with the lowest rating is adjusted down to zero.

**Market risk**

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

Nykredit's market risk relates mainly to the investment portfolios. Furthermore, Nykredits banking activities involve market risk.

The limits relating to market risk in Nykredit are subject to approval by the Board of Directors. Through the Asset/Liability Committee and within the limits provided by the Board of Directors, the Executive Board approves and delegates market risk limits to the group companies.

**Risk exposure amount for market risk**

Nykredit's total Value-at-Risk (VaR) for determination of REA came to DKK 26.3bn. Of this amount, stressed VaR came to DKK 18.6bn, while the market risk exposure calculated using the standardised approach came to DKK 7.7bn. The calculation of market risk using the standardised approach comprises debt instruments, equities, foreign exchange exposures and collective investment schemes.

**Market risk measures**

To obtain a full overview of market risk, Nykredit calculates various key figures that express sensitivity to the development in financial markets. Nykredit's determination, management and reporting of market risk take place by combining statistical models, stress tests and key ratios with subjective assessments.

The traditional risk measures, such as interest rate, equity price, volatility and foreign exchange risks, are so-called portfolio sensitivity tests. They are used to calculate the effect on the value of a portfolio in case of changing market conditions, such as increasing/decreasing interest rates, equity prices or volatility. 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.

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

**Value-at-Risk**

Nykredit Realkredit A/S and Nykredit Bank A/S have the approval of the Danish FSA to apply VaR in determining REA for market risk.

VaR is applied in the determination of REA, the day-to-day internal management and the determination of required own funds.

The confidence level of the VaR model is 99%, but the choice of time horizon depends on the specific purpose of the calculations. For VaR applied to determine REA, a time horizon of 10 days is used. Stressed VaR must be calculated for the current portfolio, but using volatilities and correlations (market data) from a period of significant stress.

For the day-to-day internal management, a time horizon of one day is applied, while a time horizon of 10 days is applied for the determination of required own funds. VaR is calculated for both the trading book and the banking book. The model factors in the risk relating to the spread between bond yields and swap rates.

The model results are back tested on a day-to-day basis against actual realised returns on the investment portfolios to ensure that the model results are reliable and correct at any time.

As a consequence of any lower breaches of the internal model back test, Nykredit adds risk factors in order to capture the overall risk more accurately.

Nykredit's total internal VaR was DKK 128m at end-2014 against DKK 70m at end-2013. This means that, at a 99% probability, Nykredit would lose a maximum of DKK 248m in one day in consequence of market fluctuations, according to Nykredit's model.

**Nykredit Realkredit Group**  
**REA for market risk**

DKK million	2014			2013
	Specific risk	General risk	Total REA	Total REA
<b>Internal models (VaR):</b>	-	<b>26,272</b>	<b>26,272</b>	<b>19,472</b>
Value-at-Risk (99%, 10 days)	-	7,701	7,701	3,967
Stressed Value-at-Risk (99%, 10 days)	-	18,572	18,572	15,505
<b>Standardised approach:</b>	<b>7,506</b>	<b>1,555</b>	<b>9,063</b>	<b>9,099</b>
Debt instruments	5,606	1,367	6,975	7,839
Equities	1,451	188	1,639	573
Collective investment schemes	-	-	-	688
Foreign exchange risk	449	0	449	0
<b>Total REA for market risk</b>	<b>7,506</b>	<b>27,828</b>	<b>35,335</b>	<b>28,571</b>

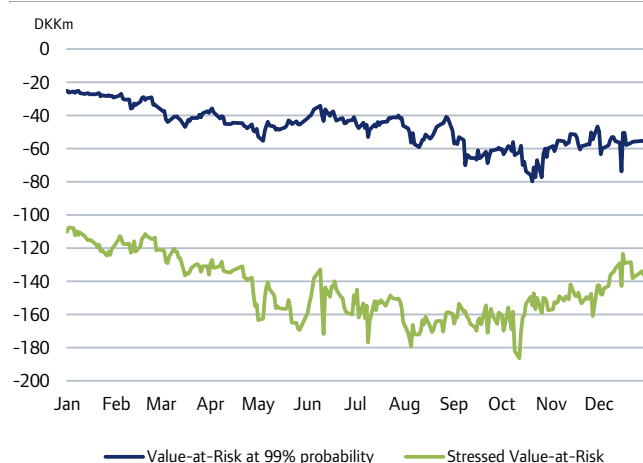
**Nykredit Realkredit Group**  
**Market risk – key figures for day-to-day management**

DKK million	2014			2013		
	Min	Max	Year-end	Min	Max	Year-end
Internal Value-at-Risk (99%, time horizon of 1 day)	60	248	128	55	122	70
Interest rate risk (100bp change)	(223)	460	366	106	549	450
- of which outside the trading book	(69)	139	103	(59)	139	121
- of which on mortgage activities	(95)	139	84	(51)	135	65
Equity price risk (general 10% decrease)	215	471	344	222	383	287
- of which adjusted against equity	146	204	204	(72)	(180)	(146)
<b>Foreign exchange risk:</b>						
Foreign exchange positions, EUR	27	651	651	27	651	651
Foreign exchange positions, other currencies	(26)	335	335	(26)	335	336
Interest rate volatility risk (Vega)	(1)	20	10	2	19	11

Note: Calculation of market risk covers both the trading book and the banking book. As some of the mortgage activities have been classified as belonging to the banking book, interest rate risk outside the trading book and interest rate risk on mortgage activities overlap.

**Nykredit Realkredit Group**  
**Interest rate-related market risk**

DKK million	Interest rate risk 100bp change)	Interest rate volatility risk (Vega)
Money market instruments	(67)	-
Government bonds	291	-
Covered bonds (ROs)	1,809	11
Covered bonds (SDOs)	(243)	-
Other bonds, loans and advances	(84)	-
Derivative financial instruments	(1,341)	0
Securitisations	-	-
<b>Total</b>	<b>366</b>	<b>11</b>

**Nykredit Realkredit Group**  
**Development in VaR and stressed VaR**

**Interest rate risk**

Interest rate risk is the risk of loss as a result of interest rate changes, and 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 366m at end-2014.

Furthermore, Nykredit incurs de facto interest rate risk on interest rate swaps with customers with the lowest ratings, typically customers showing OEI. The value adjustment of these interest rate swaps will be affected positively by about DKK 140m upon an interest rate rise of 1 percentage point.

**Foreign exchange risk**

Foreign exchange risk is measured as the gain/loss in a given currency resulting from DKK strengthening by 10%.

Nykredit hedges its foreign exchange exposures except for some minor tactical foreign exchange positions held to achieve a gain. Therefore, the Group had only minor foreign exchange positions in currencies other than EUR in 2014.

**Volatility risk**

Volatility is a measure of the variation in the price of an asset, such as the movement in the price of a bond. The market value of options and financial instruments with embedded options such as callable covered bonds partly depends on the expected market volatility. Volatility risk is the risk of loss of market value 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.

**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 loss in case of an equity market decrease of 10%. Nykredit's equity price risk amounted to DKK 344m at end-2014.

During 2014 the strategic equity investment exposure ranged between DKK 1.5bn and DKK 2.0bn. At end-2014, the portfolio stood at DKK 2.0bn of which DKK 1.8bn in Danish banks and DKK 0.2bn in the property industry.

**Bonds in investment portfolio**

In line with Nykredit's investment strategy, the securities portfolio consists mainly of high-rated Danish as well as North and Central European covered bonds. The portfolio also includes high-rated bank bonds, whereas investments in CDOs, CLOs, US subprime, etc are minimal.

At end-2014, Nykredit had a government bond exposure of DKK 25.5bn. Nykredit had no exposures to capital markets in Southern Europe.

Of Nykredit's total exposure in Danish and other covered bonds and credit bonds of an aggregate DKK 115.8bn, the exposure to securities rated Aa3/AA- or higher amounted to DKK 113.2bn.

**Liquidity risk**

The balance sheet structure of the mortgage banks ensures a high level of liquidity as mortgage borrowers make their payments on or before the date on which Nykredit pays bondholders. Accordingly, mortgage lending and the funding thereof produce positive liquidity.

Further, mortgage loans are funded by bonds which match the loan term or by bonds which are refinanced one or more times during the loan term. For loans subject to refinancing, the structure of the loan agreements eliminates funding-related market risk.

