

Nykredit

**Nykredit
Realkredit
Group**

Annual Report 2017



Contents

MANAGEMENT COMMENTARY	2	FINANCIAL STATEMENTS 2017	60
Company details	3	Income statements	60
Group chart	4	Statements of comprehensive income	61
Financial highlights	5	Balance sheets	62
Nykredit's strategy	7	Statements of changes in equity	64
2017 – in brief	9	Cash flow statement	66
2017 overview	9	Notes	67
Results for Q4/2017	11	MANAGEMENT COMMENTARY (CONTINUED)	149
Results relative to outlook	11	Series financial statements	150
Outlook for 2018	11	Financial calendar for 2018	153
Special accounting circumstances	12	Directorships and executive positions	154
Other	12		
Uncertainty as to recognition and measurement	12		
Material risks	12		
Events since the balance sheet date	12		
Business areas	13		
Retail	14		
Totalkredit Partners	17		
Wholesale Clients	19		
Wealth Management	21		
Group Items	23		
Capital, funding and liquidity	24		
Equity and own funds	26		
Funding	29		
Credit ratings	33		
Liquidity	34		
Lending	36		
Mortgage lending	37		
Bank lending	41		
Organisation, management and corporate responsibility	43		
Business concept	43		
Organisation and responsibilities	44		
The under-represented gender	46		
Corporate governance	46		
Remuneration	46		
Internal control and risk management systems	47		
Alternative performance measures	49		
New earnings presentation in Management Commentary	49		
Group companies	50		
Nykredit A/S	50		
Nykredit Realkredit A/S	50		
Totalkredit A/S	52		
Nykredit Bank Group	53		
Other subsidiaries	53		
Management statement and audit reports	54		
Statement by the Board of Directors and the Executive Board on the Annual Report	54		
Internal auditors' report	55		
Independent auditor's report	56		

COMPANY DETAILS

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

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

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

External auditors

Deloitte
Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
DK-2300 Copenhagen S

Annual General Meeting

The Annual General Meeting of the Company will be held on 22 March 2018.

BOARD OF DIRECTORS

Steffen Kragh, Chief Executive Officer
Chairman

Merete Eldrup, Chief Executive Officer
Deputy Chairman

Nina Smith, Professor
Deputy Chairman

Helge Leiro Baastad, Chief Executive Officer
Hans Bang-Hansen, Farmer
Olav Bredgaard Brusén, Deputy Chairman of NYKREDS*
Michael Demsitz, Chief Executive Officer
Per W. Hallgren, Chief Executive Officer
Marlene Holm, Personal Banking Adviser*
Vibeke Krag, former Chief Executive Officer
Allan Kristiansen, Chief Relationship Manager*
Bent Naur, former Chief Executive Officer
Erling Bech Poulsen, Farmer
Inge Sand, Senior Agricultural Adviser*
Leif Vinther, Chairman of Staff Association*

* Staff-elected member

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

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

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

See pages 154-156 for directorships and executive positions of the members of the Board of Directors and the Executive Board.

AUDIT BOARD

Per W. Hallgren, Chairman
Helge Leiro Baastad
Merete Eldrup
Bent Naur

RISK BOARD

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

NOMINATION BOARD

Steffen Kragh, Chairman
Merete Eldrup
Nina Smith

REMUNERATION BOARD

Steffen Kragh, Chairman
Merete Eldrup
Nina Smith
Leif Vinther

EXECUTIVE BOARD

Michael Rasmussen
Group Chief Executive

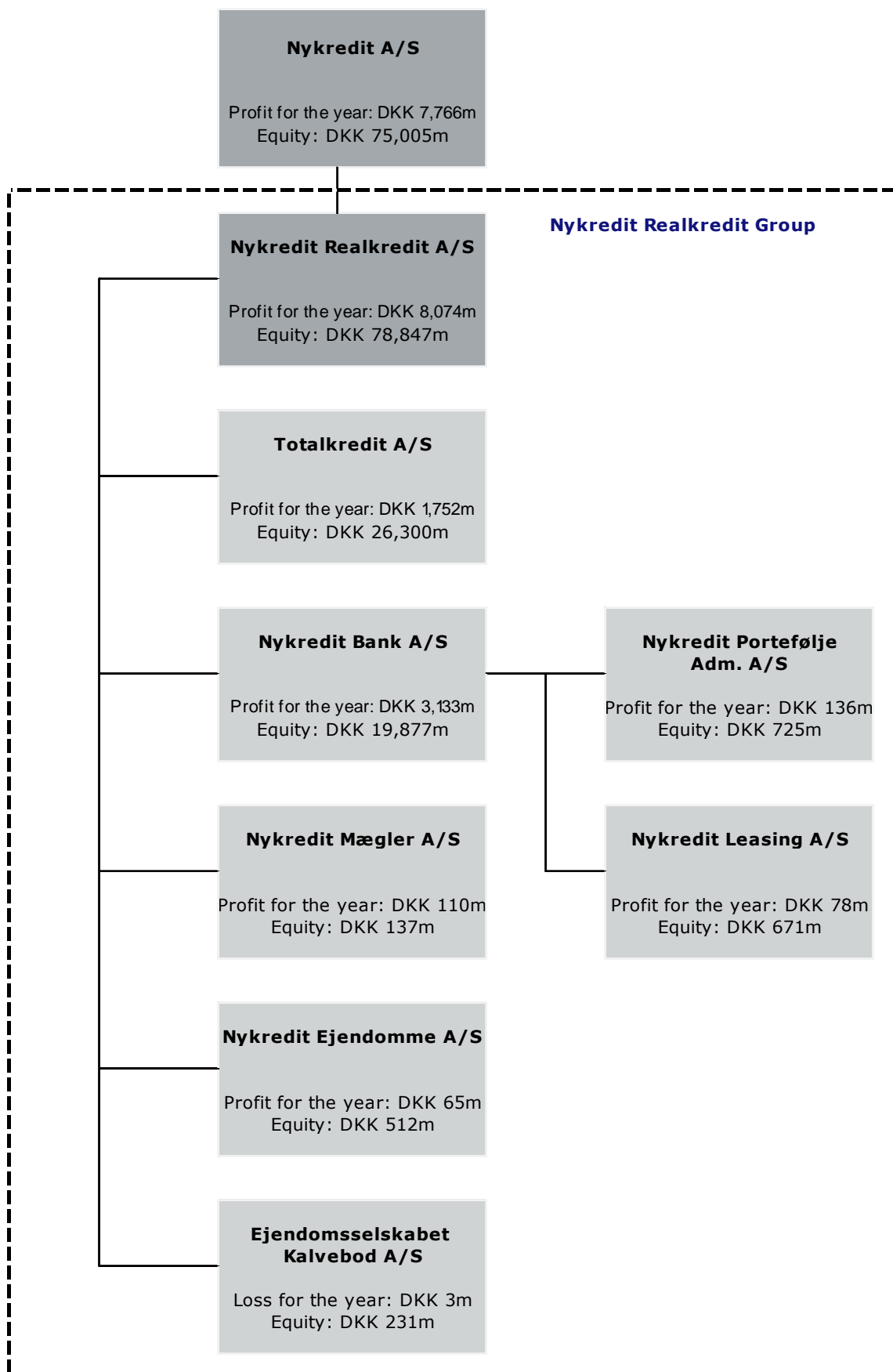
Kim Duus
Group Managing Director

David Hellemann
Group Managing Director

Søren Holm
Group Managing Director

Anders Jensen
Group Managing Director

GROUP CHART



FINANCIAL HIGHLIGHTS

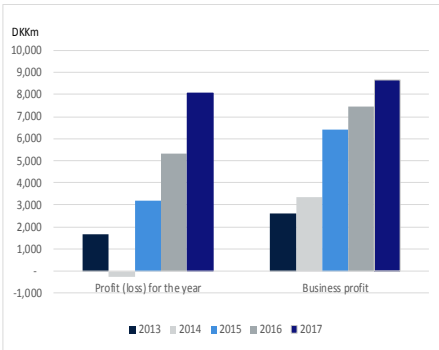
Nykredit Realkredit Group						Q4/	Q3/
DKK million	2017	2016	2015	2014	2013	2017	2017
BUSINESS PROFIT OG PROFIT FOR THE YEAR							
Net interest income	9,006	8,747	8,462	8,457	7,646	2,232	2,276
Net fee income	2,470	2,251	2,376	2,174	2,028	664	640
Wealth management income	1,402	1,184	1,040	993	991	355	356
Net interest from capitalisation	(360)	(448)	(573)	(807)	(826)	(87)	(70)
Trading, investment portfolio and other income	1,492	1,676	1,102	(24)	1,593	(202)	425
Income	14,010	13,410	12,407	10,793	11,432	2,961	3,628
Costs	4,977	5,260	5,066	5,103	6,047	1,431	1,180
Business profit before impairment charges	9,033	8,151	7,341	5,691	5,385	1,531	2,448
Impairment charges for loans and advances	379	680	920	2,351	2,764	930	(102)
Business profit	8,653	7,471	6,421	3,340	2,621	601	2,551
Legacy derivatives	1,517	(763)	229	(2,674)	(708)	29	122
Impairment of goodwill and customer relationships	-	-	1,965	852	-	-	-
Profit (loss) before tax	10,170	6,708	4,685	(186)	1,914	630	2,673
Tax	2,091	1,378	1,494	90	240	145	509
Profit (loss) for the year	8,080	5,329	3,191	(276)	1,674	485	2,164
Minority interests	-	-	-	-	-	-	-
Profit (loss) for the year excluding minority interests	8,080	5,329	3,191	(276)	1,674	485	2,164
Other comprehensive income, value adjustment of strategic equities	(6)	331	7	238	(343)	(78)	(53)
Other comprehensive income, remaining items	1	12	25	(32)	(22)	3	7
Comprehensive income for the year	8,074	5,672	3,223	(69)	1,310	411	2,118
Interest on Additional Tier 1 capital charged against equity	233	233	197	-	-	59	58
SUMMARY BALANCE SHEET							
	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2017	30.09.2017
Assets							
Receivables from credit institutions and central banks	48,031	34,829	23,253	42,288	35,758	48,031	40,064
Mortgage loans at fair value	1,163,879	1,124,693	1,119,101	1,137,099	1,136,644	1,163,879	1,155,047
Bank loans excluding reverse repurchase lending	55,783	55,003	46,747	50,494	46,963	55,783	57,270
Bonds and equities	102,125	116,555	110,294	131,383	92,961	102,125	95,531
Remaining assets	56,992	69,525	84,394	96,037	105,087	56,992	51,638
Total assets	1,426,810	1,400,606	1,383,789	1,457,301	1,417,414	1,426,810	1,399,550
Liabilities and equity							
Payables to credit institutions and central banks	13,319	21,681	30,226	44,863	44,393	13,319	13,233
Deposits	75,914	65,415	62,599	65,232	65,172	75,914	69,001
Bonds in issue at fair value	1,179,093	1,152,383	1,137,314	1,167,163	1,130,020	1,179,093	1,161,855
Subordinated debt	10,942	11,078	11,006	11,394	10,964	10,942	10,985
Remaining liabilities	68,695	79,092	77,184	109,998	108,148	68,695	65,951
Equity	78,847	70,957	65,460	58,650	58,716	78,847	78,525
Total liabilities and equity	1,426,810	1,400,606	1,383,789	1,457,301	1,417,414	1,426,810	1,399,550
FINANCIAL RATIOS							
Profit (loss) for the year as % of business capital (ROAC) ¹	14.5	10.1	5.4	(0.1)	2.4	2.7	15.3
Profit (loss) for the year as % of average equity ²	11.0	8.6	5.0	(0.1)	2.3	1.9	11.2
Costs as % of income	35.5	39.2	40.8	47.3	52.9	48.3	32.5
Total provisions for loan impairment and guarantees	7,915	8,341	8,646	9,172	8,456	7,915	7,213
Impairment charges for the year, %	0.03	0.06	0.08	0.19	0.22	0.08	(0.04)
Total capital ratio, %	25.3	23.0	23.9	18.2	18.9	25.3	25.8
Common Equity Tier 1 capital ratio, %	20.6	18.8	19.4	15.4	15.8	20.6	21.3
Internal capital adequacy requirement, %	10.2	10.2	11.8	11.3	10.4	10.2	10.2
Average number of staff, full-time equivalent	3,505	3,648	3,757	3,971	4,052	3,469	3,477

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

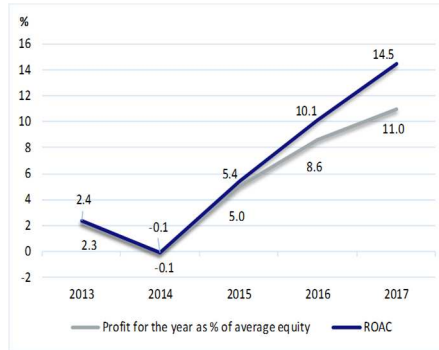
² For the purpose of return on equity, the AT1 capital raised in 2015 is treated as a financial obligation for accounting purposes, and the dividends for the year thereon for accounting purposes are included as interest expenses on subordinated debt in profit (loss) for the year. Moreover, the addition of value adjustment of strategic equities is recognised in "Other comprehensive income".

This presentation has changed in some areas. The former income statement item "Income from core business" has been replaced by a new principal item "Income", which will also include the former item "Investment portfolio income" going forward. The income statement item "Profit from core business" has moreover been replaced by a new principal item, "Business profit". "Legacy derivatives" is still presented as a separate item. Reference is made to page 49 and note 1, accounting policies. The changes have not impacted profit, comprehensive income, balance sheet or equity. Comparative figures for previous periods have been restated.