The liquidity position ensures that Nykredit has a sizeable buffer for cash flows driven by customer flows, loan arrears, current costs and maturing capital market funding. In addition, the liquidity position ensures the Group's compliance with statutory liquidity requirements, including the requirement of Danish mortgage legislation for supplementary collateral in case of falling property prices in connection with covered bond issuance (SDOs), the liquidity requirement of the Danish Financial Business Act and credit rating agencies' requirements for maintaining the current high ratings.

The Board of Directors has laid down requirements for Nykredit's liquidity limits in both an expected scenario and stressed scenarios for an appropriate time horizon. The Asset/Liability Committee oversees the liquidity of group companies. The individual group companies manage day-to-day liquidity risk.

**Nykredit Realkredit Group  
Equity portfolio by type**

DKK million	2014	2013	Change	2014 Equity price risk
	Equity portfolio	Equity portfolio		
Outside trading book	2,656	2,040	616	266
- of which strategic equities	2,035	1,460	575	204
Trading book	274	408	-134	27
Private equity	506	418	88	51
<b>Total 2014</b>	<b>3,436</b>	<b>2,866</b>	<b>570</b>	<b>344</b>

Note: In addition to the portfolio described in note 20, the equity portfolio includes derivative financial instruments and associates.

**Nykredit Realkredit Group  
Bond portfolio by type and country**

DKK million	Government bonds	Covered bonds	Senior debt	Credit bonds	Subordinated debt	Total
				(excl subordinated debt)		
Denmark	18,459	92,678	1,431	247	834	113,648
Sweden	4,827	12,169	-	-	56	17,052
Norway	43	5,509	-	-	-	5,553
France	(218)	807	-	1,025	212	1,826
Other EEA countries	2,373	1,400	-	-	656	4,428
Other	-	487	-	5	145	637
<b>Total 2014</b>	<b>25,483</b>	<b>113,050</b>	<b>1,431</b>	<b>1,277</b>	<b>1,903</b>	<b>143,144</b>

Note: The figures in the table are not directly comparable with note 19, as they include derivative financial instruments as well as agreed but not executed transactions.

**Nykredit Realkredit Group  
Bond portfolio by type and external rating category**

DKK million	Government bonds	Covered bonds	Senior debt	Credit bonds	Subordinated debt	Total
				(excl subordinated debt)		
Aaa/AAA	24,162	111,850	-	0	-	136,013
Aa1/AA+ - Aa3/AA-	1,321	341	-	1,025	-	2,688
A1/A+ - Baa3/BBB-	-	632	1,426	76	1,091	3,225
Ba1/BB+ or below	-	223	5	-	386	613
Not rated	-	3	-	176	426	605
<b>Total 2014</b>	<b>25,483</b>	<b>113,050</b>	<b>1,431</b>	<b>1,277</b>	<b>1,903</b>	<b>143,144</b>

Note: The figures in the table are not directly comparable with note 19, as they include derivative financial instruments as well as agreed but not executed transactions.

Nykredit's liquid assets are mainly liquid Danish and other European government and covered bonds. In a liquid repo market, these securities are eligible as collateral with other banks and with the Danish or other European central banks and are directly exchangeable into liquidity. To this should be added a small portfolio of money market deposits, equities, credit bonds and similar assets.

#### **Operational risk**

Operational risk reflects the risk of loss as a result of inadequate or failed internal processes, people and systems or external events.

Nykredit determines REA for operational risk using the basic indicator approach. This means that REA is calculated as 15% of average gross earnings of the past three years. REA for operational risk amounted to DKK 17.9bn at end-2014.

The operational risk relating to Nykredit's primary activities, mortgage banking, is inherently limited as mortgage products are highly standardised.

The responsibility for the day-to-day management of own operational risk is decentralised and lies with the individual business areas. Operational risk management activities are coordinated centrally to ensure consistency and optimisation.

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

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

# Notes

DKK million

	Nykredit Realkredit Group	
	2014	2013
<b>46. RISK MANAGEMENT (continued)</b>		
<b>Credit risk</b>		
The Group's maximum credit exposure comprises selected balance sheet and off-balance sheet items.		
<b>Total credit exposure</b>		
<b>Balance sheet items</b>		
Demand deposits with central banks	4,507	4,688
Receivables from credit institutions and central banks	37,644	30,948
Loans, advances and other receivables at fair value	1,172,805	1,193,813
Loans, advances and other receivables at amortised cost	50,958	47,393
Bonds at fair value	127,972	90,091
Other assets	53,926	40,606
<b>Off-balance sheet items</b>		
Contingent liabilities	7,546	6,311
Irrevocable credit commitments	4,508	6,529
<b>Total</b>	<b>1,459,867</b>	<b>1,420,378</b>

## Collateral security received

The Nykredit Realkredit Group mitigates the risk relating to individual transactions through loss guarantees and legal charges over physical assets. Mortgage debt outstanding relative to estimated property values appears from page 119. In the table below, bank lending is broken down into unsecured lending and lending secured in part or in full by way of legal charge or other collateral security.

	2014				2013			
	Public	Personal	Com- mercial	Total	Public	Personal	Com- mercial	Total
<b>Bank lending</b>								
Unsecured lending	100	6,623	28,729	35,452	164	7,063	27,419	34,646
Lending secured by way of legal charge or other collateral security:								
Fully secured	99	2,749	4,574	7,422	61	2,735	3,364	6,160
Partially secured	20	3,940	7,220	11,180	43	3,627	6,462	10,132
<b>Total lending before impairment</b>	<b>219</b>	<b>13,312</b>	<b>40,523</b>	<b>54,054</b>	<b>268</b>	<b>13,425</b>	<b>37,245</b>	<b>50,938</b>

The establishment of lines for trading in financial products often requires a contractual basis giving the Group a netting right. The contractual framework is typically based on current market standards such as ISDA or GMRA agreements.

## The Supervisory Diamond for banks

The Danish FSA has defined five benchmarks – the so-called Supervisory Diamond – that indicate when a bank is operating at an elevated risk. At 31 December 2014, Nykredit Bank operated below the limit values of the Danish FSA.

Supervisory Diamond limit values	Limit values	Nykredit Bank
Lending growth	< 20%	6.8%
Large exposures	< 125%	33.9%
Property exposure	< 25%	13.6%
Funding ratio	< 1.00	0.6
Excess liquidity coverage	> 50%	282%

## Notes

DKK million

Nykredit Realkredit Group

## 46. RISK MANAGEMENT (continued)

## Mortgage lending by property and rating category

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

	Private residential	Private rental	Industry and trades	Office and retail	Agricultural property	Non-profit housing	Other	Total
<b>2014</b>								
<b>Rating category</b>								
10	38,183	603	2,985	7,218	1,681	668	91	51,431
9	69,272	8,428	10,514	13,422	4,759	3,258	1,663	111,317
8	157,748	23,542	4,351	26,392	10,005	30,330	8,672	261,040
7	147,676	33,069	2,827	23,214	13,898	23,685	4,119	248,488
6	112,157	21,799	1,692	14,396	16,898	3,345	1,236	171,523
5	49,660	8,453	730	7,572	15,398	770	584	83,167
4	35,336	8,006	399	5,032	7,492	303	438	57,006
3	16,621	6,954	315	5,216	12,630	289	308	42,333
2	18,385	489	79	457	595	14	17	20,036
1	18,451	3,017	186	1,292	2,213	188	277	25,624
0	4,787	1,902	203	2,690	6,072	191	139	15,985
Exposures in default	6,700	7,379	776	3,972	4,339	422	207	23,795
<b>Total</b>	<b>674,974</b>	<b>123,641</b>	<b>25,058</b>	<b>110,874</b>	<b>95,982</b>	<b>63,465</b>	<b>17,750</b>	<b>1,111,744</b>

	Private residential	Private rental	Industry and trades	Office and retail	Agricultural property	Non-profit housing	Other	Total
<b>2013</b>								
<b>Rating category</b>								
10	32,952	844	3,689	6,435	2,756	2,196	264	49,136
9	68,288	6,820	9,840	11,291	5,807	7,092	1,391	110,530
8	159,018	24,617	4,088	25,410	10,683	27,351	8,402	259,569
7	152,316	29,742	2,829	22,416	13,669	22,620	4,373	247,965
6	119,392	19,871	1,486	18,771	16,880	2,803	1,448	180,650
5	55,140	9,269	829	6,660	14,557	557	428	87,440
4	37,296	5,952	537	4,451	8,652	123	224	57,234
3	16,901	5,445	486	4,596	12,836	470	157	40,891
2	18,858	1,014	289	1,189	1,699	138	63	23,251
1	18,541	3,629	283	3,186	1,735	257	528	28,159
0	4,683	1,913	161	1,823	3,907	103	144	12,734
Exposures in default	5,672	6,480	604	4,987	4,036	418	215	22,412
<b>Total</b>	<b>689,057</b>	<b>115,598</b>	<b>25,119</b>	<b>111,215</b>	<b>97,217</b>	<b>64,129</b>	<b>17,636</b>	<b>1,119,970</b>

Group mortgage lending is stated in nominal terms and is disclosed by rating category that reflects the rating of individual customers defined as the probability of default. The rating categories range from 0 to 10, 10 being the highest rating.