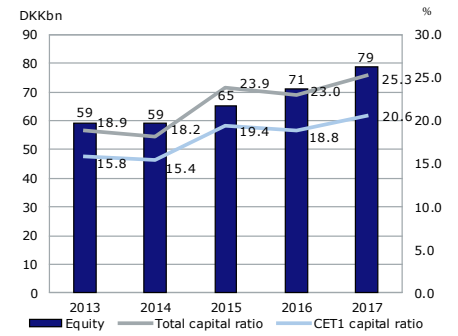
Profit (loss) for the year/business profit



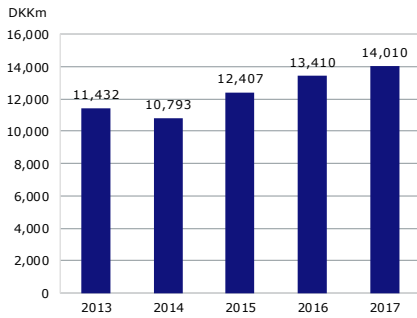
Return on equity and ROAC



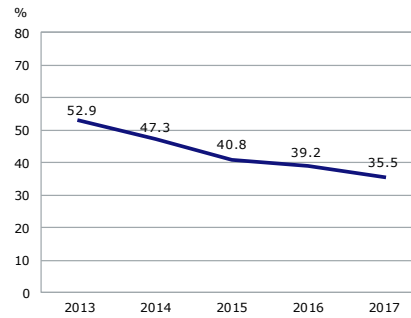
Equity and capital adequacy



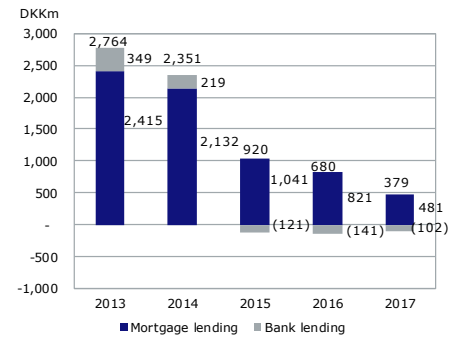
Income



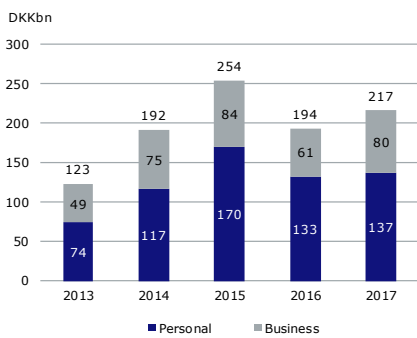
Costs as % of income



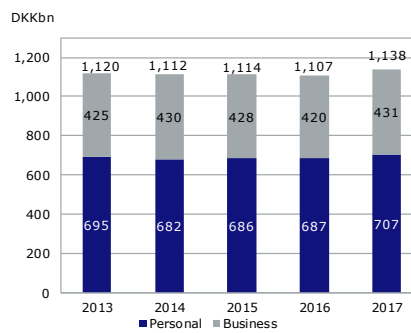
Impairment charges for loans and advances



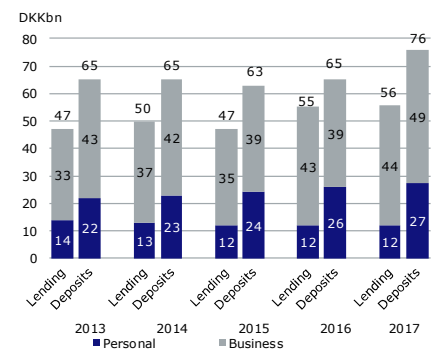
Gross new mortgage lending



Mortgage lending, year-end, nominal value



Bank lending and deposits, year-end



NYKREDIT'S STRATEGY

Winning the Double

Nykredit's strategy, Winning the Double, aims to ensure satisfied and loyal full-service customers and to strengthen the Totalkredit alliance.

We adopted Winning the Double as the Group's strategy in 2014. The strategy has guided Nykredit's continued development and transformation. The strategic focus of putting customers first and building a more profitable and efficient core business, while strengthening the alliance with our Totalkredit partners, has now materialised in a significantly improved financial performance.

Over the past few years, we have launched a number of major business development initiatives as part of the delivery of our strategy.

To strengthen self-distribution, we have launched competitive customer propositions, for example our homeowner banking programme, Nykredit BoligBank, and our business banking programme, Nykredit ErhvervsBank, which have streamlined and improved our products and services for homeowners and business customers. In 2017 competitive customer propositions resulted in a considerable net increase in the number of full-service customers. Similarly, we have improved our Private Banking propositions, which, apart from winning several awards, has led to growth in the number of new Private Banking clients. At the same time, customer satisfaction among our personal and business customers is rising.

The Totalkredit alliance has solidified and continues to develop, resulting in increased lending in terms of mortgage loans as well as secured homeowner loans. Lending in 2017 grew by DKK 39bn. Totalkredit's lending now totals a nominal DKK 630bn, up more than DKK 88bn since 2014.

Our strategy includes enhancing efficiency and lowering costs, and our cost:income ratio has dropped significantly from 2013 to 2017.

Customer loyalty bonuses

In September 2017, the Nykredit Group paid out the first KundeKroner loyalty bonuses in the form of a discount on the administration margin payments on personal mortgage loans with Totalkredit. The Nykredit Group's largest shareholder, Forenet Kredit, made a capital contribution to Totalkredit, allowing Totalkredit to pay out loyalty bonuses to homeowners with a mortgage loan in Totalkredit.

The customer loyalty bonus programme is a unique concept – and a clear advantage of being owned by an association of customers is that Forenet Kredit may make capital contributions to the Nykredit Group for the benefit of our customers. The basic idea behind the concept is that Nykredit's success should benefit our customers.

Now that our capital position has been settled following Forenet Kredit's sale of shares, the Group can raise the loyalty bonus payouts and expand the programme to a wider group of customers. Discounts will be raised by 50% in 2018, meaning that Totalkredit customers with personal mortgage loans will receive an annual discount of DKK 1,500 for every million Danish kroner borrowed. The concept has also been expanded to include mortgage loans of the Group's business customers. Business customers will receive the same discount as personal customers of Totalkredit – however, only for the first DKK 20m of their debt outstanding.

We aim to pay out loyalty bonuses to our customers each year and have already at this point fixed the annual discount at DKK 1,500 for every million Danish kroner borrowed for business and personal mortgage customers alike for the period up to end-2019. Future discounts and their size will depend on the Nykredit Group's future financial position and the size of contributions received from Forenet Kredit going forward.

For a more detailed description of the KundeKroner loyalty bonus programme, please see the terms of the programme at nykredit.com and totalkredit.dk.

Focus on full-service customers

Nykredit focuses on Danish homeowners. We want to be homeowners' first choice and to win homeowners over as full-service customers. Nykredit's homeowner banking programme, BoligBank, was further developed during the year, and we implemented a number of initiatives in 2017 to strengthen our propositions and market position. The most important are:

- A new service concept giving greater priority to full-service customers. Customers having a personal adviser will in future be offered both online and local advisory services. On top of this, we are offering daily services and on-the-spot advice via our call centre Nykredit Direkte throughout its extended opening hours – 70 hours a week.
- Setting up ten private banking centres with specialist wealth management teams. For more than a decade, Nykredit has provided private banking to high net worth individuals, and we are now offering our expertise and insight in this area to a wider group of wealthy personal clients. In 2017 our private banking value propositions were recognised with the award "Best Private Banking in Denmark in 2017" and were ranked No 1 in Prospera's annual private banking survey.
- Strengthening and developing Nykredit's position in the wealth management area through a new partnership with Nærpension for pension and life insurance products.
- Strengthening and developing Nykredit's position in business banking by improving the servicing of our largest

Retail Business customers at five new business banking customer centres. This will pave the way for deeper client relationships, a higher service level and tailored advisory services.

- Launching a number of digital solutions and a new visual identity. We also relaunched a number of websites; nykredit.com, nykreditinvest.dk and formue.nykredit.dk. We launched a beta version of Radar, an app that helps our customers stay on top of their finances. Furthermore, we launched Nykredit Wallet, an app for contactless payments, and Finans, an app offering financial markets data.

Expansion of partner activities

Nykredit wants to be a strong business partner to the local and regional banks of the Totalkredit alliance.

In 2017 we took a number of specific initiatives to consolidate and further develop our partnership. The most important are:

- The customer loyalty bonus programme, KundeKroner, offering customers a discount on the administration margin payments on their personal mortgage loans with Totalkredit. KundeKroner loyalty bonuses were paid out to Totalkredit's customers for the first time in 2017.
- We launched the first part of a new, future-proof mortgage lending platform based on the needs of our customers and new technologies. Thanks to the new mortgage lending platform, we can offer our customers reduced service times and extended self-service functionality, whilst also easing the daily workload of our staff.
- Nykredit has formed a partnership with Nærpension as Nykredit's pension and life insurance provider. This is part of an objective to engage with a strong business partner in the pensions area and to strengthen the partnership with the Totalkredit partner banks.
- A group of Danish investors headed by Nykredit bought the Danish government's shareholding in Vestjysk Bank to secure the long-term viability of the bank, which has been challenged for a number of years. This solution supports Totalkredit's distribution power.
- The launch of the new Totalkredit brand strategy, "stronger together", and a new visual identity. The objective of the new brand strategy, "stronger together", is to strengthen Totalkredit as well as its ties with the partner banks.

Increased efficiency and digitisation

We have raised efficiency in recent years, and our cost:income ratio has dropped from 53% in 2013 to just under 36% in 2017, which is below our 40% target. The very low cost:income ratio in 2017 was driven by income growth, including one-off income, as well as declining costs.

In 2017 we launched a number of specific measures to further reduce total Group costs. In this connection, the number of jobs was reduced, bringing the headcount to 143. As part of the refocusing of our business, Nybolig Erhverv, a commercial estate agency business, and Nykredit's lending activities in Poland were divested. Also, Nykredit has sold more headquarters buildings.

In 2017 Nykredit took the first major steps towards its all-in transition to BEC, an IT provider, to obtain efficient and sustainable IT solutions. Together with the other BEC member banks, Nykredit has adopted a number of BEC solutions, including a new online banking service, a new documents filing solution and a new digital signature solution. In addition, a few advisory systems have been replaced by BEC solutions.

2017 – IN BRIEF

2017 OVERVIEW

The Nykredit Realkredit Group delivered a positive and highly satisfactory financial performance in 2017 driven by good customer activity, high investment portfolio income and positive macroeconomic trends, which led to, for example, low as well as reversed impairments for loans and advances. Furthermore, the Group received one-off income from the settlement of two large housing cooperative exposures, the divestment of the activities of Nybolig Erhverv, a commercial estate agency business, and the last of the Group's headquarters buildings. This was offset by Nykredit's recognition of the estimated impact of new principles for impairment of mortgage lending (expected credit losses, cf IFRS 9), reducing the Group's profit. All in all, this year Nykredit delivered its strongest financial performance ever.

Nykredit's customer concepts generated satisfactory growth in the number of full-service BoligBank customers and increasing business volumes within especially banking, investment and pension products.

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

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

The Totalkredit alliance also continued to grow stronger, and Totalkredit lending rose by DKK 39bn in 2017 to DKK 630bn in nominal terms at end-2017.

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

Costs dropped as a result of the Group's cost discipline. Costs as % of income declined from 39.2% in 2016 to 35.5% in 2017, primarily as a result of our specific efforts to cut costs.

Going forward, Nykredit will continue to apply the same basic principles for mortgage loan impairment, which after implementation of IFRS 9 in 2018 will apply to lending at amortised cost. Management has decided to recognise the impact of about DKK 1.0bn on mortgage lending in the Financial Statements for 2017. Reference is made to note 52.

In addition, significant reversals of impairment provisions were made, as impairments from previous years partly relat-

ing to two large housing cooperative exposures were reversed in Q2, and as impairment levels were generally low in 2017. The low impairment level was driven by particularly positive trends in most of Nykredit's customer segments at the same time. For the coming year, partly normalised and thus higher impairment levels than in 2017 are expected.

Business profit went up by DKK 1,182m from DKK 7,471m in 2016 to DKK 8,653m in 2017.

Legacy derivatives, which are excluded from business profit, saw a positive change of DKK 2,280m. This should be seen in the context of a one-off gain from recoveries of losses previously written off on swap transactions with the above-mentioned two large housing cooperatives as well as the positive effect of both interest rates and credit spreads.

The Nykredit Realkredit Group's profit before tax thus rose from DKK 6,708m in 2016 to DKK 10,170m in 2017. Of total earnings growth of DKK 3,462m, DKK 1,005m was attributable to the settlement of two large housing cooperative exposures, where the trustee's sale of properties generated one-off income in the form of reversed loan impairment of DKK 266m and recovery of losses on swap transactions of DKK 739m.

At a tax of DKK 2,091m, profit after tax came to DKK 8,080m against DKK 5,329m in 2016. This represented a return on equity of 11.0% in 2017 compared with 8.6% last year. Profit for the year as a percentage of business capital (ROAC) was 14.5% against 10.1% in 2016.

Income

The Group's total income rose by DKK 600m from DKK 13,410m to DKK 14,010m in 2017.

Net interest income, which relates to lending and bank deposits in the presentation given in the Management Commentary, rose by DKK 259m to DKK 9,006m in 2017. The rise was notably driven by increased income in Totalkredit as a result of higher activity levels and a changed pricing structure from mid-2016.

KundeKroner loyalty bonuses in the form of a discount on the administration margin payments on personal mortgage loans were paid out to Totalkredit customers for the first time for Q3/2017. Discounts totalling DKK 304m were granted in 2017.

Net fee income, which chiefly relates to lending activity, including the refinancing of mortgage loans and various other services, saw a total increase of DKK 219m to DKK 2,470m in 2017. The upturn was primarily driven by rising activity in Retail and Wholesale Clients.

Wealth management income went up by DKK 218m to DKK 1,402m, owing to rising Asset Management activity. The income stems from activities carried out by the Group entities

Nykredit Markets, Nykredit Asset Management and Nykredit Portefølje Administration A/S.