The category Exposures in default includes loans and advances provided for individually and loans and advances where it is not deemed probable that the customer will repay all debt in full, cf the report Risk and Capital Management 2014, available at [nykredit.com/reports](http://nykredit.com/reports).



# Notes

DKK million

Nykredit Realkredit Group

## 46. RISK MANAGEMENT (continued)

### Bank lending by sector and rating category

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

	Manufac- turing and construction	Credit and finance	Property management and trade	Transport, trade and ac- commodation	Other trade and public	Personal customers	Total
<b>2014</b>							
<b>Rating category</b>							
10	2,152	147	131	64	770	1,134	4,398
9	249	195	524	205	1,675	960	3,808
8	838	862	2,825	1,386	1,670	1,096	8,677
7	1,107	1,051	1,629	1,272	1,174	1,120	7,353
6	174	451	1,416	670	740	1,414	4,865
5	500	157	916	317	798	2,032	4,720
4	328	169	905	215	520	2,191	4,328
3	1,798	379	465	917	2,707	1,370	7,636
2	52	146	75	83	240	798	1,394
1	115	20	552	66	334	295	1,382
0	82	24	105	32	153	133	529
Exposures in default	696	160	2,178	386	775	769	4,964
<b>Total</b>	<b>8,096</b>	<b>3,761</b>	<b>11,721</b>	<b>5,613</b>	<b>11,556</b>	<b>13,312</b>	<b>54,054</b>

### Bank lending by sector and rating category

	Manufac- turing and construction	Credit and finance	Property management and trade	Transport, trade and ac- commodation	Other trade and public	Personal customers	Total
<b>2013</b>							
<b>Rating category</b>							
10	1,249	255	85	500	681	1,072	3,842
9	684	239	367	242	411	906	2,849
8	1,147	1,749	1,829	967	1,583	1,064	8,339
7	445	363	2,168	699	1,494	1,014	6,183
6	703	262	1,054	385	1,250	1,233	4,887
5	464	81	358	144	405	2,082	3,534
4	807	123	587	197	413	2,273	4,400
3	1,563	417	350	1,095	1,972	1,478	6,875
2	171	24	65	114	305	1,058	1,737
1	61	38	605	96	187	318	1,305
0	84	25	195	42	75	181	602
Exposures in default	607	1,195	2,118	704	1,014	747	6,385
<b>Total</b>	<b>7,985</b>	<b>4,771</b>	<b>9,781</b>	<b>5,185</b>	<b>9,790</b>	<b>13,426</b>	<b>50,938</b>

Rating categories include Nykredit Bank A/S's loans, advances and receivables at amortised cost determined before impairments.

Bank lending is disclosed by rating category that reflects the rating of individual customers defined as the probability of default. The rating categories range from 0 to 10, 10 being the highest rating.

The category Exposures in default includes loans and advances provided for individually and loans and advances where it is not deemed probable that the customer will repay all debt in full, cf the report Risk and Capital Management 2014, available at [nykredit.com/reports](http://nykredit.com/reports).

## Notes

DKK million

## 47. HEDGE ACCOUNTING

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

	Nykredit Realkredit A/S			Nykredit Realkredit Group		
	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes
<b>2014</b>						
<b>Assets</b>						
Loans and advances	-	-	-	1,519	1,547	28
<b>Liabilities</b>						
Deposits and other payables	-	-	-	4,428	4,655	(227)
Bonds in issue	3,715	3,774	(58)	11,075	11,291	(215)
Subordinated debt	11,128	11,350	(222)	11,128	11,350	(222)
<b>Derivative financial instruments</b>						
Interest rate swaps, loans and advances as well as deposits and other payables (net)	-	-	-	2,215	193	193
Interest rate swaps, bonds in issue	3,722	58	58	11,082	215	215
Interest rate swaps, subordinated debt	11,165	222	222	11,165	222	222
Gain/loss for the year on hedging instruments		(1)			114	
Gain/loss for the year on hedged items		1			(105)	
<b>Net gain/loss</b>		<b>-</b>			<b>9</b>	
<b>2013</b>						
<b>Assets</b>						
Loans and advances	-	-	-	2,704	2,731	27
<b>Liabilities</b>						
Deposits and other payables	-	-	-	3,476	3,649	(173)
Bonds in issue	3,722	3,664	58	11,124	11,170	(46)
Subordinated debt	10,423	10,734	(310)	10,423	10,734	(310)
<b>Derivative financial instruments</b>						
Interest rate swaps, loans and advances as well as deposits and other payables (net)	-	-	-	205	163	163
Interest rate swaps, bonds in issue	3,730	(58)	(58)	11,132	14	14
Interest rate swaps, subordinated debt	10,444	310	310	10,444	310	310
Gain/loss for the year on hedging instruments		(377)			(367)	
Gain/loss for the year on hedged items		377			352	
<b>Net gain/loss</b>		<b>-</b>			<b>(15)</b>	

Market risk is the risk of loss of market value as a result of movements in financial markets (interest rate, foreign exchange, equity price risk, etc).

The Nykredit Group continuously hedges the interest rate risk of fixed-rate assets and liabilities using derivative financial instruments etc. This enables the Group to manage the level of its aggregate interest rate sensitivity taking into consideration expected interest rate developments.

According to reporting provisions, loans, advances and deposits must generally be measured at amortised cost, while derivative financial instruments are measured at fair value.

To obtain accounting symmetry between hedging and hedged transactions, adjustment of the carrying amounts of the financial assets and liabilities that form part of the effective accounting hedge has been allowed. The fair value adjustment exclusively concerns the hedged part (the interest rate exposure).

## Notes

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2013	2014		2014	2013
<b>48. CURRENCY EXPOSURE</b>				
By main currency, net				
251	(0)	USD	(1)	249
1	4	GBP	4	2
168	98	SEK	91	165
(1)	18	NOK	21	1
2	2	CHF	(36)	0
-	0	CAD	0	0
(96)	2	JPY	2	(95)
388	(35)	EUR	100	651
3	9	Other	12	7
<b>714</b>	<b>98</b>	<b>Total</b>	<b>192</b>	<b>980</b>
811	133	Exchange Rate Indicator 1	229	1,075
Exchange Rate Indicator 1 is determined as the sum of the highest numerical value of assets (long-term position) or net payables. Indicator 1 shows the overall foreign exchange risk.				

# Notes

## 49. OTHER INFORMATION

### EVENTS OCCURRED AFTER THE END OF THE FINANCIAL PERIOD

No significant events have occurred in the period up to the presentation of the Annual Report 2014 which affect the financial position of the Nykredit Group.

### PROFIT (LOSS) AND EQUITY RESTATED TO FSA REQUIREMENTS

The Nykredit Group's financial statements are prepared pursuant to the International Financial Reporting Standards (IFRS) as adopted by the EU. The Group's accounting policies comply with the provisions of the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. However, under the Executive Order financial assets are not classifiable as "available for sale" with fair value adjustment against "Other comprehensive income". In the Nykredit Group's FSA reporting, "Equities available for sale" have been classified as equities measured at fair value through profit or loss.

The difference has no impact on "Equity", only on "Profit (loss)" and "Other comprehensive income", cf below:

	Profit (loss)		Other comprehensive income		Equity	
	2014	2013	2014	2013	2014	2013
Group reporting pursuant to the IFRS	576	1,674	207	(364)	59,502	58,716
Value adjustment of equities available for sale	239	(343)	(239)	343	-	-
<b>Group reporting subject to FSA requirements</b>	<b>815</b>	<b>1,331</b>	<b>(32)</b>	<b>(22)</b>	<b>59,502</b>	<b>58,716</b>

"Value adjustment of equities available for sale" comprises fair value adjustment, realised value adjustments and unrealised capital losses reclassified to the income statement as well as the tax effect of the fair value adjustment.