Net interest expenses from capitalisation, which includes interest on subordinated debt, totalled DKK 360m against DKK 448m in 2016.

Nykredit's senior debt issues, including bail-inable bonds, came to DKK 25.6bn at end-2017 against DKK 26.8bn at end-2016, and net interest expenses amounted to DKK 188m against DKK 257m in 2016. Nykredit uses senior debt to fund supplementary collateral for covered bonds (SDOs) etc.

Nykredit had raised DKK 10.9bn of subordinated debt at end-2017 compared with DKK 11.1bn at end-2016. Net interest expenses came to DKK 265m against DKK 237m in 2016.

Trading, investment portfolio and other income, including value adjustments of swaps currently offered, was down by DKK 184m to DKK 1,492m from DKK 1,676m in the previous year. The decline was primarily driven by Retail and Group Items.

Nominal mortgage lending grew by DKK 31bn to DKK 1,138bn against DKK 1,107bn at end-2016. Totalkredit Partners and the Wholesale Clients and Wealth Management divisions recorded lending growth of DKK 29.0bn, DKK 9.3bn and DKK 2.1bn, respectively, whereas Retail lending dropped by DKK 9.5bn following run-off of customers exclusively having mortgage products and no banking relationship with Nykredit. Nykredit recorded decent net growth in the customer base for the period. Lending growth totalled DKK 31.0bn, of which DKK 20.8bn related to personal customers and DKK 10.2bn to business customers. Nykredit's lending growth was recorded across the country.

The Group's market share of total Danish private residential mortgage lending was 43.6% at end-2017 against 42.9% at end-2016, excluding loans arranged by banks which are no longer part of the Totalkredit alliance. Nykredit's market share of the business customers segment, including agricultural customers, was 36.2%. The total market share, excluding loans arranged by former Totalkredit partner banks, was 40.1%. Unlike previously, market share has, as of end-H1/2017, been determined on the basis of the Danish central bank's MFI statistics.

Bank lending rose by DKK 0.8bn to DKK 55.8bn from DKK 55.0bn at end-2016, reflecting the transfer of secured homeowner loans totalling DKK 3.4bn to Totalkredit in 2017.

Deposits rose by DKK 10.5bn to DKK 75.9bn from DKK 65.4bn at end-2016.

Nykredit Bank's deposits exceeded lending by DKK 20.1bn at end-2017 compared with DKK 10.4bn at the end of the previous year.

Costs

Total costs went down by 5% from DKK 5,260m in 2016 to DKK 4,977m, and costs as a percentage of income consequently dropped to 35.5%.

The average staff number declined by 143 persons, or 4%, from 3,648 in 2016 to 3,505.

Costs		
DKK million	2017	2016
Costs	4,977	5,260
Costs as % of income	35.5	39.2

Impairment charges for loans and advances

Impairment charges for loans and advances came to DKK 379m, inclusive of the impact of a changed estimate of DKK 1,039m required to comply with coming impairment rules (IFRS 9). In 2016, loan impairment charges were DKK 680m.

Excluding the impact of the changed estimate, impairment charges were a net reversal of DKK 660m in 2017.

For more information on the impact of coming impairment rules, please refer to page 12.

The positive change of DKK 1,340m exclusive of the impact of the new estimate primarily reflected extensive reversal of previous impairment provisions as a result of generally improved credit quality in 2017 and favourable economic trends benefitting most of Nykredit's customer segments at the same time. To this should be added the recovery of a loss of DKK 266m resulting from the winding up of two large housing cooperatives in bankruptcy.

Impairment charges for mortgage lending thus developed from DKK 821m in 2016 to DKK 481m, partly resulting from the impact of the changed estimate. Excluding this changed estimate, impairment charges for mortgage lending were a net reversal of about DKK 558m, and including the changed estimate they were a charge of about DKK 481m.

Provisions for bank loan impairment and guarantees remained at a very low level and came to a net reversal of DKK 102m against a net reversal of DKK 141m in 2016.

Nykredit's impairment provisions for potential future losses on mortgage and bank lending totalled DKK 7.9bn at end-2017 against DKK 8.3bn at end-2016. In addition, value adjustment of interest rate swaps of DKK 3.7bn was recorded, of which credit value adjustments amounted to DKK 3.4bn, comprising DKK 2.5bn relating to legacy derivatives and DKK 0.9bn relating to other items. To this should be added other market value adjustments of DKK 0.3bn.

Write-offs on mortgage and bank lending for the year were DKK 1,176m against DKK 1,283m in 2016.

Legacy derivatives

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

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

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

Tax

Tax calculated on profit for the year was DKK 2,091m, corresponding to 20.6% of profit before tax.

Equity

The Nykredit Realkredit Group's equity stood at DKK 78.8bn at end-2017 against DKK 71.0bn at end-2016.

Proposed dividend for 2017 of DKK 4.1bn, corresponding to 50.7% of profit for the year, is recognised in equity until expected approval at the general meeting.

Equity includes Additional Tier 1 (AT1) capital of EUR 500m (DKK 3.8bn). The notes are perpetual, and payment of principal and interest is discretionary, for which reason the issue is recognised in equity for accounting purposes. Correspondingly, interest expenses relating to the issue are recorded as dividend for accounting purposes and are recognised in equity. Interest calculated for 2017 totalled DKK 233m, which was unchanged from last year.

Common Equity Tier 1 (CET1) capital, which is the most important capital concept to Nykredit in relation to the capital adequacy rules, is determined exclusive of AT1 capital and proposed dividend, cf note 2 of the Financial Statements. CET1 capital totalled DKK 69.6bn at end-2017 compared with DKK 65.8bn at end-2016.

RESULTS FOR Q4/2017

Results relative to Q3/2017

The Group recorded a profit before tax of DKK 630m in Q4/2017 against DKK 2,673m in Q3/2017. The decline primarily resulted from a changed estimate (IFRS 9) of mortgage loan impairment, reducing profit by DKK 1,039m.

Business profit was down by DKK 1,950m to DKK 601m in Q4 from DKK 2,551m in Q3 and was also affected by the changed estimate relating to impairments.

At DKK 2,961m, income was DKK 667m lower than in Q3, resulting from higher interest expenses from capitalisation and

lower income from "Trading, investment portfolio and other income".

Costs totalled DKK 1,431m in Q4/2017. The rise was due to extraordinary IT-related write-offs, costs of a shared sector-wide IT solution and higher marketing costs.

Impairment charges for loans and advances developed adversely to DKK 930m compared with a net reversal of DKK 102m in Q3. Excluding the changed estimate relating to mortgage lending of DKK 1,039m, loan impairments were a net reversal of DKK 109m in Q4.

Legacy derivatives generated a gain of DKK 29m in Q4 against a gain of DKK 122m in Q3.

RESULTS RELATIVE TO OUTLOOK

In connection with the presentation of the Q1-Q3 Interim Report 2017, we raised our outlook for business profit for the year to DKK 9.5bn-10.0bn.

At the time, Nykredit did not expect to recognise higher mortgage loan impairment of around DKK 1.0bn, equal to the impact of the transition to expected credit losses.

Adjusted for this, our outlook for business profit would have been at around DKK 8.5bn-DKK 9.0bn.

Nykredit's business profit came to DKK 8.7bn and was thus within the expected range. One of the reasons why our performance is at the lower end of the range is that "Trading, investment portfolio and other income" developed less favourably than expected, mainly as a result of a decline in investment portfolio income following yield spread widening in Danish bonds and movements in the equity market.

OUTLOOK FOR 2018

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

We also expect a minor reduction in costs in 2018 as a result of our efficiency and restructuring initiatives.

While the impairment level in 2017 resulted in a gain before the special value adjustment owing to the new impairment methods, impairment levels are in 2018 once again expected to have an adverse earnings impact. The reason is that the period under review has been affected by reversals of impairment provisions made in previous years and our forecast of generally increasing impairment levels.

Overall, business profit for 2018 is expected to be around DKK 6.5bn-7.5bn. Profit before tax is expected to remain at the same level, as there are no specific expectations for legacy derivatives.

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

SPECIAL ACCOUNTING CIRCUMSTANCES

Impairment of mortgage lending measured at fair value is not covered by IFRS 9. Value adjustment of financial assets measured at fair value will thus continue to be subject to IFRS 13, which remains unchanged, and the Danish Executive Order on Financial Reports.

In accordance with amendments to the Danish Executive Order on Financial Reports issued by the Danish FSA, in future, Nykredit will continue to record impairment of mortgage lending applying the same principles as are used for impairment of loans and advances at amortised cost (cf IFRS 9) and within the framework of IFRS 13. Therefore, in the Financial Statements for 2017, Nykredit has made a new accounting estimate of the impairment impact on mortgage lending and has resolved to recognise the impact through profit or loss for the year. As this is an accounting estimate and not a change in accounting policies, the amount has been charged to the income statement. The impact on Nykredit's impairments totalled DKK 1.0bn. The earnings impact after tax totalled DKK 0.8bn. The impact of implementing IFRS 9 as at 1 January 2018 for impairment of lending at amortised cost in Nykredit Bank will be recognised in equity as at 1 January 2018. Please also refer to note 52.

OTHER

Secure capital position

On 23 November 2017, the Committee of Representatives of Forenet Kredit approved an agreement on the sale of a shareholding in Nykredit A/S to a group of Danish pension companies headed by PFA Pension and with PensionDanmark, PKA, AP Pension and MP Pension as co-investors. The sale provides Nykredit with a stable and lasting ownership structure consisting of robust Danish owners and a strong capacity for raising equity and thus a very secure future capital position.

Customer loyalty bonuses

KundeKroner is Nykredit's customer loyalty programme. The programme was initially introduced to customers of Totalkredit, and the first bonuses were distributed as discounts on customers' administration margin payments for Q3/2017.

Forenet Kredit's sale of a minority interest to PFA and other pension companies in December 2017 facilitates the Nykredit Group's access to raising equity.

We aim to pay out loyalty bonuses to our customers each year and have already fixed the annual discount at DKK 1,500 for every million Danish kroner borrowed for business and personal mortgage customers alike up to end-2019.

Issuance of bail-inable senior notes

Nykredit launched its first issue of bail-inable senior notes in 2016 and continued issuance in H1/2017, the amount in issue totalling DKK 13.3bn at end-2017.

Recoveries on claims on housing cooperatives previously written off

The properties of the housing cooperatives AB Hostrups Have and AB Duegården in bankruptcy were sold in Q2/2017. In continuation thereof, being principal creditor of the estates in bankruptcy, Nykredit was able to recognise DKK 1.0bn as income in its Consolidated H1 Financial Statements 2017. This income relates to losses on loans, advances and swaps previously recognised.

Sale of Nybolig Erhverv

Nykredit Mægler sold its commercial estate agency business in Q2/2017. The transaction generated a minor gain, which was recognised in the H1 Financial Statements 2017.

Sale of headquarters building

Nykredit has concluded a sales agreement for its headquarters building at Otto Mønstedts Plads/Anker Heegaards Gade. The property was conveyed to the buyer in Q4/2017, and the gain on the sale has been carried in the Financial Statements at a minor amount.

Divestment of lending activities in Poland

In Q4, Nykredit concluded an agreement to divest the last of its lending activities in its branch in Poland. Nykredit has not granted any new loans in Poland in recent years. The transaction resulted in a loss that has been charged to the income statement in Q4/2017.

Change in Nykredit Realkredit's Board of Directors

At Nykredit Realkredit A/S's annual general meeting held on 16 March 2017, Vibeke Krag was elected new member of the Board of Directors, replacing Anders C. Obel.

The Board of Directors subsequently elected Steffen Kragh as its Chairman and Merete Eldrup and Nina Smith as its Deputy Chairmen.

UNCERTAINTY AS TO RECOGNITION AND MEASUREMENT

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

The areas in which assumptions and estimates significant to the financial statements have been made include provisions for loan and receivable impairment and unlisted financial instruments and are described in detail in accounting policies (note 1 of the Financial Statements), to which reference is made.

MATERIAL RISKS

The Group's most material risks are described in detail in note 48 of the Annual Report 2017, to which reference is made.

EVENTS SINCE THE BALANCE SHEET DATE

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

BUSINESS AREAS

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

- Retail, which serves Nykredit's personal customers and SMEs (small and medium-sized enterprises) and is responsible for mortgage lending to Nykredit's personal customers arranged via Totalkredit.
- Totalkredit Partners, which is responsible for the Group's mortgage lending to personal and business customers arranged by local and regional banks.
- Wholesale Clients, which comprises Corporate & Institutional Banking (CIB) and Nykredit Markets.
- Wealth Management, which comprises Nykredit Asset Management, Nykredit Portefølje Administration and Private Banking Elite.
- Group Items, which comprises other income and costs not allocated to the business areas as well as core income from securities and investment portfolio income.

Earnings

The Nykredit Realkredit Group's business profit was up DKK 1,182m, or 16%, to DKK 8,653m in 2017 against DKK 7,471m in 2016. The Group's profit before tax by business area appears from the table below. The results of each business area are described in more detail on the following pages.

Results by business area¹

DKK million	Retail	Totalkredit Partners	Wholesale Clients	Wealth Management	Group Items	Total
2017						
Net interest income	4,791	2,657	1,456	99	3	9,006
Net fee income	1,389	498	571	23	(11)	2,470
Wealth management income	535	-	106	739	22	1,402
Net interest from capitalisation	(256)	(178)	(92)	(6)	172	(360)
Trading, investment portfolio and other income	100	4	493	14	881	1,492
Income	6,559	2,981	2,534	869	1,067	14,010
Costs	3,181	631	632	453	81	4,977
Business profit before impairment charges	3,378	2,350	1,902	416	987	9,033
Impairment charges for mortgage lending	(393)	91	(244)	8	1,018	481
Impairment charges for bank lending	72	-	(159)	8	(22)	(102)
Business profit (loss)	3,699	2,259	2,305	400	(9)	8,653
Legacy derivatives	357	-	1,160	0	-	1,517
Profit (loss) before tax	4,056	2,259	3,465	400	(9)	10,170
Business profit as % of average business capital	16.3	19.5	20.8	57.9	(2.9)	15.9
Average allocated business capital ²	22,643	11,565	11,092	691	8,385	54,376

¹ Please refer to note 3 of the Financial Statements for complete segment financial statements with comparative figures as well as alternative performance measures on page 49 for a description of new presentation of results.