# Notes

## 50. FINANCIAL RATIOS, DEFINITIONS

### Financial ratios

Return on equity before tax, %

### Definition

The sum of profit (loss) before tax, profit (loss) from discontinued insurance operations and value adjustment of strategic equities before tax divided by average equity.

Return on equity after tax, %

The sum of profit (loss) after tax and value adjustment of strategic equities after tax divided by average equity.

Income:cost ratio

Total income less profit (loss) from discontinued insurance operations plus value adjustment of strategic equities before tax divided by total costs less tax.

Foreign exchange position, %

Exchange Rate Indicator 1 at year-end divided by Tier 1 capital less deductions at year-end.

Loans and advances:equity (loan gearing)

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

Growth in loans and advances for the year, %

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

Total impairment provisions, %

Total provisions for loan impairment and guarantees at year-end divided by the sum of loans and advances at fair value, arrears and outlays, loans and advances at amortised cost, guarantees and total provisions for loan impairment and guarantees at year-end.

Impairment losses for the year, %

Provisions for loan impairment and guarantees for the year divided by the sum of loans and advances at fair value, arrears and outlays, loans and advances at amortised cost, guarantees and total provisions for loan impairment and guarantees at year-end.

Return on capital employed, %

Profit (loss) after tax for the year divided by total assets.

### Financial ratios concerning capital and capital adequacy

### Definition

Total capital ratio, %

Own funds divided by the risk exposure amount.

Tier 1 capital ratio, %

Tier 1 capital divided by the risk exposure amount.

Financial ratios are based on the Danish FSA's definitions and guidelines.

## Notes

DKK million

Nykredit Realkredit A/S	2014	2013	2012	2011	2010
<b>51. FIVE-YEAR FINANCIAL HIGHLIGHTS</b>					
<b>SUMMARY INCOME STATEMENT</b>					
Net interest income	4,449	4,415	5,355	4,764	5,332
Net fee income	780	793	863	708	745
<b>Net interest and fee income</b>	<b>5,229</b>	<b>5,208</b>	<b>6,218</b>	<b>5,472</b>	<b>6,077</b>
Value adjustments	359	779	196	(2,399)	(333)
Other operating income	8	17	11	26	92
Staff and administrative expenses	2,389	2,580	2,570	2,704	2,601
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	174	835	730	672	649
Other operating expenses	55	103	0	3	2
Impairment losses on loans, advances and receivables	1,723	1,837	1,057	570	712
Profit (loss) from investments in associates and group enterprises	(225)	738	719	774	2,708
<b>Profit (loss) before tax</b>	<b>1,030</b>	<b>1,389</b>	<b>2,786</b>	<b>(76)</b>	<b>4,579</b>
Tax	215	58	454	(345)	461
<b>Profit for the year</b>	<b>815</b>	<b>1,331</b>	<b>2,332</b>	<b>269</b>	<b>4,117</b>
<b>SUMMARY BALANCE SHEET, YEAR-END</b>					
<b>Assets</b>					
Cash balances and receivables from credit institutions and central banks	29,797	25,498	33,991	39,170	45,904
Mortgage loans at fair value	582,417	597,200	614,848	604,292	575,278
Totalkredit mortgage loan funding	590,579	538,541	520,658	461,846	433,531
Bonds and equities	50,814	29,439	41,361	71,885	63,369
Remaining assets	69,311	77,043	78,361	73,880	62,301
<b>Total assets</b>	<b>1,322,918</b>	<b>1,267,720</b>	<b>1,289,219</b>	<b>1,251,073</b>	<b>1,180,384</b>
<b>Liabilities</b>					
Payables to credit institutions and central banks	22,811	12,668	48,597	89,065	79,456
Bonds in issue	1,204,487	1,160,447	1,145,585	1,060,979	1,002,524
Subordinated debt	11,350	10,734	11,035	10,965	10,805
Remaining liabilities	24,767	25,155	26,446	34,754	32,278
Equity	59,502	58,716	57,556	55,310	55,320
<b>Total liabilities and equity</b>	<b>1,322,918</b>	<b>1,267,720</b>	<b>1,289,219</b>	<b>1,251,073</b>	<b>1,180,384</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
Other commitments	1,121	1,208	1,620	1,981	1,273
<b>FINANCIAL RATIOS<sup>1</sup></b>					
Total capital ratio, %	17.2	17.0	16.4	15.4	17.1
Tier 1 capital ratio, %	16.2	17.0	16.4	15.4	17.1
Return on equity before tax, %	1.7	2.4	4.9	(0.1)	8.6
Return on equity after tax, %	1.4	2.3	4.1	0.5	7.7
Income:cost ratio	1.24	1.26	1.64	0.98	2.16
Foreign exchange position, %	0.2	1.3	0.6	0.9	0.6
Loans and advances:equity (loan gearing)	9.8	10.2	10.7	11.0	10.4
Growth in loans and advances for the year, %	(3.0)	(1.9)	0.7	3.5	3.8
Total impairment provisions, %	0.73	0.53	0.33	0.29	0.29
Impairment losses for the year, %	0.29	0.31	0.17	0.09	0.12
Return on capital employed, %	0.06	0.11	0.18	0.02	0.35

<sup>1</sup> Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 50.

## Notes

DKK million

Nykredit Realkredit Group	2014	2013	2012	2011	2010
<b>51. FIVE-YEAR FINANCIAL HIGHLIGHTS (continued)</b>					
<b>SUMMARY INCOME STATEMENT</b>					
Net interest income	11,353	10,325	10,838	10,103	11,210
Net fee income	133	15	321	322	606
<b>Net interest and fee income</b>	<b>11,486</b>	<b>10,340</b>	<b>11,159</b>	<b>10,425</b>	<b>11,816</b>
Value adjustments	(3,557)	150	(547)	(1,935)	(559)
Other operating income	185	210	230	226	209
Staff and administrative expenses	4,715	5,004	4,799	4,924	4,796
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	234	896	766	930	811
Other operating expenses	154	225	30	114	382
Impairment losses on loans, advances and receivables	2,351	2,764	2,149	1,414	2,382
Profit from investments in associates	6	103	47	10	36
<b>Profit before tax</b>	<b>666</b>	<b>1,914</b>	<b>3,144</b>	<b>1,345</b>	<b>3,131</b>
Tax	90	240	575	223	786
Profit from discontinued insurance operations	-	-	-	-	1,511
<b>Profit for the year</b>	<b>576</b>	<b>1,674</b>	<b>2,569</b>	<b>1,123</b>	<b>3,857</b>
Total value adjustment and reclassification of strategic equities against equity	238	(343)	(237)	(854)	261
<b>SUMMARY BALANCE SHEET, YEAR-END</b>					
<b>Assets</b>					
Cash balances and receivables from credit institutions and central banks	42,288	35,758	60,174	66,258	58,657
Mortgage loans at fair value	1,137,099	1,136,644	1,136,445	1,083,991	1,030,478
Bank loans – excluding reverse repurchase transactions	50,494	46,963	49,728	55,776	58,833
Bonds and equities	131,383	92,961	82,413	100,794	99,144
Remaining assets	96,889	105,087	104,645	86,086	64,029
<b>Total assets</b>	<b>1,458,153</b>	<b>1,417,414</b>	<b>1,433,405</b>	<b>1,392,905</b>	<b>1,311,140</b>
<b>Liabilities</b>					
Payables to credit institutions and central banks	44,863	44,393	67,539	117,626	95,879
Deposits and other payables	65,232	65,172	54,509	57,404	55,467
Bonds in issue at fair value	1,167,163	1,130,020	1,103,818	1,021,942	974,319
Subordinated debt	11,394	10,964	11,281	11,204	11,618
Remaining liabilities	109,998	108,148	138,701	129,419	118,537
Equity	59,502	58,716	57,556	55,310	55,320
<b>Total liabilities and equity</b>	<b>1,458,153</b>	<b>1,417,414</b>	<b>1,433,405</b>	<b>1,392,905</b>	<b>1,311,140</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
Contingent liabilities	7,546	6,311	4,806	5,375	6,192
Other commitments	5,843	7,925	9,213	8,389	8,342
<b>FINANCIAL RATIOS<sup>1</sup></b>					
Total capital ratio, %	18.2	18.9	19.1	17.1	18.5
Tier 1 capital ratio, %	17.2	18.9	19.1	17.1	18.5
Return on equity before tax, %	1.6	2.8	5.3	0.5	9.4
Return on equity after tax, %	1.4	2.3	4.1	0.5	7.7
Income:cost ratio	1.12	1.18	1.38	1.03	1.42
Foreign exchange position, %	0.4	1.6	0.6	0.8	0.9
Loans and advances:equity (loan gearing)	20.6	21.1	21.2	21.0	19.9
Growth in loans and advances for the year, %	(2.1)	2.5	4.2	4.0	4.1
Total impairment provisions, %	0.74	0.67	0.57	0.59	0.81
Impairment losses for the year, %	0.19	0.22	0.17	0.12	0.21
Return on capital employed, %	0.04	0.12	0.18	0.08	0.29

<sup>1</sup> Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 50.

## Notes

DKK million

## Nykredit Realkredit Group

	Ownership interest as % 31 December 2014	Profit (loss) for 2014	Equity, 31 December 2014	Number of staff 2014	Profit for 2013	Equity, 31 December 2013	Number of staff 2013
<b>52. GROUP STRUCTURE</b>							
<b>Name and registered office</b>							
Nykredit Realkredit A/S (Parent Company), Copenhagen, a)	-	815	59,502	2,981	1,331	58,716	3,008
Totalkredit A/S, Copenhagen, a)	100	1,458	17,113	118	565	15,655	129
Nykredit Bank A/S, Copenhagen, b)	100	(1,772)	12,575	672	77	14,347	714
Nykredit Pantebrevsinvestering A/S, Copenhagen, c)	100	0	12	-	0	12	-
Nykredit Portefølje Administration A/S, Copenhagen, h)	100	74	398	95	64	323	92
Nykredit Leasing A/S, Gladsaxe, f)	100	50	456	53	46	206	53
FB Ejendomme A/S, Copenhagen, e)	100	0	4	-	0	4	-
Nykredit Mægler A/S, Århus, d)	100	35	134	50	28	129	54
Nykredit Ejendomme A/S, Copenhagen, e)	100	27	449	2	3	475	2
Ejendomsselskabet Kalvebod A/S, Copenhagen, i)	100	21	185	-	41	259	-
Kalvebod Ejendomme I A/S, Copenhagen, e)	100	15	106	-	33	91	-
Kalvebod Ejendomme II A/S, Copenhagen, e)	100	6	75	-	8	69	-
Nykredit Adm. V A/S, Copenhagen, g)	100	0	1	-	0	1	-

The group structure only includes significant subsidiaries.

Financial information is provided in such order as the companies are recognised in the Consolidated Financial Statements.

	Number of staff	Revenue*	Profit before tax	Tax	Government aid received
<b>Geographical distribution of activities</b>					
Denmark: companies and activities appear from the group structure	3,948	38,991	657	88	-
Poland: Nykredit Realkredit A/S S.A. Oddział w Polsce, branch, a)	12	13	1	(1)	-
Sweden: Nykredit Bank A/S, branch, b)	11	2	8	2	-

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

- a) Mortgage bank
- b) Bank
- c) Mortgage trading company
- d) Estate agency business
- e) Property company
- f) Leasing business
- g) No activity
- h) Investment management company
- i) Holding company, no independent activities

Nykredit Realkredit A/S is wholly owned by and consolidated with Nykredit Holding A/S, which is consolidated with Foreningen Nykredit.

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

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



## Notes

DKK million

## Nykredit Realkredit Group

	Ownership interest as %, 31 December 2014	Revenue 2014	Profit for 2014	Assets, 31 December 2014	Liabilities, 31 December 2014	Equity, 31 December 2014	Nykredit's share of profit for 2014	Nykredit's share of equity value, 31 December 2014	Profit for 2013	Equity, 31 December 2013
<b>52. GROUP STRUCTURE (continued)</b>										
<b>Name and registered office</b>										
<b>Associates*</b>										
Boligsiden A/S, Copenhagen, a)	23	17	2	16	2	13	1	3	1	12
Core Property Management A/S, Copenhagen, c)	20	20	7	26	3	22	1	4	7	23
E-nettet Holding A/S, Copenhagen, b)	18	23	10	171	94	77	2	12	8	69
Erhvervsinvest K/S, Copenhagen, c)	22	0	0	4	23	3	0	1	49	8
JN Data A/S, Silkeborg, b)	50	1,264	4	631	430	201	2	101	7	199
JSNA Holding A/S, Aalborg, c)	33	0	0	3	0	3	0	1	0	4

\* Recognised on the basis of the latest annual report or interim reports as at 30 September if annual reports are not available.

Nykredit holds less than 20% of the shares in E-nettet Holding A/S, but still exercises significant influence over the financial and operational conditions of the company as it has a representative (chairman) on the board of directors. Consequently, for accounting purposes the shareholding is treated as an associate.

- a) Property company
- b) IT business
- c) Investment company
- d) Consultancy

# Five-quarter financial highlights

DKK million

Nykredit Realkredit Group	FY 2014	FY 2013	Q4/ 2014	Q3/ 2014	Q2/ 2014	Q1/ 2014	Q4/ 2013
<b>Core income from</b>							
Business operations	7,739	9,180	1,557	1,261	2,518	2,403	2,426
Securities	130	118	36	33	30	30	29
<b>Total</b>	<b>7,869</b>	<b>9,297</b>	<b>1,594</b>	<b>1,295</b>	<b>2,548</b>	<b>2,433</b>	<b>2,455</b>
Operating costs, depreciation and amortisation	5,103	6,048	1,338	1,187	1,304	1,274	1,816
<b>Core earnings before impairment losses</b>	<b>2,766</b>	<b>3,250</b>	<b>256</b>	<b>108</b>	<b>1,244</b>	<b>1,158</b>	<b>639</b>
Impairment losses on loans and advances	2,351	2,764	893	409	534	515	1,159
<b>Core earnings after impairment losses</b>	<b>416</b>	<b>486</b>	<b>(638)</b>	<b>(301)</b>	<b>710</b>	<b>643</b>	<b>(520)</b>
Investment portfolio income	779	1,887	(99)	276	253	349	493
<b>Profit (loss) before cost of capital</b>	<b>1,194</b>	<b>2,373</b>	<b>(737)</b>	<b>(24)</b>	<b>963</b>	<b>992</b>	<b>(27)</b>
Net interest on subordinated debt	(528)	(460)	(146)	(145)	(123)	(114)	(117)
<b>Profit (loss) before tax</b>	<b>666</b>	<b>1,914</b>	<b>(883)</b>	<b>(169)</b>	<b>841</b>	<b>878</b>	<b>(144)</b>
Tax	90	240	(237)	(54)	181	200	(29)
<b>Profit (loss) for the year/period</b>	<b>576</b>	<b>1,674</b>	<b>(646)</b>	<b>(115)</b>	<b>660</b>	<b>678</b>	<b>(115)</b>
<b>Other comprehensive income</b>							
Actuarial gains/losses on defined benefit plans	22	(24)	4	13	2	2	(14)
Value adjustment of strategic equities	238	366	15	51	16	157	65
Other adjustment of strategic equities	-	(709)	-	-	-	-	-
Fair value adjustment of owner-occupied properties	(53)	2	(25)	(28)	-	-	(4)
<b>Total other comprehensive income</b>	<b>207</b>	<b>(364)</b>	<b>(6)</b>	<b>35</b>	<b>18</b>	<b>159</b>	<b>47</b>
<b>Comprehensive income for the year/period</b>	<b>783</b>	<b>1,310</b>	<b>(652)</b>	<b>(80)</b>	<b>678</b>	<b>837</b>	<b>(69)</b>
<b>SUMMARY BALANCE SHEET, END OF PERIOD</b>							
	31.12.2014	31.12.2013	31.12.2014	30.09.2014	30.06.2014	31.03.2014	31.12.2013
<b>Assets</b>							
Cash balances and receivables from credit institutions and central banks	42,288	35,758	42,288	37,335	36,133	38,690	35,758
Mortgage loans at fair value	1,137,099	1,136,644	1,137,099	1,144,160	1,143,883	1,142,380	1,136,644
Bank loans – excluding reverse repurchase transactions	50,494	46,963	50,494	48,301	46,908	48,078	46,963
Bonds and equities	131,383	92,961	131,383	120,066	118,624	110,300	92,961
Remaining assets	96,883	105,087	96,883	98,029	98,799	88,302	105,087
<b>Total assets</b>	<b>1,458,147</b>	<b>1,417,414</b>	<b>1,458,147</b>	<b>1,447,891</b>	<b>1,444,348</b>	<b>1,427,750</b>	<b>1,417,414</b>
<b>Liabilities</b>							
Payables to credit institutions and central banks	44,863	44,393	44,863	44,217	49,656	49,174	44,393
Deposits and other payables	65,232	65,172	65,232	60,373	61,764	68,598	65,172
Bonds in issue at fair value	1,167,163	1,130,020	1,167,163	1,150,270	1,138,266	1,130,708	1,130,020
Subordinated debt	11,394	10,964	11,394	11,387	15,243	10,913	10,964
Remaining liabilities	109,992	108,148	109,992	121,492	119,188	108,805	108,148
Equity	59,502	58,716	59,502	60,152	60,231	59,553	58,716
<b>Total liabilities and equity</b>	<b>1,458,147</b>	<b>1,417,414</b>	<b>1,458,147</b>	<b>1,447,891</b>	<b>1,444,348</b>	<b>1,427,750</b>	<b>1,417,414</b>
<b>FINANCIAL RATIOS</b>							
Profit (loss) for the year/period as % of average equity pa	1.0	2.9	(4.3)	(0.8)	4.4	4.6	(0.8)
Core earnings before impairment losses as % of average equity pa	4.7	5.6	1.7	0.7	8.3	7.8	4.4
Core earnings after impairment losses as % of average equity pa	0.7	0.8	(4.3)	(2.0)	4.7	4.4	(3.5)
Total provisions for loan impairment and guarantees	9,173	8,456	9,173	8,769	8,771	8,535	8,456
Impairment losses for the year/period, %	0.19	0.22	0.07	0.03	0.04	0.04	0.09
Total capital ratio, %	18.2	18.9	18.2	19.0	19.3	18.3	18.9
Tier 1 capital ratio, %	17.2	18.9	17.2	17.5	18.1	18.3	18.9
Average number of full-time staff	3,971	4,052	3,971	3,988	4,001	4,027	4,052