² Based on Nykredit's internal determination and allocation of capital.

Results – Retail

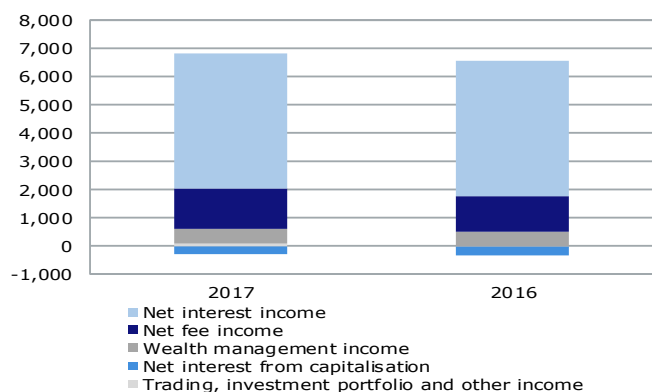
DKK million	2017	2016
Net interest income	4,791	4,763
Net fee income	1,389	1,275
Wealth management income	535	508
Net interest from capitalisation	(256)	(281)
Trading, investment portfolio and other income	100	(35)
Income	6,559	6,230
Costs	3,181	3,285
Business profit before impairment charges	3,378	2,945
Impairment charges for mortgage lending	(393)	910
Impairment charges for bank lending	72	42
Business profit	3,699	1,993
Legacy derivatives	357	(232)
Profit before tax	4,056	1,760

Selected balance sheet items and financial ratios, Retail

DKK million	2017	2016
Personal Banking		
Loans and advances	188,566	195,304
- of which mortgage lending, nominal value	172,901	182,278
- of which secured homeowner loans	5,548	2,824
- of which bank lending	10,117	10,202
Deposits	27,214	25,760
Gross new mortgage lending	24,007	25,062
Impairment provisions for the year as % of loans and advances	(0.01)	0.16
Business Banking		
Loans and advances	255,672	256,376
- of which mortgage lending, nominal value	235,548	238,249
- of which bank lending	20,124	18,127
Deposits	19,432	17,277
Gross new mortgage lending	39,764	32,127
Impairment provisions for the year as % of loans and advances	(0.12)	0.25
Total impairment provisions, year-end		
Total impairment provisions	5,603	6,063
Total impairment provisions as % of loans and advances	1.26	1.34
Provisions for guarantees	55	43

Income – Retail

DKK million



RETAIL

Retail consists of the business units Retail Personal Banking and Retail Business Banking and provides mortgage and banking services to personal customers and SMEs, including agricultural customers, residential rental customers and Private Banking's wealth clients. Mortgage loans granted via To-talkredit to Nykredit's personal customers also form part of Retail. The activities of Nykredit Mægler A/S and Nykredit Leasing A/S are also included.

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

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

2017 – summary

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

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

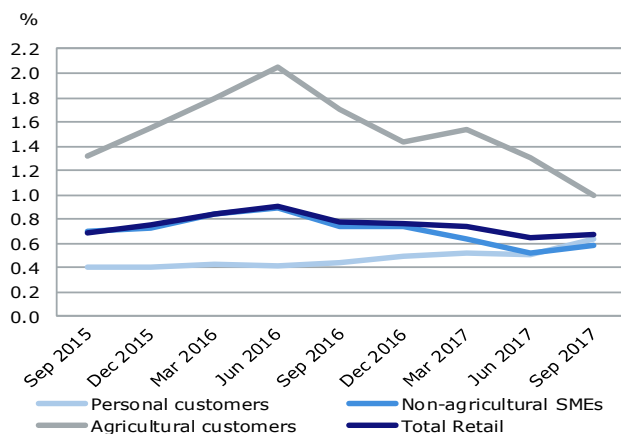
The increase in business customers taking their daily banking to Nykredit was satisfactory, with a particular overweight of prioritised full-service customer segments. Business customer activity generally went up, and measures aimed at raising profitability were implemented, ensuring a better match between price and risk.

In Q2 the commercial estate agency activities of Nybolig Erhverv were sold off to a group of investors comprising former franchisees. The sale was part of the refocusing of Nykredit.

Activities

Secured homeowner loans granted by Retail Personal Banking amounted to DKK 5.5bn against DKK 2.8bn at end-2016. This increase was attributable to continued strong sales of this product.

Arrears ratio, mortgage lending – Retail 75 days past due



Bank lending in Retail Personal Banking amounted to DKK 10.1bn, which is on a par with end-2016. Bank deposits rose by DKK 1.5bn in the same period to DKK 27.2bn.

Nominal mortgage lending in Retail Personal Banking came to DKK 172.9bn against DKK 182.3bn at end-2017. The decline was driven by run-off of customers with a single mortgage facility and no banking relationship with Nykredit. Gross new lending was down by DKK 1.2bn to DKK 24.0bn.

Gross new lending in Retail Business Banking was up DKK 39.8bn, whereas nominal mortgage lending was down DKK 235.5bn.

Bank lending in Retail Business Banking increased by DKK 2.0bn to DKK 20.1bn, and deposits grew by DKK 2.2bn to DKK 19.4bn.

Results

Retail's business profit went up by DKK 1,706m year-on-year to DKK 3,699m in 2017.

Income increased by a total of DKK 329m to DKK 6,559m, primarily driven by value adjustments of swaps, which increased by DKK 303m to DKK 266m on top of general business growth.

Costs declined by DKK 104m, or 3%, to DKK 3,181m year-on-year.

Impairment charges for Retail mortgage lending fell from DKK 910m in 2016 to a net reversal of DKK 393m, while impairment charges for bank lending increased from DKK 42m in 2016 to DKK 72m.

Impairment charges for loans to Retail personal customers declined by a total of DKK 309m, of which DKK 269m related to mortgage lending and DKK 40m to bank lending. Impairment charges for loans to business customers declined by a total of DKK 964m, which is a decrease of DKK 1,034m related to mortgage lending and an increase of DKK 70m to bank lending.

At end-2017, impairment provisions totalled DKK 5,603m against DKK 6,063m at end-2016.

Legacy derivatives produced a gain of DKK 357m, equal to a positive change of DKK 589m year-on-year. In both years, the value adjustment was attributable to business customers, including small housing cooperatives.

Arrears

At the September due date, Retail's 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.67% against 0.78% at the same date in 2016.

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, 1% had a current LTV ratio in excess of 80%, down compared with end-2016. Of mortgage lending to SMEs, 5% had a current LTV ratio in excess of 60% against 6% at end-2016.

International activities

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

Mortgage lending at cash value was DKK 11.5bn against DKK 11.2bn at end-2016. The majority of the loans were granted in Spain and France, at DKK 5.8bn and DKK 4.9bn, respectively.

Income from international mortgage lending reduced by DKK 189.3m to negative DKK 58.9m in 2017 from DKK 130.4m the year before.

Impairment charges for international mortgage lending increased by DKK 15.3m and were DKK 12.0m in 2017.

In Q4 Nykredit divested its lending activities in Poland, which Nykredit has been winding down in recent years.

Debt outstanding relative to estimated property values – Retail

LTV/%	Personal customers		Business customers		Agricultural customers		Private residential rental customers	
	2017	2016	2017	2016	2017	2016	2017	2016
0-40	69	68	80	77	72	70	65	64
40-60	21	21	16	17	19	20	22	22
60-80	9	10	4	4	7	8	10	10
80-90	1	1	1	1	1	1	1	2
90-100	0	0	0	0	0	1	1	1
> 100	0	0	0	1	1	1	1	1
LTV average¹	61	62	51	54	58	60	66	67

¹ 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 – Totalkredit Partners

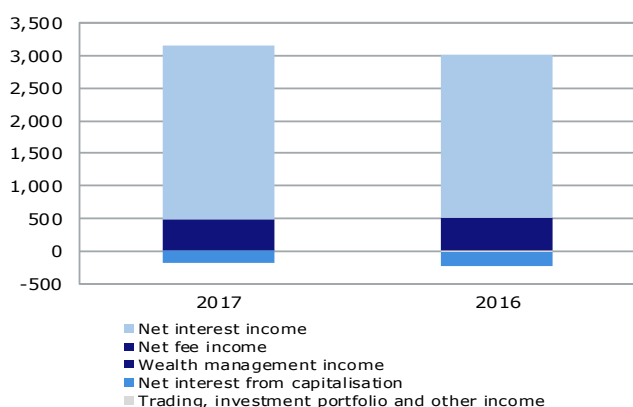
DKK million	2017	2016
Net interest income	2,657	2,511
Net fee income	498	505
Net interest from capitalisation	(178)	(224)
Trading, investment portfolio and other income	4	(15)
Income	2,981	2,777
Costs	631	580
Business profit before impairment charges	2,350	2,198
Impairment charges for mortgage lending	91	10
Business profit	2,259	2,188

Selected balance sheet items and financial ratios, Totalkredit Partners

DKK million	2017	2016
Personal Banking		
Loans and advances	530,741	503,192
- of which mortgage lending, nominal value	519,818	497,427
- of which secured homeowner loans	10,923	5,765
Gross new mortgage lending	112,825	107,169
Impairment provisions for the year as % of loans and advances	0.02	-
Business Banking		
Loans and advances	2,056	575
- of which mortgage lending, nominal value	2,056	575
Gross new mortgage lending	1,547	544
Impairment provisions for the year as % of loans and advances	0.02	-
Total impairment provisions, year-end		
Total impairment provisions	1,382	987
Total impairment provisions as % of loans and advances	0.26	0.20

Income – Totalkredit Partners

DKK million



TOTALKREDIT PARTNERS

Under the Totalkredit brand, Totalkredit Partners provides mortgage loans to personal and business customers arranged via 57 Danish local and regional banks. Mortgage loans arranged by Nykredit are included in the business area Retail.

Totalkredit Partners's business concept is based on partner banks being responsible for customer services and covering a proportion of the risk of loss relating to the loan portfolio. The banks' share of realised losses is offset against future commission payments from Totalkredit to its partner banks and is recognised in the income statement as a reduction in impairment charges for loans and advances.

2017 – summary

Totalkredit Partners recorded lending growth across the country from North Jutland to Bornholm – which testifies to the strength of the alliance with our partner banks. The loan portfolio amounted to DKK 532.8bn against DKK 503.8bn at end-2016. Of this amount, the business loan portfolio accounted for DKK 2.1bn against DKK 0.6bn at end-2016.

KundeKroner is Nykredit's customer loyalty programme. The programme was initially introduced to customers of Totalkredit, and the first bonuses were distributed as discounts on customers' administration margin payments for Q3 and Q4/2017. We aim to pay out loyalty bonuses to our customers each year and have thus already at this point fixed the annual discount at DKK 1,500 for every million Danish kroner borrowed for personal mortgage customers for the period up to end-2019. From Q3/2018 also business customers will be covered by the loyalty bonus concept.

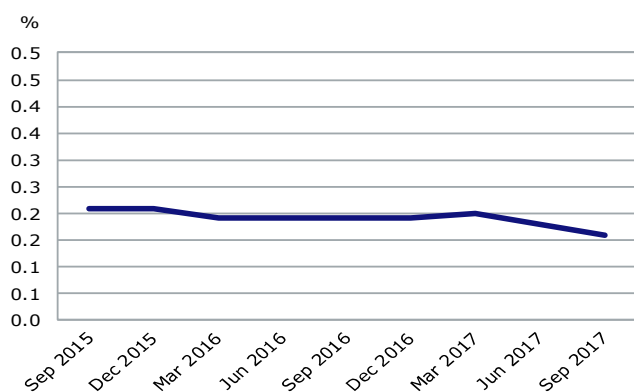
The Totalkredit alliance is developing a joint future-proof IT platform, which will ensure that the alliance as a whole is better positioned to offer customers the best home financing options in the coming years. This is a large and complex project, which involves numerous stakeholders. Two of the collaborating IT partners have implemented the first part of the platform, offering customers and advisers a better overview of customers' aggregate facilities, now also including Totalkredit mortgage loans.

Totalkredit's partnership with local and regional partner banks also includes secured homeowner loans and business mortgages. The concept of secured homeowner loans allows partner banks to transfer bank loans secured on real estate to Totalkredit, thus funding these loans. Totalkredit business mortgages are offered to the segments office and retail, residential rental as well as industry and trades. 40 banks, representing the majority of banks having business customers with mortgage needs, have started offering business mortgages.

Activities

Totalkredit Partners's loan portfolio continued to grow, from nominally DKK 503.8bn at end-2016 to DKK 532.8bn at end-2017.

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



Debt outstanding relative to estimated property values – Totalkredit Partners

LTV/%	2017	2016
0-40	59	59
40-60	24	24
60-80	14	15
80-90	1	2
90-100	0	1
> 100	0	1
LTV average¹	71	72

¹ Determined as the top part of the debt outstanding relative to estimated property values.

Totalkredit Partners recorded gross new lending at DKK 114.4bn against DKK 107.7bn in 2016.

Mortgage lending to personal customers increased by DKK 22.4bn to DKK 519.8bn, and secured homeowner loans grew by DKK 5.2bn to DKK 10.9bn.

Business loans rose by DKK 1.5bn to DKK 2.1bn.

Loans distributed through former Totalkredit partner banks, which are now managed directly by Totalkredit, amounted to DKK 26bn at end-2017 against DKK 34bn at end-2016.

Results

Totalkredit Partners's business profit went up by DKK 71m year-on-year to DKK 2,259m in 2017.

Income grew by DKK 204m to DKK 2,981m, mainly driven by net interest income, which increased by DKK 146m to DKK 2,657m caused by increased lending and changed pricing.

KundeKroner loyalty bonuses in the form of a discount on the administration margin payments on personal mortgage loans were paid out to Totalkredit customers for the first time for Q3/2017.

Compared with the previous year, costs increased by DKK 51m, or 9%, to DKK 631m. The rise was attributable to the development of a new mortgage lending platform.

Totalkredit Partners's loan impairment charges rose by DKK 81m to DKK 91m after set-off of the partner banks' share of realised losses.

At end-2017, impairment provisions totalled DKK 1,382m against DKK 987m at end-2016. Impairment provisions for expected credit losses have been recognised as a result of the changed principles for loan impairments under IFRS 9.

Arrears

At the September due date, Totalkredit Partners's 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.16% against 0.19% at the same date in 2016.

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, 1% had a current LTV ratio in excess of 80% against 3% at end-2016.

Incurred losses corresponding to the cash part of a loan exceeding 60% of the mortgageable value at the time of granting are offset against future commission payments from Totalkredit to the partner banks and are recognised in the income statement as a reduction in loan impairment charges.

Results – Wholesale Clients

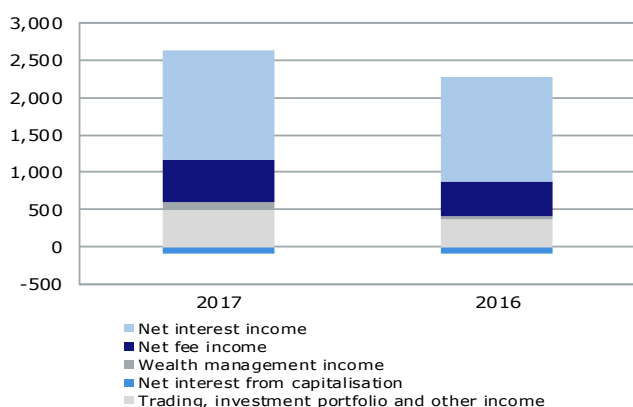
DKK million	2017	2016
Net interest income	1,456	1,399
Net fee income	571	458
Wealth management income	106	54
Net interest from capitalisation	(92)	(87)
Trading, investment portfolio and other income	493	357
Income	2,534	2,181
Costs	632	651
Business profit before impairment charges	1,902	1,530
Impairment charges for mortgage lending	(244)	(100)
Impairment charges for bank lending	(159)	(191)
Business profit	2,305	1,821
Legacy derivatives	1,160	(530)
Profit before tax	3,465	1,290

Selected balance sheet items and financial ratios, Wholesale Clients

DKK million	2017	2016
Lending/deposits		
Loans and advances	205,406	197,959
- of which mortgage lending, nominal value	185,734	176,405
- of which bank lending	19,672	21,554
Deposits	14,164	12,207
Gross new mortgage lending	37,085	28,027
Impairment provisions for the year as % of loans and advances	(0.19)	(0.12)
Total impairment provisions, year-end		
Total impairment provisions	829	1,220
Total impairment provisions as % of loans and advances	0.40	0.61
Provisions for guarantees	3	9

Income – Wholesale Clients

DKK million



WHOLESALE CLIENTS

Wholesale Clients consists of the business units Corporate & Institutional Banking and Nykredit Markets and comprises activities with Nykredit's corporate and institutional clients, the public housing segment, large housing cooperatives and mortgage lending to business customers for properties abroad. Wholesale Clients also handles Nykredit's activities within securities and financial derivatives trading.

2017 – summary

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

Income in Nykredit Markets was driven by high client activity across all client segments in 2017, including growth in clients and assets under management per client.

Nykredit Markets, Private Banking Elite and Retail Business Banking continue to strengthen their collaboration to improve services to wealth clients. Nykredit Markets provides comprehensive advisory services and offers wealth clients tailored solutions using a mix of products from Nykredit Markets and Nykredit Asset Management.

Activities

Corporate & Institutional Banking recorded higher activity in 2017 than in the same period in 2016, and gross new lending went up by DKK 9.1bn to DKK 37.1bn.

Mortgage lending amounted to DKK 185.7bn at end-2017, up DKK 9.3bn on end-2016.

Bank lending was down DKK 1.9bn on the end of last year to DKK 19.7bn. Bank deposits increased by DKK 2.0bn to DKK 14.2bn.

Activity in Nykredit Markets was high in 2017, driven by clients' and market participants' focus on risk profiling and positioning. In general, there was an increased demand for corporate bonds.

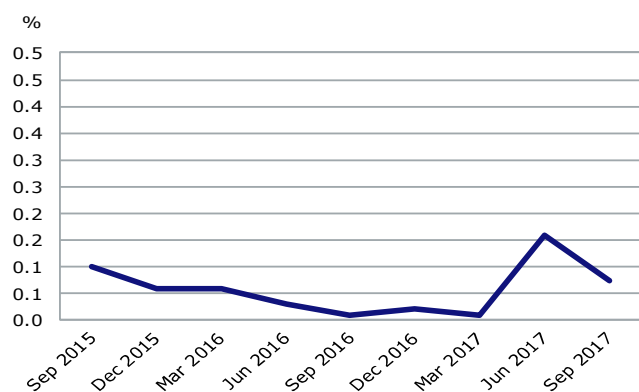
Results

Wholesale Clients's business profit went up by DKK 484m year-on-year to DKK 2,305m in 2017.

Income grew by a total of DKK 353m to DKK 2,534m, primarily driven by net fee income, which grew by DKK 113m, and trading, investment portfolio and other income, which increased by DKK 136m.

Of total income, DKK 2,148m was attributable to Corporate & Institutional Banking, up DKK 363m year-on-year. Nykredit Markets's income amounted to DKK 386m, down DKK 10m on last year.

**Arrears ratio, mortgage lending – Wholesale Clients
75 days past due**



**Debt outstanding relative to estimated property values –
Wholesale Clients**

LTV/%	2017	2016
0-40	77	74
40-60	20	20
60-80	3	4
80-90	0	0
90-100	0	0
> 100	0	1
LTV average¹	52	55

¹ Determined as the top part of the debt outstanding relative to estimated property values.

Costs fell by DKK 19m, or 3%, to DKK 632m.

Impairment charges for lending reduced by DKK 112m net compared with the previous year. This included a net reversal of DKK 266m, resulting from the winding up of two large housing cooperatives in bankruptcy.

Impairment charges for mortgage lending in Wholesale Clients thus changed from a net reversal of DKK 100m in 2016 to a net reversal of DKK 244m, and impairment charges for bank lending increased from a net reversal of DKK 191m to a net reversal of DKK 159m.

At end-2017, impairment provisions totalled DKK 829m against DKK 1,220m at end-2016.

Legacy derivatives produced a gain of DKK 1,160m, equal to a positive change of DKK 1,690m year-on-year. For both years, value adjustment concerned swaps with housing cooperatives, including one-off income of DKK 739m in Q2/2017 concerning two large housing cooperatives.

Arrears

At the September due date, Wholesale Clients's 75-day mortgage loan arrears as a percentage of mortgage payments due were 0.07%. The arrears ratio was 0.01% at the same date in 2016. This increase was attributable to one specific exposure in arrears and does thus not reflect a general trend.

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, 3% had a current LTV ratio in excess of 60%, which is lower than at end-2016.

International activities

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

Mortgage lending at cash value amounted to DKK 46.4bn at end-2017 against DKK 40.5bn at end-2016. Lending broadly amounted to DKK 29.6bn in Sweden, DKK 12.5bn in Germany, DKK 2.5bn in Finland and DKK 1.7bn in the UK.

Income from international mortgage lending increased by DKK 19m to DKK 394m in 2017 from DKK 376m the year before.

Impairment charges for international mortgage lending increased by DKK 4m in 2017.

Results – Wealth Management		
DKK million	2017	2016
Net interest income	99	74
Net fee income	23	15
Wealth management income	739	606
Net interest from capitalisation	(6)	(5)
Trading, investment portfolio and other income	14	12
Income	869	702
Costs	453	409
Business profit before impairment charges	416	293
Impairment charges for mortgage lending	8	(0)
Impairment charges for bank lending	8	14
Business profit	400	279
Legacy derivatives	0	(0)
Profit before tax	400	279

Selected balance sheet items and financial ratios, Wealth Management

DKK million	2017	2016
Lending/deposits		
Loans and advances	10,779	7,965
- of which mortgage lending, nominal value	6,956	5,268
- of which secured homeowner loans	839	344
- of which bank lending	2,984	2,353
Deposits	13,464	9,522
Gross new mortgage lending	1,759	1,017
Impairment provisions for the year as % of loans and advances	0.15	0.17
Total impairment provisions, year-end		
Total impairment provisions	43	19
Total impairment provisions as % of loans and advances	0.40	0.24
Provisions for guarantees	-	-
Assets under management	178,906	136,515
- of which Nykredit Group investment funds	61,472	55,172
Assets under administration	806,562	786,549

WEALTH MANAGEMENT

The business division Wealth Management handles Nykredit's asset and wealth management activities. Wealth Management comprises the business units Nykredit Asset Management, Nykredit Portefølje Administration and Private Banking Elite. The latter is targeted at clients with investable assets in excess of DKK 7m.

Nykredit's asset management and portfolio administration services are undertaken by Nykredit Asset Management and Nykredit Portefølje Administration, and their products and solutions include Nykredit Invest, Private Portfolio, Savings Invest, Pension Invest and discretionary asset management and administration agreements with institutional clients, foundations, businesses, public institutions and personal wealth clients.

Award-winning private banking

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

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

2017 – summary

Private Banking Elite delivered satisfactory client growth and financial performance in 2017.

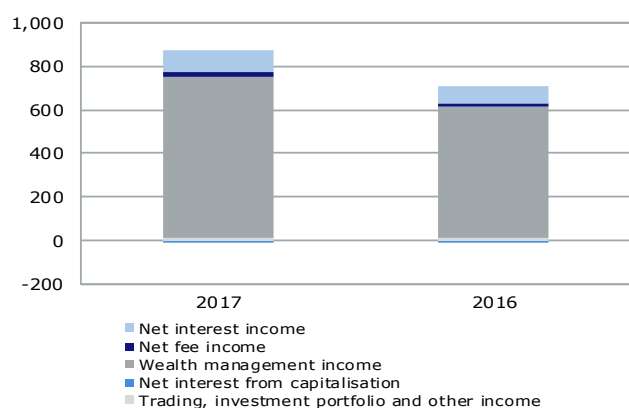
In 2017 Private Banking Elite maintained focus on increasing its market share, both by landing new clients and by cultivating existing Nykredit client relationships with Private Banking Elite potential.

Nykredit Asset Management saw a rise in assets under management and delivered good investment results in 2017.

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

Income – Wealth Management

DKK million



Debt outstanding relative to estimated property values – Wealth Management

LTV/%	2017	2016
0-40	69	65
40-60	21	22
60-80	8	10
80-90	1	2
90-100	1	1
> 100	0	0
LTV average¹	61	65

¹ Determined as the top part of the debt outstanding relative to estimated property values.

Activities

Private Banking Elite, which is behind part of total assets under management, recorded satisfactory net growth in assets under management in 2017.

Total assets under management went up by DKK 42.4bn to DKK 178.9bn at end-2017. The increase was attributable to positive net sales of DKK 33.3bn as well as positive value adjustments and other returns of DKK 9.1bn. Total assets under management were determined according to the rules of MiFID II.

Total assets under administration rose by DKK 20.0bn to DKK 806.6bn at end-2017. The increase comprised net outflows of DKK 30.6bn and positive value adjustments as well as other returns of DKK 50.6bn.

Results

Wealth Management's business profit rose by DKK 121m year-on-year to DKK 400m in 2017.

Income grew by a total of DKK 167m, or 24%, to DKK 869m due to increased client activity. This was mainly a result of earnings growth in Private Banking Elite as well as Nykredit Asset Management.

Costs went up by DKK 44m, or 11%, year-on-year to DKK 453m. This should be seen against the backdrop of Nykredit's intensified focus on the business area.

Impairment charges for mortgage lending in Wealth Management were DKK 8m against nil in the previous year, while impairment charges for bank lending fell from DKK 14m to DKK 8m.

At end-2017, impairment provisions totalled DKK 43m against DKK 19m at end-2016.

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, 2% had a current LTV ratio in excess of 80% against 3% at end-2016.

Results – Group Items		
DKK million	2017	2016
Net interest income	3	(1)
Net fee income	(11)	(2)
Wealth management income	22	17
Net interest from capitalisation	172	149
Trading, investment portfolio and other income	881	1,357
Income	1,067	1,520
Costs	81	336
Business profit before impairment charges	987	1,184
Impairment charges for mortgage lending	1,018	-
Impairment charges for bank lending	(22)	(6)
Business profit (loss)	(9)	1,190

Selected balance sheet items and financial ratios, Group Items

DKK million	2017	2016
Lending/deposits		
Loans and advances	670	767
- of which bank lending	670	767
Deposits	1,640	649

GROUP ITEMS

Some income statement and balance sheet items are not allocated to the business divisions but are included in Group Items.

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

Results

Compared with the previous year, the business profit of Group Items fell by DKK 1,199m to a loss of DKK 9m in 2017.

Income fell by DKK 453m in total to DKK 1,067m.

This was attributable to trading, investment portfolio and other income, which decreased by DKK 476m to DKK 881m. Gain on the sale of owner-occupied properties was DKK 369m in 2016.

Unallocated costs reduced by DKK 225m to DKK 81m.

Impairment charges for loans and advances included the impact of a changed impairment estimate for the Group's mortgage lending of DKK 1,039m at end-2017. Due to their special character, these costs have been allocated to Group Items to ensure the most uniform presentation of the transition to IFRS 9 for loans and advances measured at amortised cost and the estimation of expected credit losses on loans and advances measured at fair value. Thus, the impact on loans and advances measured at amortised cost will be recognised directly in equity and will not impact impairment charges for loans and advances in the business areas – Retail, Totalkredit Partners, Wholesale Clients and Wealth Management.