The financial highlights have not been audited.

# Capital adequacy

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
31.12.2013	31.12.2014		31.12.2014	31.12.2013
52,266	55,981	Common Equity Tier 1 capital	55,559	54,666
10,444	5,933	Total Additional Tier 1 capital after deductions	6,158	10,678
62,710	61,915	Tier 1 capital	61,717	65,344
62,710	65,630	Own funds	65,606	65,344
367,905	380,237	Total risk exposure amount	358,589	345,963
14.2	14.7	Common Equity Tier 1 capital ratio, %	15.4	15.8
17.0	16.2	Tier 1 capital ratio, %	17.2	18.9
17.0	17.2	Total capital ratio, %	18.2	18.9
Nykredit Bank Group			Nykredit Holding Group	
31.12.2013	31.12.2014		31.12.2014	31.12.2013
14,324	12,044	Common Equity Tier 1 capital	55,584	54,695
232	15	Total Additional Tier 1 capital after deductions	6,158	10,678
14,557	12,059	Tier 1 capital	61,742	65,372
14,912	12,365	Own funds	63,121	65,372
88,709	94,051	Total risk exposure amount	358,684	346,316
16.1	12.8	Common Equity Tier 1 capital ratio, %	15.4	15.8
16.4	12.8	Tier 1 capital ratio, %	17.2	18.9
16.8	13.1	Total capital ratio, %	17.5	18.9

Capital and capital adequacy have been determined in accordance with Regulation (EU) No 575/2013 of the European Parliament and the Council of 26 June 2013 (the Capital Requirements Regulation) as well as the Danish transitional rules laid down by the Danish FSA.

The statements as at 31 December 2013 are based on the then applicable rules of the Danish Financial Business Act. The layout has been adjusted to reflect the new presentation format.

## Series financial statements

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Pursuant to the Danish Financial Supervisory Authority's Executive Order no 872 of 20 November 1995 on series financial statements in 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 Annual Report 2014 of Nykredit Realkredit A/S.

The distribution of profit for 2014 adopted by Nykredit Realkredit A/S's Board of Directors (cf the Annual Report, page 41) 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.

## Series Financial Statements for 2014 of Nykredit Realkredit

DKK million

Summary at the level of the Association and Nykredit Realkredit In General

	1 KØK	2 FSK	3 LCR	4 HUM	5 BHY	6 SKRF	7 VESØ
<b>Income statement</b>							
Income from lending	0.9	0.6	0.1	0.1	0.4	0.1	0.1
Interest, net	0.2	0.1	0.0	0.1	0.0	0.0	0.0
Administrative expenses	(0.9)	(0.3)	(0.2)	(0.6)	(0.1)	(0.1)	(0.2)
Impairment losses on loans and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.1	(0.1)	0.0	0.0
<b>Profit (loss)</b>	<b>0.2</b>	<b>0.4</b>	<b>(0.1)</b>	<b>(0.3)</b>	<b>0.2</b>	<b>0.0</b>	<b>(0.1)</b>
<b>Balance sheet</b>							
<b>Assets</b>							
Mortgage loans	202.0	181.0	19.6	16.3	35.8	13.1	16.6
Remaining assets	50.9	16.6	7.7	21.4	13.2	6.0	9.0
<b>Total assets</b>	<b>252.9</b>	<b>197.6</b>	<b>27.3</b>	<b>37.7</b>	<b>49.0</b>	<b>19.1</b>	<b>25.6</b>
<b>Liabilities and equity</b>							
Bonds in issue	218.8	184.4	21.0	18.5	44.3	15.2	19.2
Remaining liabilities	8.5	6.6	0.9	1.3	1.6	0.7	0.8
Equity	25.6	6.6	5.4	17.9	3.1	3.2	5.6
<b>Total liabilities and equity</b>	<b>252.9</b>	<b>197.6</b>	<b>27.3</b>	<b>37.7</b>	<b>49.0</b>	<b>19.1</b>	<b>25.6</b>
<b>Movements in capital, net</b>	<b>(5.7)</b>	<b>(2.0)</b>	<b>(0.1)</b>	<b>(0.3)</b>	<b>(1.2)</b>	<b>(0.7)</b>	<b>(0.5)</b>

	8 HUSM	9 LHYP	10 KHYP	11 JLKR	12 TOTAL (1-11)
<b>Income statement</b>					
Income from lending	0.1	0.2	0.1	0.1	2.8
Interest, net	0.1	0.1	0.0	0.0	0.6
Administrative expenses	(0.3)	(0.3)	(0.1)	(0.1)	(3.2)
Impairment losses on loans and advances	0.0	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.0	0.0
<b>Profit (loss)</b>	<b>(0.1)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>
<b>Balance sheet</b>					
<b>Assets</b>					
Mortgage loans	12.8	8.6	5.3	11.5	522.6
Remaining assets	11.4	10.9	4.9	5.2	157.2
<b>Total assets</b>	<b>24.2</b>	<b>19.5</b>	<b>10.2</b>	<b>16.7</b>	<b>679.8</b>
<b>Liabilities and equity</b>					
Bonds in issue	14.0	11.1	7.0	13.3	566.8
Remaining liabilities	0.8	0.7	0.3	0.6	22.8
Equity	9.4	7.7	2.9	2.8	90.2
<b>Total liabilities and equity</b>	<b>24.2</b>	<b>19.5</b>	<b>10.2</b>	<b>16.7</b>	<b>679.8</b>
<b>Movements in capital, net</b>	<b>(0.2)</b>	<b>(0.9)</b>	<b>(0.8)</b>	<b>(0.9)</b>	