This impact aside, impairment charges for loans and advances reduced to a net reversal totalling DKK 43m against a net reversal of DKK 6m in 2016.

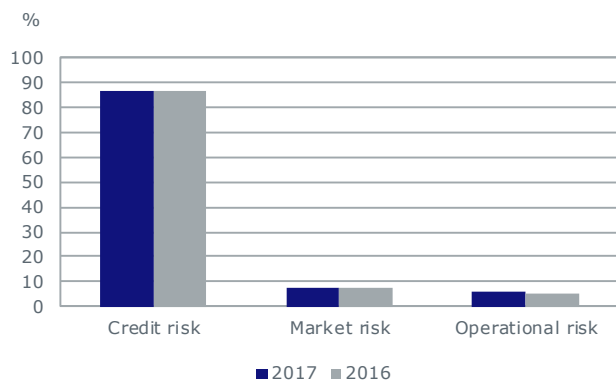
CAPITAL, FUNDING AND LIQUIDITY

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

This means that Nykredit incurs limited interest rate risk, foreign exchange risk and liquidity risk on its mortgage lending and the underlying funding. Liquidity and market risk is further reduced by the Danish act regulating refinancing risk, which ensures mortgage loan refinancing in special situations. Thus, credit risk is Nykredit's main risk.

In addition to mortgage lending, Nykredit's activities include banking activities, estate agency services, administration and management of investment funds, leasing and insurance mediation. These business activities including the management of the investment portfolio cause credit, market, liquidity and operational risks.

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



Nykredit focuses on having a risk management framework that ensures agreement between our risk profile, risk appetite and current legislation, and on having a robust capital structure. Risk management is to ensure financial solutions that are viable in the short, medium and long term.

Reference is made to note 48 for a more detailed description of Nykredit's risk management. The report Risk and Capital Management 2017, available at nykredit.com/riskandcapitalmanagement, contains a detailed presentation of Nykredit's capital and risk policy.

Most of Nykredit's investment assets are marked to market. Changes in prices and interest rates will therefore be reflected in earnings due to derived gains/losses on Nykredit's securities investments.

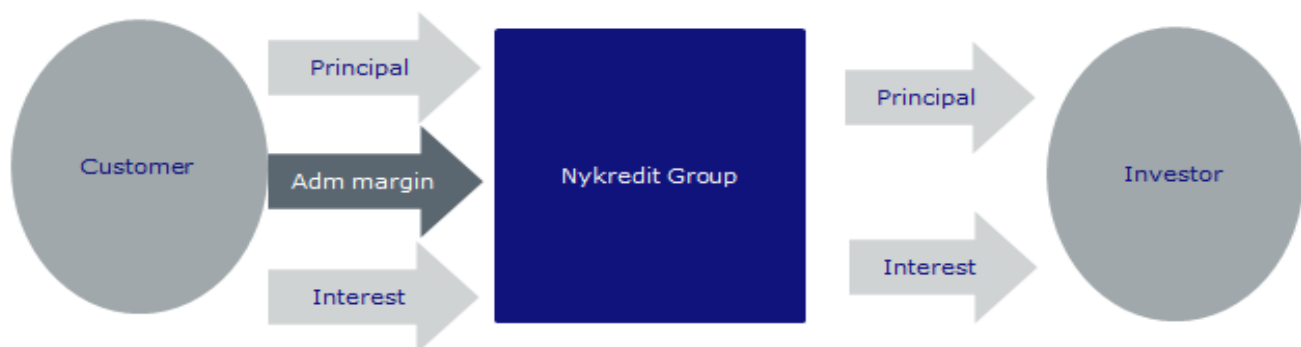
Balance principle and match funding

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 has currently structured its bond issuance in a manner that is similar to the specific balance principle. As a result, Nykredit assumes only limited financial risk on lending and the related funding.

Nykredit applies fair value when determining mortgage loans and bonds in issue for accounting purposes, and for both the determination is based on the fair value of the bonds. Accordingly, value adjustment of mortgage loans and bonds in issue is recognised through profit or loss at approximately the same amount, but with opposite signs. A change in bond prices will therefore not result in any fluctuation in Nykredit's financial results.

Balance principle and match funding



More than 99% of Nykredit's mortgage loans are match-funded. This means for instance that each loan is funded with bonds of matching terms. Nykredit issues new bonds on a daily basis to fund new loans.

In order to eliminate interest rate risk and foreign exchange risk, mortgage loans have the same interest rate and foreign exchange terms as the bonds funding the loans. Long-term fixed-rate loans have the same 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. The loan rate is adjusted at refinancing to the yield-to-maturity of the new bonds sold.

Principal payments and prepayment of loans reduce 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 a loan and the underlying funding. Therefore, Nykredit's earnings margin consists of a separate administration margin, which is most often calculated on the basis of the debt outstanding. In addition, various fees may be charged.

Nykredit Realkredit Group		
Equity (incl Additional Tier 1 capital)		
DKK million	2017	2016
Equity, beginning of year	70,957	65,460
Profit for the year	8,080	5,329
Fair value adjustment of equities available for sale	(6)	331
Other adjustments	(184)	(163)
Equity, year-end	78,847	70,957

Nykredit Realkredit Group		
Capital and capital adequacy¹		
DKK million	2017	2016
Credit risk	290,643	304,275
Market risk	24,724	25,437
Operational risk	21,246	19,636
Total risk exposure amount (REA)	336,613	349,348
Equity (incl AT1 capital)	78,847	70,957
AT1 capital	(5,411)	(5,409)
Proposed dividend	(4,100)	-
CET1 capital additions/deductions	304	315
Common Equity Tier 1 (CET1) capital	69,641	65,863
AT1 capital	3,860	3,800
AT1 capital deductions	(156)	(124)
Tier 1 capital	73,345	69,539
Tier 2 capital	11,519	11,315
Tier 2 capital additions/deductions	332	(255)
Own funds	85,196	80,599
CET1 capital ratio ² , %	20.6	18.8
Tier 1 capital ratio	21.7	19.9
Total capital ratio	25.3	23.0

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

¹ Capital and capital adequacy have been determined in accordance with Capital Requirements Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 as well as the Danish transitional rules laid down by the Danish FSA. Total REA determined according to Basel I came to DKK 764bn at end-2017, equal to a minimum total capital ratio of 14.5%. The transitional rule will lapse in 2018.

² At 1 January 2018, the Nykredit Realkredit Group's CET1 capital ratio was 20.5% after recognition of the net impact of IFRS as at 1 January 2018 in Nykredit Bank. Nykredit does not apply the transitional arrangements set out in Article 473a (4).

The determination includes a deduction of DKK 137m, cf the mention in note 2 of the Financial Statements.

Nykredit Realkredit Group		
Required own funds and internal capital adequacy requirement		
DKK million	2017	2016
Credit risk	23,251	24,342
Market risk	1,978	2,035
Operational risk	1,700	1,571
Total Pillar I	26,929	27,948
Slightly weaker economic climate (stress tests, etc)	2,697	2,773
Other risks	4,110	2,551
Model and calculation uncertainties	588	2,495
Total Pillar II	7,395	7,819
Total required own funds	34,324	35,767
Internal capital adequacy requirement (Pillar I and Pillar II), %	10.2	10.2

EQUITY AND OWN FUNDS

Nykredit has been working on securing its access to raising equity and thus establishing a highly stable future capital position. As a result of this effort, a group of Danish pension companies in December 2017 acquired 10.9% of the shares in Nykredit A/S from Forenet Kredit and another 6.0% of the share capital from the other shareholders.

Nykredit A/S

Shareholders at 31 December 2017

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

Equity

Nykredit's equity was DKK 78.8bn at end-2017, up DKK 7.9bn on end-2016. The increase in equity was mainly attributable to profit for the year of DKK 8.1bn.

The Board of Directors proposes that the Annual General Meeting resolve to distribute dividend for 2017 in the amount of DKK 4.1bn. Dividend will be deducted from equity carried for accounting purposes at the time of approval by the Annual General Meeting, whereas the proposed dividend was deducted from own funds for capital adequacy purposes already at end-2017.

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

Capital, risk exposure and capital adequacy

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

Nykredit's Tier 1 capital consists mainly of CET1 capital. Tier 1 capital totalled DKK 73.3bn, CET1 capital totalled DKK 69.6bn, and AT1 capital totalled DKK 3.8bn. CET1 capital is the most important capital measure as this is the type of capital required to comply with most of the regulatory capital requirements.

At end-2017, Nykredit's risk exposure amount (REA) totalled DKK 336.6bn. With own funds at DKK 85.2bn, this corresponds to a total capital ratio of 25.3% against 23.0% at end-2016. The CET1 capital ratio was 20.6% against 18.8% at end-2016.

Since end-2016, REA has dropped from DKK 349.3bn to DKK 336.6bn, owing in part to increasing housing prices and lower market risk.

The international financial reporting standard IFRS 9 will be implemented as of 1 January 2018, which will increase the Group's total impairment provisions by about DKK 0.6bn, including the tax effect. This will reduce Nykredit's CET1 capital. The estimated impact on Nykredit's capital adequacy is 0.1 percentage point.

Reference is made to note 2 of the Annual Report 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 opinion, to cover all significant risks.

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

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

Pillar I

Pillar I capital, covering credit, market and operational risks, was determined at DKK 26.9bn at end-2017.

Pillar II

Pillar II capital covers other risks as well as an increased capital requirement during a slight economic downturn. The Pillar II capital requirement was determined at DKK 7.4bn at end-2017 against DKK 7.8bn at end-2016.

Nykredit applies model-based stress tests and capital projections to determine the required own funds.

The determination of other risks under Pillar II includes assessments of reputation risk, control risk, strategic risk, external risk, concentration risk, validation and backtest results, interest rate risk on swaps, credit valuation adjustment (CVA), etc.

In the opinion of the Danish FSA, Danish IRB institutions should allocate capital under Pillar II to cover potential concentration risk. Nykredit has currently reserved capital under Pillar II and initiated a detailed analysis with a view to assessing concentration risk at company and Group levels.

Under Pillar II, a general capital charge or uncertainty buffer has been provided for uncertainties related to the models that Nykredit applies for calculating capital requirements.

At end-2017, Nykredit's required own funds were recognised at DKK 34.3bn. The internal capital adequacy requirement, calculated as the required own funds as a percentage of REA, amounted to 10.2%.

As a systemically important financial institution (SIFI), Nykredit is subject to a special SIFI buffer requirement to be met with CET1 capital. The requirement of 2% will be phased in gradually from 2015 to 2019. At end-2017, the SIFI buffer was 1.2%.

A capital conservation buffer of 2.5%, applicable to all financial institutions, will be phased in from 2016. This buffer increases the regulatory CET1 capital requirement. It will be phased in by about 0.63 percentage point per year and will be fully phased in by 2019. At end-2017, this ratio was 1.25%.

The Systemic Risk Council has recommended that the Minister for Industry, Business and Financial Affairs activate the so-called countercyclical buffer rate as of March 2019. The Council recommends that the buffer rate be set at 0.5%, and is expected to recommend a subsequent increase to 1.0%. The Minister will decide on the issue in Q1/2018.

Nykredit's capital policy, which is described in detail under "Capital targets" below, allows for the capital requirement on a fully loaded basis, stress test impacts, etc.

Capital targets 2019

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

In accordance with its business model, Nykredit aims to have robust earnings, a strong capital structure and competitive ratings. Based on a structured capital management framework, the Group aims to be able to maintain its business activities regardless of economic trends. This implies having adequate access to capital to withstand an economic downturn and losses, and thus being able to maintain active lending also during and after a crisis.

In 2017 Nykredit achieved considerable capital flexibility as a result of the investor solution comprising a number of Danish pension funds. Nykredit thus has access to new CET1 capital through Forenet Kredit's liquid assets and through an investment commitment from the pension funds. As a direct consequence thereof, Nykredit can lower its capital target by around 3% due to the investor solution.

In consultation with the Danish FSA, the Board of Directors has thus set a CET1 capital requirement at 15.5-16.5% of REA. To this will be added the further build-up of capital to meet the upcoming Basel requirements.

Stricter capital requirements from the Basel Committee

On 7 December 2017, the Basel Committee published new stricter capital requirements for banks and mortgage lenders, often referred to as the Basel IV standards. As expected, the standards include a so-called capital floor for credit institutions applying internal models. The capital floor means that institutions, across risk types (credit, market and operational risks), will be subject to a minimum capital requirement

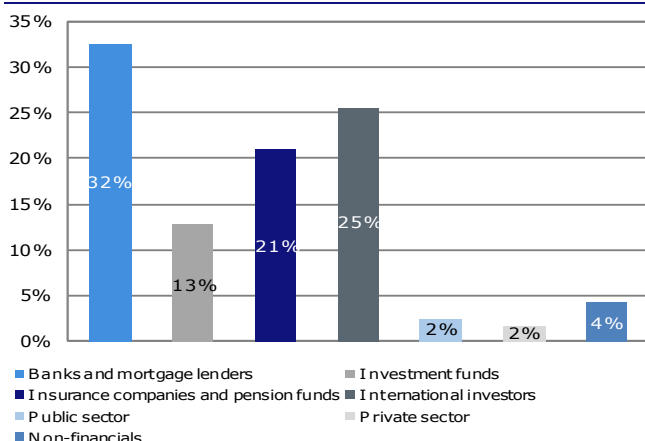
which makes up 72.5% of the capital requirement as calculated under the standardised approach. The floor will significantly increase Nykredit's REA compared with today's level, as Nykredit applies internal models, which results in lower risk exposures than the standardised approach and the capital floor. It will impact mortgage loans in particular as they have a very low risk of loss, which will not be allowed for in the risk determination if a floor is introduced.

Moreover, the EU is discussing proposed revisions to the EU's capital requirements framework, including changes to the rules for calculating the capital requirements for market risk. This proposal may result in higher capital requirements and may have an adverse impact on covered bond markets as well.

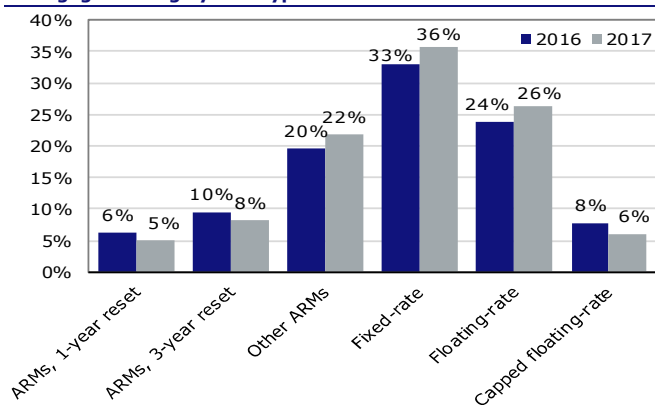
Nykredit has previously assessed the impact of Basel IV at an increase in REA of around DKK 100bn. Based on the new Basel standards published and the EU proposal for new capital requirements, CRRII/CRDV, and based on the Danish FSA's calculation assumptions, detailed calculations now show that Nykredit's REA will increase by about DKK 100bn, of which approximately 80% can be ascribed to private residential mortgage loans and the residual amount to business mortgages, market risk etc.

The Nykredit Group's CET1 capital represented 20.6% of REA at end-2017. On recognition of the estimated impact of the coming Basel rules etc and the impact of IFRS 9 at 1 January 2018, the CET1 capital ratio is estimated at 15.8%.

Nykredit Realkredit Group
Covered bond investor base



Nykredit Realkredit Group
Mortgage lending by loan type



FUNDING

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

Mortgage funding through covered bonds

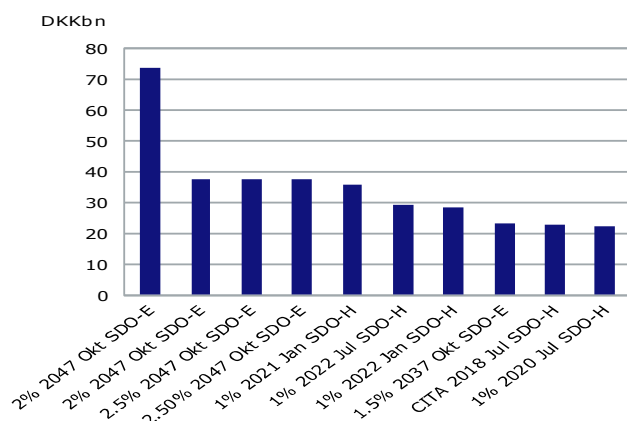
Most of Nykredit's assets consist of lending secured by mortgages on real estate. These loans are funded through issuance of mortgage covered bonds (SDOs and ROs). Mortgage covered bonds are issued by way of daily tap issuance coupled with refinancing auctions for ARMs and floating-rate loans, etc.

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 for each loan secured by mortgage over real estate funded by SDOs. Nykredit funds part of the supplementary collateral by issuing different kinds of senior debt.

Supervisory Diamond for mortgage lenders

Benchmark	Definition	2017	Limit value
Lending growth in segment:			
Personal customers	Annual lending growth may not exceed 15% in each of the segments personal customers, commercial residential property, agriculture and other business.	3.6%	15.0%
Commercial residential property		3.6%	15.0%
Agricultural properties		(6.9)%	15.0%
Other business		2.3%	15.0%
Borrower's interest rate risk			
Loans to private individuals and for residential rental	The proportion of lending where the LTV ratio exceeds 75% of the LTV limit and where the loan rate is fixed for up to two years only may not exceed 25% of the total loan portfolio.	14.9%	25.0%
Interest-only loans			
Personal customers	The proportion of interest-only (IO) loans for owner-occupied and holiday housing with an LTV above 75% of the statutory LTV limit may not exceed 10% of total lending.	9.6%	10.0%
Loans with short-term funding:			
Refinancing (annually)	The proportion of loans to be refinanced must be below 25% per year and below 12.5% per quarter.	15.3%	25.0%
Refinancing (quarterly)		4.4%	12.5%
Large exposures			
Loans and advances:equity	The sum of the 20 largest exposures must be less than equity.	35.9%	100.00%



Changes to funding structure

The period since 2014 has seen extensive refinancing of ARMs with 1-year interest reset into loan types with fixed rates or longer reset periods, mainly fixed-rate loans, ARMs with 5-year interest reset, Cita- and Cibar-linked loans. The low interest rate level and the administration margin structure also encouraged many customers to switch to fixed-rate loans. This trend continued in 2017.

The proportion of ARMs with 1-year interest reset has since 2014 been reduced by DKK 177bn, equivalent to a reduction from 21% in 2014 to 5% of total lending at end-2017.

The reduction of loans subject to frequent refinancing has contributed to an improvement of Nykredit's funding ratios.

S&P's Stable Funding Ratio improved from 89% in 2016 to 90% in 2017. S&P's Broad Liquid Assets/Short-Term Wholesale Funding (BLAST) was 0.58 at end-2017 against 0.59 in 2016.

The reduction of loans with frequent refinancing also reduced refinancing volumes and improved Nykredit's compliance with the FSA Supervisory Diamond benchmark limit for short-term funding.

Nykredit complies with all Supervisory Diamond benchmark limits as at 31 December 2017.

The proportion of interest-only (IO) loans is expected to decrease slightly in the coming years, as the 10-year IO period expires for a number of customers and the approval of new IO loans is restricted by the Supervisory Diamond benchmark for IO loans.

This trend is likely to be reinforced by new guidelines from the Ministry of Industry, Business and Financial Affairs for housing loans to households with high debt-to-income ratios effective from 1 January 2018. The guidelines prohibit lenders from issuing variable-rate loans and IO loans to borrowers with debt-to-income ratio over 4 and a loan-to-value ratio over 60%.

Benchmark bond series

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

With the adoption of the European Commission's legal act by the Council and Parliament in Q4/2017, the joint funding model became permanent, ensuring that Totalkredit may continue to issue bonds through Nykredit Realkredit.

Liquidity is further underpinned by Nykredit's large market share. Nykredit has concluded primary dealer agreements with a number of securities brokers. The agreements are intended to:

Covered bond market

Nykredit is the largest issuer of mortgage bonds in Europe, and the Group's issues chiefly consist of covered bonds. At end-2017, the Group had a nominal amount of DKK 1,079bn of SDOs in issue and DKK 183bn of ROs in issue.

Nykredit's investors mainly comprise Danish banks, mortgage lenders and investment funds, which hold a total of 45%, and insurance companies and pension funds, which hold 21%.

Callable fixed-rate covered bonds offer a relatively high yield by international standards. This has led to higher demand from foreign investors, and foreign ownership amounted to 25% at end-2017 against 24% at end-2016. Foreign ownership increased for 30-year callable bonds in particular during the period. The growing demand from foreign investors has resulted in historically favourable conditions for borrowers to lock in the interest rate on their loans for the entire loan term.

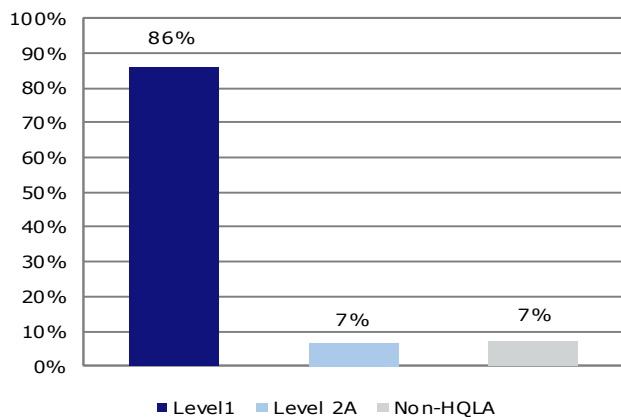
In 2017 Nykredit issued bonds worth a total of DKK 360bn, of which daily tap issues amounted to DKK 206bn, while bonds issued for the purpose of refinancing auctions amounted to DKK 154bn.

In Q3/2017, Nykredit sold EUR 500m of 5-year EUR-denominated covered bonds (SDOs) by syndication. The bonds were issued carrying a coupon rate linked to Euribor with a 0% interest rate floor. The bonds are used for match funding mortgage lending in the same currency. It is the first time that Nykredit has sold EUR-denominated SDOs through a bank syndicate.

- Underpin liquidity of Nykredit's bonds in the primary and secondary markets.
- Minimise price fluctuations in Nykredit's bonds.
- Ensure that the participants offer consistent market-making in Nykredit's bonds.
- Ensure an efficient pricing of the bonds.

With the introduction of the LCR (Liquidity Coverage Ratio), banks increasingly prefer bonds with outstanding amounts of more than EUR 500m and high ratings. As much as 86% of the outstanding amounts in Nykredit's active bond series is today classified in the top LCR category, while 7% is in the second-best category.

Nykredit Realkredit Group
LCR classification of covered bonds currently funding loans



Nykredit strives to have a product range that best suits our customers' needs and investors' increased preference for very liquid bond series.

In 2016 Nykredit launched a number of initiatives to improve the liquidity of bond series. This work continued in 2017, and the refinancing of ARMs on 1 April and 1 October will be gradually phased out as the loans are refinanced. The adjustment will take place over a number of years to ensure an even distribution of refinancing volumes. In the longer term, the plan is to refinance ARMs on 1 January and 1 July. The Nykredit Group will continue the refinancing on 1 April and 1 October of other products, such as Cita-linked loans, which serves to deconcentrate the aggregate amount of bonds maturing on the individual payment dates.

In 2017 it was also decided to transfer business loans in Capital Centre D to Capital Centre G as the loans are refinanced.

Negative interest

Denmark still has a negative interest rate environment. Nykredit has adjusted its bond set-up so that negative coupon interest is offset against redemptions for investors, and mortgage borrowers are compensated for the negative interest by way of an increased principal payment on the loan.

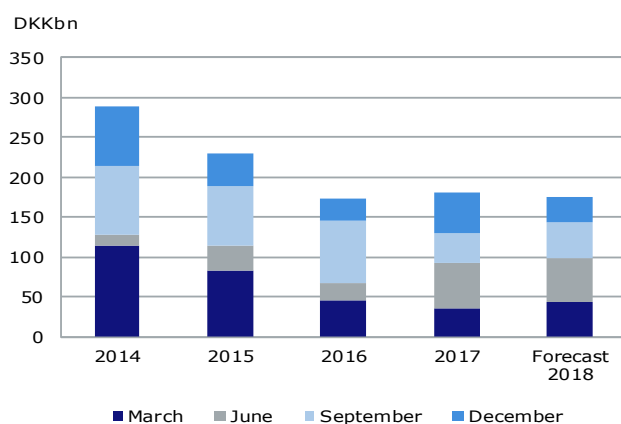
Nykredit's mortgage loan margin is a margin that is added to the funding rate. Nykredit's margin is therefore not affected by the interest rate levels.

Refinancing risk

Nykredit holds refinancing auctions four times a year. That way, auction volumes are deconcentrated, and the refinancing risk is reduced.

The chart with SDO and RO refinancing volumes shows that the volumes have reduced since 2013. Nykredit's refinancing volumes were relatively large in 2017 owing to the refinancing of a large amount of floating-rate bonds issued around 2007. Going forward, we expect refinancing volumes to decline.

Nykredit Realkredit Group
Refinancing auctions of SDOs and ROs



The new Act on refinancing risk introduced rules for the issuance of bonds to refinance mortgage loans where the term of the loan exceeds the maturity of the underlying bonds. The Act introduced mandatory maturity extension of bonds in the following situations:

Auction trigger: Auction or similar sale cannot be completed.

Interest rate trigger: The yield-to-maturity rises by more than 5 percentage points at an auction of bonds with maturities of 0-2 years.

Subordinated debt

Nykredit Realkredit did not issue any subordinated debt in 2017.

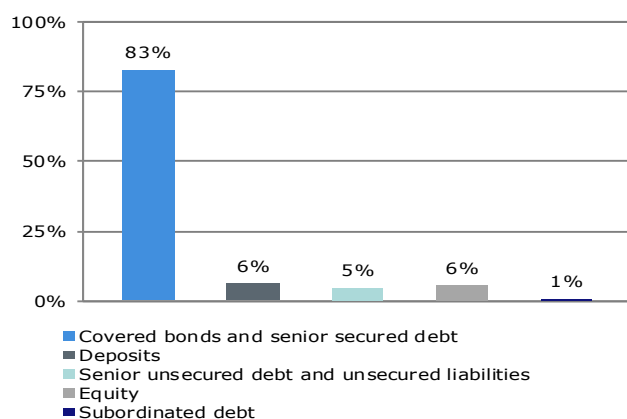
Bail-inable senior debt

In 2016 Nykredit Realkredit was the first financial business in Europe to issue so-called Senior Resolution Notes (SRN) – a special form of bail-inable senior debt.

SRNs are eligible to meet the regulatory debt buffer requirements as well as S&P's ALAC criteria. Nykredit has indicated that the Group will meet the additional loss-absorbing capacity (ALAC) criteria of S&P Global Ratings in order to maintain its long-term rating of A.

In 2017, Nykredit issued SRN of approximately DKK 6.0bn, bringing total SRN in issue to DKK 13.3bn at year-end.