# Series Financial Statements for 2014 of Nykredit Realkredit A/S DKK million

## Summary at the level of the Association and Nykredit Realkredit In General

	13 FK	14 JK	15 NYK	16 TOTAL (13-15)	17 INST	18 TOTAL (12, 16, 17)
<b>Income statement</b>						
Income from lending	0.0	0.1	4,307.9	4,308.0	0.0	4,310.8
Interest, net	0.0	0.0	234.3	234.3	164.8	399.7
Administrative expenses	0.0	0.0	(1,147.3)	(1,147.3)	(807.4)	(1,957.9)
Impairment losses on loans and advances	0.0	0.0	(1,756.9)	(1,756.9)	33.8	(1,723.1)
Tax	0.0	0.0	(409.5)	(409.5)	194.8	(214.7)
<b>Profit (loss)</b>	<b>0.0</b>	<b>0.1</b>	<b>1,228.5</b>	<b>1,228.6</b>	<b>(414.0)</b>	<b>814.8</b>
<b>Balance sheet</b>						
<b>Assets</b>						
Mortgage loans	3.1	2.6	583,998.0	584,003.7	1.1	584,527.4
Remaining assets	1.7	3.0	815,177.9	815,182.6	29,509.9	844,849.7
<b>Total assets</b>	<b>4.8</b>	<b>5.6</b>	<b>1,399,175.9</b>	<b>1,399,186.3</b>	<b>29,511.0</b>	<b>1,429,377.1</b>
<b>Liabilities and equity</b>						
Bonds in issue	4.3	5.2	1,321,271.6	1,321,281.1	0.0	1,321,847.9
Remaining liabilities	0.5	0.3	46,939.1	46,939.9	990.0	47,952.7
Equity	0.0	0.1	30,965.2	30,965.3	28,521.0	59,576.5
<b>Total liabilities and equity</b>	<b>4.8</b>	<b>5.6</b>	<b>1,399,175.9</b>	<b>1,399,186.3</b>	<b>29,511.0</b>	<b>1,429,377.1</b>
<b>Movements in capital, net</b>	<b>(0.3)</b>	<b>(0.4)</b>	<b>(1,424.0)</b>		<b>2,217.9</b>	

1 Københavns Kreditforening	7 Den vest- og sønderjydske Kreditforening	13 Forenede Kreditforeninger
2 Fyens Stifts Kreditforening	8 Jydsk Husmandskreditforening	14 Jyllands Kreditforening
3 Landskreditkassen	9 Landhypotekforeningen for Danmark	15 Nykredit (incl Capital Centres C, D, E, G, H and I)
4 Østifternes Husmandskreditforening	10 Købstadshypotekforeningen	<b>16 Total (13-15) Associations after 1972</b>
5 Byernes Hypotekforening	11 Jydsk Landkreditforening	17 Nykredit Realkredit In General
6 Sønderjyllands Kreditforening	<b>12 Total (1-11) Associations before 1972</b>	<b>18 Total (12, 16, 17) Nykredit Realkredit A/S</b>

## Notes

### 1. Assets, Series Financial Statements

Assets, Annual Report	1,322,918.0
Assets, Series Financial Statements	1,429,377.1
<b>Difference</b>	<b>(106,459.1)</b>

Specified as follows:

Set-off of self-issued ROs, self-issued SDOs, self-issued senior secured debt and self-issued other securities	(105,264.1)
Set-off of interest receivable from self-issued bonds	(1,195.0)
<b>Total</b>	<b>(106,459.1)</b>

### 2. Equity, Series Financial Statements

Equity in the Series Financial Statements may be reconciled to the Financial Statements of Nykredit Realkredit A/S as follows:

Equity, Financial Statements	59,502.5
Provisions for repayable reserves in pre-1972 series	74.0
<b>Equity, Series Financial Statements</b>	<b>59,576.5</b>

# OTHER INFORMATION

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## Financial calendar for 2015 – the companies of the Nykredit Group

5 February	Annual reports for 2014 and announcements of financial statements of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
17 March	Annual General Meeting of Nykredit Bank A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
17 March	Annual General Meeting of Totalkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
18 March	Annual General Meeting of Nykredit Realkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
13 May	Q1 interim reports of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
20 August	H1 interim reports of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
5 November	Q1-Q3 interim reports of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.

**DIRECTORSHIPS AND EXECUTIVE POSITIONS**

The Board of Directors and the Executive Board form the Nykredit Realkredit Group Management.

**BOARD OF DIRECTORS**

The Board of Directors meets monthly, except in July, and holds a strategy and theme seminar once a year.

The members of Nykredit's Board of Directors are elected for a term of one year. The latest election took place on 19 March 2014. Re-election is not subject to any restrictions.

Below, an account is given of the individual director's position, age and years of service on the Board as well as directorships and executive positions in other Danish and foreign companies as well as major organisational responsibilities.

All members of the Board of Directors are also directors of the Parent Company Nykredit Holding A/S.

It is standard practice at Nykredit that the eight members of the Board of Directors of Foreningen Nykredit elected by the Committee of Representatives are also elected for the Boards of Directors of Nykredit Holding A/S and Nykredit Realkredit A/S and that the last two members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting are also members of the Board of Directors of Nykredit Holding A/S. Formally speaking, the directors elected by the General Meeting represent the interests of a majority shareholder and they are often borrowers of Nykredit Realkredit A/S. This is a natural consequence of the Nykredit Group being a financial mutual and the shared objectives and interests of the companies. As the Board of Directors of Nykredit Realkredit A/S is considered to act independently of special interests, all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting are generally considered independent.

**Steen E. Christensen**

Attorney

Date of birth: 2 April 1947  
Joined the Board on 1 May 2000  
Non-independent director in view of the length of tenure

Chairman of:  
Foreningen Nykredit  
A/S Motortramp  
Aktieselskabet Dampskibsselskabet  
Orients Fond  
Aktieselskabet Det Dansk-Franske Dampskibsselskabs Understøttelsesfond af 1950  
Bornholmstrafikken Holding A/S  
Charlottenlund & Nedergaard Godser A/S  
Det Arnstedtske Familiefond  
Ejendomsselskabet Amaliegade 49 A/S  
Persolit Holding A/S  
Rosendal og Margrethelund Godser A/S

Deputy Chairman of:  
Danske Færger A/S

Director of:  
Danish Nitrogen Import A/S  
Ny-Nitrogen A/S  
Persolit Entreprenørfirma A/S  
Skovselskabet Bjørsløv ApS  
Skovselskabet Dejbjerg ApS  
Skovselskabet Djursland ApS  
Skovselskabet Glumsø Østerskov ApS  
Skovselskabet Guldborgland ApS  
Skovselskabet Harreskov ApS  
Skovselskabet Hesselvig ApS  
Skovselskabet Morville ApS  
Skovselskabet Rønhøj ApS  
Skovselskabet Skov-Sam Holding ApS  
Skovselskabet Skov-Sam II ApS  
Skovselskabet Skåningshave ApS  
Skovselskabet Skåstrup Frihed ApS  
Skovselskabet Slauggaard ApS  
Skovselskabet Ørbæk ApS  
Soldaterlegatets Præsidium

Chief Executive Officer of:  
Advokatanpartsselskabet Steen E. Christensen

Legal Secretary of Foreningen Danske Godser og Herregårde (Godsejerforeningen)\*\*

**Hans Bang-Hansen**

Farmer

Date of birth: 15 August 1955  
Joined the Board on 1 May 2001  
Non-independent director in view of the length of tenure

Chairman of:  
Horsens Vand A/S  
Horsens Vand Holding A/S  
Håstrupgård ApS

Director of:  
Foreningen Nykredit  
Bjerre Gymnastik- & Idrætsefterskole\*\*  
Horsens Folkeblads Fond

Municipal posts:  
Chairman of Midttrafik  
Member of the municipal council of Horsens

Managing Director of:  
Arnen Holding ApS  
HGE Holding ApS  
Håstrupgård Ejendomme ApS  
LNT Invest ApS  
Provstlund ApS\*

**Steffen Kragh**

Chief Executive Officer

Date of birth: 6 April 1964  
Joined the Board on 1 April 2006  
Independent director

Managing Director of:  
Egmont Fonden  
Egmont International Holding A/S  
Ejendomsselskabet Gothersgade 55 ApS  
Ejendomsselskabet Vognmagergade 11 ApS

Chairman of:  
Egmont Administration A/S  
Egmont Finansiering A/S  
Egmont Holding A/S  
Lindhardt og Ringhof Forlag A/S  
Nordisk Film A/S  
AE-TV Holding AS  
Egmont AS  
Egmont Holding AS  
Egmont Holding Limited

Deputy Chairman of:  
Cappelen Damm Holding AS  
Lundbeckfonden  
Lundbeckfond Invest A/S

Director of:  
Foreningen Nykredit  
Egmont Book Publishing Ltd.  
Egmont UK Ltd  
N2L Sleeping Egmont A/S\*

Chief Executive Officer of:  
NKB Invest 103 ApS

**Kristian Bengaard\*\*\***

Senior Consultant

Date of birth: 16 August 1958  
Joined the Board on 1 March 1999

Director of:  
Foreningen Nykredit

Member of the Executive Council of  
Finansforbundet



**Michael Demnitz**

Chief Executive Officer

Date of birth: 1 February 1955  
 Joined the Board on 1 April 2004  
 Independent director

Managing Director of:  
 Boligkontoret Danmark

Chairman of:  
 Alment Bestyrelsesakademi  
 Byggeskade-fonden\*

Director of:  
 Foreningen Nykredit  
 Almen BoligNet  
 Boligselskabernes Landsforening

**Merete Eldrup**

Chief Executive Officer

Date of birth: 4 August 1963  
 Joined the Board on 24 March 2010  
 Independent director

Chief Executive Officer of:  
 TV2/DANMARK A/S

Chairman of:  
 TV 2 BIB A/S  
 TV 2 DTT A/S  
 TV 2 Networks A/S  
 TV 2 News A/S\*\*  
 TV 2 Radio A/S

Deputy Chairman of:  
 Gyldendal A/S

Director of:  
 Foreningen Nykredit  
 Rambøll Gruppen A/S

**Marlene Holm\*\*\***

Political Secretary

Date of birth: 2 December 1964  
 Joined the Board on 21 March 2012  
 Director of:  
 Foreningen Nykredit

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

Chief Relationship Manager

Date of birth: 6 March 1958  
 Joined the Board on 1 May 2000

Director of:  
 Nykredit Bank A/S

**Bent Naur**

Former Chief Executive Officer

Date of birth: 24 April 1947  
 Joined the Board on 20 March 2013  
 Independent director

Chairman of:  
 Fonden Nr. Vosborg

Deputy Chairman of:  
 Finansiell Stabilitet A/S

**Anders C. Obel**

Chief Executive Officer

Date of birth: 19 October 1960  
 Joined the Board on 25 March 2009  
 Independent director

Chief Executive Officer of:  
 C.W. Obel A/S

Chairman of:  
 Aktieselskabet Amaliegade 10\*\*  
 C. W. Obel Ejendomme A/S  
 C. W. Obel Projekt A/S  
 Ejendomsselskabet Stigsborgvej A/S\*\*  
 Obel-LFI Ejendomme A/S  
 Semco Maritime A/S  
 SGD-Bera A/S\*\*

Deputy Chairman of:  
 Danfoss Semco A/S

Director of:  
 Foreningen Nykredit  
 Axzon A/S\*  
 Erhvervsinvest Management A/S  
 Fonden Det Obelske Jubilæumskollegium  
 Fritz Hansen A/S  
 Scandinavian Tobacco Group A/S  
 Skandinavisk Holding A/S  
 Skandinavisk Holding II A/S  
 Woodmancott Fonden

Chief Executive Officer of:  
 NKB Invest 108 ApS

**Erling Bech Poulsen**

Farmer

Date of birth: 14 June 1955  
 Joined the Board on 25 March 2009  
 Independent director

Chairman of:  
 Foreningen Østifterne f.m.b.a.

Director of:  
 Agrovakia A/S  
 Axzon A/S  
 Kølhede Invest A/S  
 Polen Invest A/S  
 Vandborg Karosserifabrik A/S

Managing Director of:  
 Kølhede Holding ApS  
 Kølhede Invest A/S  
 Måjbrit Poulsen Holding ApS  
 Malene Poulsen Holding ApS  
 Morten Poulsen Holding ApS

**Lars Peter Skaarup\*\*\***

Personal Adviser

Date of birth: 16 March 1959  
 Joined the Board on 21 March 2012

Director of:  
 Foreningen Nykredit  
 Oliefyrsmanden A/S

**Nina Smith**

Professor

Date of birth: 17 October 1955  
 Joined the Board on 1 October 2004  
 Independent director

Professor at Institut for Økonomi,  
 Aarhus Universitet

Chairman of:  
 Aarhus Symposium  
 Dagpengekommissionen\*  
 Favrskov Gymnasium  
 KORA (Det Nationale Institut for Kommuner  
 og Regioners Analyse og Forskning)

Deputy Chairman of:  
 Foreningen Nykredit

Director of:  
 Aarhus Festuges Fond  
 A/S Høeghsminde Parkbebyggelse  
 Carlsberg A/S  
 Carlsbergfondet  
 Carlsbergfondets Forskerboliger A/S  
 Ejendomsaktieselskabet C.F. Richevej 99-101  
 Ejendomsaktieselskabet "Haraldsborg"  
 Ejendomsaktieselskabet "Munken"  
 Ejendomsaktieselskabet "Ved Boldparken"  
 Ejendoms-Aktieselskabet Søborg Huse  
 Member of Det Økonomiske Råd  
 Member of Regeringens Kvalitetsudvalg\*

**Jens Erik Udsen**

Managing Director

Date of birth: 1 November 1946  
 Joined the Board on 1 May 1998  
 Non-independent director in view of the length of tenure

Managing Director of:  
 Langstrupvej ApS\*  
 Nesdu A/S

Director of:  
 Foreningen Nykredit  
 Fonden "Renholdningsselskabet af 1898"  
 Jeudan A/S\*\*  
 Nesdu A/S  
 Sbs Byfornyelse s.m.b.a.

**Leif Vinther\*\*\***

Chairman of Staff Association

Date of birth: 18 April 1959  
 Joined the Board on 1 May 2000

Director of:  
 Foreningen Nykredit

**EXECUTIVE BOARD**

Below, an account is given of the individual executive board member's position, age, years of service on the Board and other executive positions, including in other companies as permitted by the Board of Directors pursuant to section 80 of the Danish Financial Business Act.

**Michael Rasmussen**

Group Chief Executive

Date of birth: 13 November 1964  
 Joined the Executive Board on  
 1 September 2013

Chief Executive Officer of:  
 Foreningen Nykredit  
 Nykredit Holding A/S

Chairman of:  
 Investeringsfonden for Udviklingslande (IFU)  
 Nykredit Bank A/S\*  
 Association of Danish Mortgage Banks  
 Totalkredit A/S\*

Director of:  
 Nykredits Fond  
 Creditkassens Jubilæumsfond

**Kim Duus**

Group Managing Director

Date of birth: 8 December 1956  
 Joined the Executive Board on  
 15 May 2009

Managing Director of:  
 Nykredit Holding A/S

Chairman of:  
 Nykredit Portefølje Administration A/S

Director of:  
 Nykredit Bank A/S  
 Totalkredit A/S

**Søren Holm**

Group Managing Director

Date of birth: 15 November 1956  
 Joined the Executive Board on  
 1 March 2006

Managing Director of:  
 Nykredit Holding A/S

Chairman of:  
 Ejendomsselskabet Kalvebod A/S  
 Nykredit Administration V A/S\*\*

Deputy Chairman of:  
 Nykredit Bank A/S

Director of:  
 Nykredit Mægler A/S\*\*  
 JN Data A/S  
 Association of Danish Mortgage Banks  
 Totalkredit A/S  
 VP Securities A/S

**Anders Jensen\***

Group Managing Director

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

Managing Director of:  
 Nykredit Holding A/S\*

Director of:  
 Nykredit Bank A/S\*  
 DSEB (Danish Society for Education and Business)  
 Niels Brock (Copenhagen Business College)  
 Swipp Holding ApS\*  
 Totalkredit A/S\*  
 4T af 1. oktober 2012 Drift ApS\*

**Bente Overgaard**

Group Managing Director

Date of birth: 21 June 1964  
 Joined the Executive Board on  
 1 March 2008

Managing Director of:  
 Nykredit Holding A/S

Chairman of:  
 Nykredits Afviklingspensionskasse  
 Nykredit Ejendomme A/S

Deputy Chairman of:  
 JN Data A/S\*

Director of:  
 Nykredit Bank A/S  
 Nykredit Mægler A/S\*\*  
 Totalkredit A/S\*  
 Bankernes EDB Central a.m.b.a.\*  
 E-nettet A/S\*  
 Finanssektorens Arbejdsgiverforening (FA)  
 Finanssektorens Uddannelsescenter  
 HOFOR A/S\*\*  
 HOFOR Forsyning Holding P/S\*\*  
 HOFOR Forsyning Komplementar A/S\*\*  
 HOFOR Holding A/S\*\*  
 Øresundsinstittet

Member of the committee of representatives of:  
 Ejendomsforeningen Danmark

**Karsten Knudsen\*\***

Group Managing Director  
 Resigned on 31 August 2014

**Per Ladegaard\*\***

Group Managing Director  
 Resigned on 31 August 2014

\* Joined in 2014

\*\* Resigned in 2014

\*\*\* Staff-elected member (non-independent director)