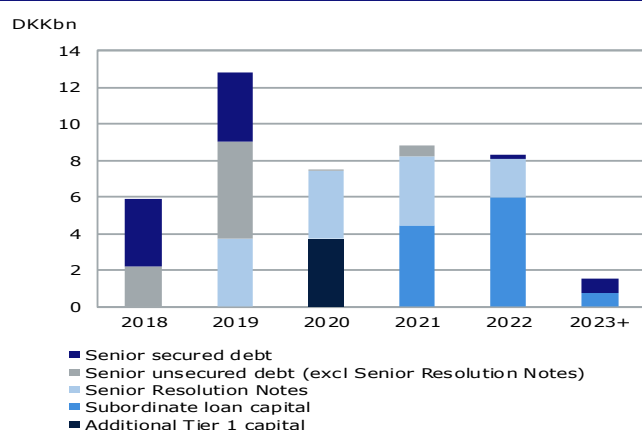
Nykredit Realkredit Group Funding structure



Nykredit Realkredit Group Bonds in issue

DKK million	2017	2016
Covered bonds (ROs), cf note 31 a	183,226	203,341
Covered bond (SDOs), cf note 31 b	1,078,747	1,012,517
Senior secured debt, cf notes 31 c and 32	8,425	14,905
Senior unsecured debt, cf notes 31 d and 32 a	8,406	12,123
Senior Resolution Notes (SRN), cf note 32	13,314	7,367
Subordinate loan capital, cf note 41	10,795	10,780
Additional Tier 1 capital, cf note 2	3,723	3,717
ECP issues, cf note 32 a	2,513	3,657

Nykredit Realkredit Group Maturity profile of capital market funding



Nykredit Realkredit Group Supplementary collateral requirement (Capital Centres E and H)

DKK billion	2017	2016
Current supplementary collateral requirement	19	26
Supplementary collateral requirement at 10% fall in property prices	22	30
Assets serving as supplementary collateral in SDO capital centres	33	38
- of which funded by senior secured debt ¹	8	14
Liquid assets of the Group's mortgage bank	83	88

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

Senior secured and senior unsecured debt

Nykredit Realkredit did not issue any senior secured or senior unsecured debt in 2017.

As part of its liquidity management, Nykredit Bank has regularly issued senior unsecured debt in the form of EMTN and ECP issues. The Bank's medium-term bonds in issue under the EMTN programme totalled DKK 3.9bn, and its short-term ECP issues amounted to DKK 2.5bn as at 31 December 2017.

Supplementary collateral

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

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 different types of senior debt and placing the proceeds in liquid assets in SDO Capital Centres E and H.

The supplementary collateral requirement was DKK 19.1bn at end-2017. If property prices were to decline by 10%, the requirement would rise to a total of DKK 21.9bn. The requirement for supplementary collateral should be seen in the context of the Group mortgage banks' liquid assets totalling DKK 83bn.

Financing of public housing

In 2017, the Danish government and the Danish mortgage banks concluded a new agreement on the funding of the public housing sector. Under the agreement, mortgage banks will still provide lending to the public housing sector, while the government will guarantee 100% of both loans and bonds. For this purpose, Nykredit will open a separate capital centre for lending for public housing.

The refinancing of loans for public housing from the existing mortgage bonds will take place from 2018 to 2025 inclusive. ARMs will be refinanced in connection with interest reset, whereas fixed-rate loans will be refinanced by order of the Danish Transport, Construction and Housing Authority. Loans funded by index-linked bonds are generally not included. An agreement may be made for government guarantee of index-linked loans, but it will not extend to index-linked bonds.

With a government guarantee applying to the capital centre, the new public housing bonds are expected to rank alongside

government bonds for regulatory purposes. Moreover, the bonds are expected to be classified at the same level as government bonds (Level 1A) under the LCR, with a resulting pricing of the new bonds also being close to that of government bonds.

Funding of bank lending

At 31 December 2017, Nykredit Bank's deposits equalled 137% of lending, against 119% in 2016.

Issuance schedule for 2018

Nykredit Realkredit will continue to issue covered bonds on tap and at refinancing auctions. Nykredit expects to refinance bonds worth DKK 44bn and DKK 54bn at the auctions in March and June 2018, and DKK 45bn and DKK 32bn at the auctions in September and December.

Because of the low interest rate levels, borrowers increasingly refinance into bonds with maturities from 5 to 30 years. This has reduced the refinancing volumes. Nykredit expects this trend to continue.

Nykredit must meet the debt buffer requirements towards 2020, amounting to at least 2% of total mortgage lending when fully phased in. In light of the debt buffer requirement and S&P's ALAC criteria, Nykredit expects to issue another DKK 0bn-5bn of SRN in 2018. Going forward, SRN will replace most of the issuance of senior secured and senior unsecured debt.

Altogether this will result in a new funding structure that offers better protection for ordinary senior creditors.

On the back of rising house prices, which reduce the requirement for supplementary collateral, and the expected issuance schedule, Nykredit Realkredit does not expect to issue senior secured or unsecured debt in 2018.

Nykredit Bank is expected to be subject to the minimum requirement for own funds and eligible liabilities (MREL). Under the MREL framework, credit institutions must hold a buffer of bail-inable liabilities that can be written down upon resolution in order to absorb future losses without involving the Danish government.

Nykredit Bank has concluded an agreement on long-term intercompany funding for the purpose of meeting the MREL requirement.

Total run-off under Nykredit Bank's EMTN programme in 2018 will be DKK 4.6bn. Going forward, EMTN issuance in Nykredit Bank will be concentrated in Nykredit Realkredit. ECP issues will remain in Nykredit Bank. The total EMTN and ECP issuance requirement depends on the development in customer deposit and lending levels as well as the Bank's other business activities.

CREDIT RATINGS

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

S&P Global Ratings

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

Senior Resolution Notes (SRN) have a BBB+ rating with S&P.

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

Fitch Ratings

Nykredit Realkredit and Nykredit Bank each have a long-term rating of A and a short-term rating of F1 with Fitch. The rating outlook is stable.

Senior Resolution Notes (SRN) have an A rating with Fitch.

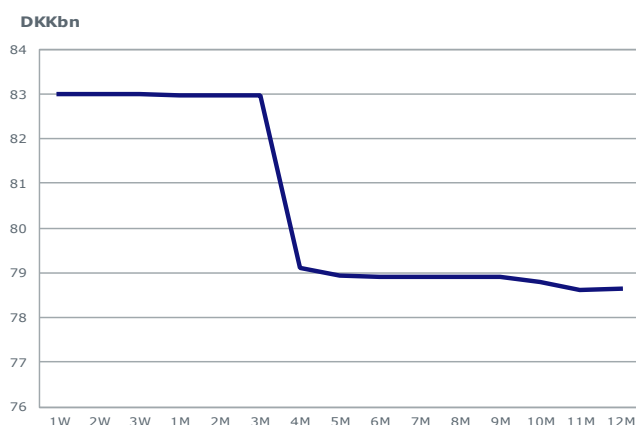
Moody's Investors Service

Moody's Investors Service continues to publish unsolicited ratings for some companies of the Nykredit Group.

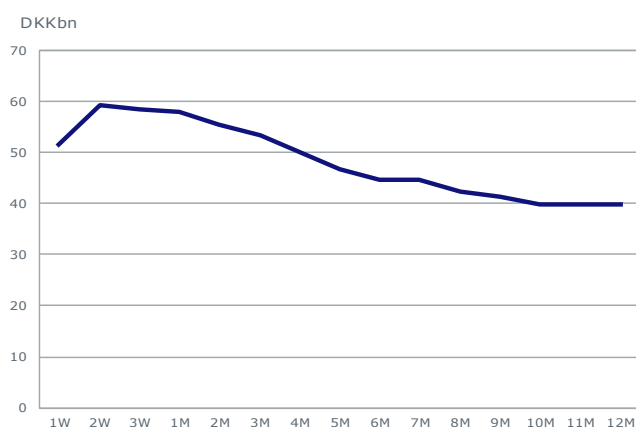
Listing of ratings

A table listing Nykredit's credit ratings with S&P and Fitch Ratings is available at nykredit.com/ratings as well as in the publication Risk and Capital Management 2017 at nykredit.com/riskandcapitalmanagement.

Mortgage lending Liquidity stress testing (internal models)



Banking Liquidity stress testing (internal models)



Nykredit Realkredit Group Difference between mortgage lending and bonds in issue at year-end

DKK billion	2017	2016
Mortgage loans – nominal value, cf note 18a	1,138	1,107
Bonds in issue – nominal value, cf notes 31 a and 31 b	1,262	1,216
Difference	124	109
The difference comprises:		
- Bonds sold in connection with refinancing of ARMs ¹	34	31
- Ordinary principal payments and prepayments ²	89	73
Issued bonds in respect of which the underlying loans have not been disbursed, including pre-issuance	4	5
Group-level adjustments	(4)	0
Total	124	109

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

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

LIQUIDITY

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

The unencumbered proportion of the liquid assets of the Group's mortgage banks, including proceeds from the senior debt in issue, totalled DKK 83bn at end-2017 against DKK 88bn at end-2016.

Nykredit's liquidity reserves meet the requirements of the Danish FSA by a comfortable margin, as illustrated in the table below:

Nykredit Realkredit Group LCR determination (%)	2017	2016
Nykredit Realkredit Group	383	321
Nykredit Realkredit Group LCR in EUR	326	542
Total for mortgage banks	1,502	1,052
Mortgage banks including minimum liquidity requirement	186	199
Nykredit Bank	148	153

Nykredit has been granted an exemption from including some of the mortgage-related cash flows in the determination of the LCR, and the Danish FSA has therefore set a minimum liquidity requirement. In practice, the requirement means that Nykredit must hold a stock of liquid assets of DKK 29.9bn corresponding to at least 2.5% of total mortgage lending. The stock of liquid assets eligible to meet the minimum liquidity requirement totalled DKK 54.2bn at end-2017, against DKK 55.8bn at end-2016, determined according to the LCR requirement.

In June 2016, the Danish FSA introduced an additional liquidity requirement for Danish SIFIs. Danish SIFIs must fulfil the Liquidity Coverage Ratio (LCR) requirement not only in DKK but also in significant currencies except for SEK and NOK. The requirement only concerns EUR in Nykredit's case.

The LCR of Nykredit Bank was 148% at end-2017. Nykredit Bank's excess liquidity coverage was DKK 14bn at end-2017. The Bank's stock of liquid assets was DKK 43.5bn against DKK 53.5bn at end-2016 determined under the LCR.

Bond portfolio

The gross bond portfolio of DKK 223bn 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 13bn of encumbered assets.

In compliance with the mortgage banking balance principle, part of Nykredit's bond portfolio includes a temporary portfolio of DKK 72bn relating to the refinancing of the covered bullet bonds used to fund Nykredit's ARMs and placement of funds prepaid such as ordinary principal payments, prepayments and funds relating to mortgage loans not yet paid out. The portfolio of self-issued bonds held in accordance with the

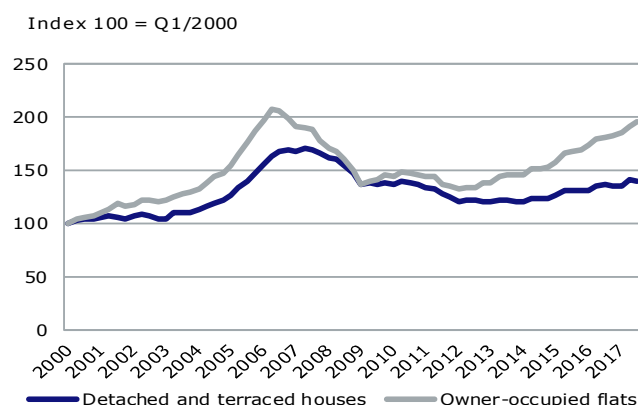
balance principle chiefly comprises short-term bonds maturing on the next payment date. The portfolio is used to secure payment in connection with bond redemption.

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 and sold at the auctions approximately one month prior to the relevant payment date, whereas the existing bonds do not mature until the same payment date. Proceeds from the issuance forms part of the short-term bond portfolio and bank deposits.

Self-issued bonds accounted for DKK 54bn of the liquidity reserves and DKK 63bn of liquid assets held under the balance principle.

LENDING

Housing prices in Denmark – inflation-adjusted



The Group recorded total mortgage and bank lending, excluding reverse repurchase lending, of DKK 1,194bn against DKK 1,162bn at end-2016.

Mortgage lending at fair value was DKK 1,164bn, up DKK 39.2bn on end-2016. Nominal mortgage lending was DKK 1,138bn. Nykredit's share of total mortgage lending was 41.1% against 41.2% at end-2016. The market share was 45.5% in the owner occupier mortgage lending segment and 36.2% in the business segment against 45.4% and 36.7%, respectively, at the beginning of 2016.

Bank lending totalled DKK 55.7bn against DKK 55.0bn at end-2016, equal to a rise of DKK 0.8bn. Reverse repurchase lending was DKK 27.6bn against DKK 30.1bn at end-2016.

Impairment provisions for mortgage and bank lending totalled DKK 7.9bn against DKK 8.3bn at end-2016.

Guarantees provided by Nykredit amounted to DKK 7.1bn at end-2017 against DKK 6.7bn at end-2016.

Impairment provisions for mortgage and bank lending totalled DKK 373m against DKK 728m in 2016.

Write-offs totalled DKK 1,176m in 2017, with DKK 924m on mortgage lending and DKK 252m on bank lending.

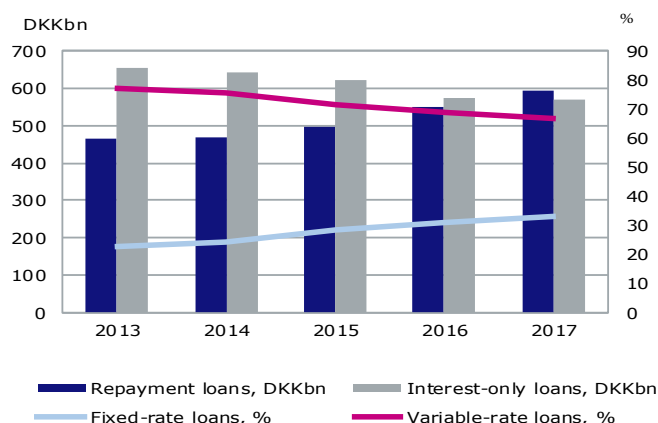
Nykredit Realkredit Group

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

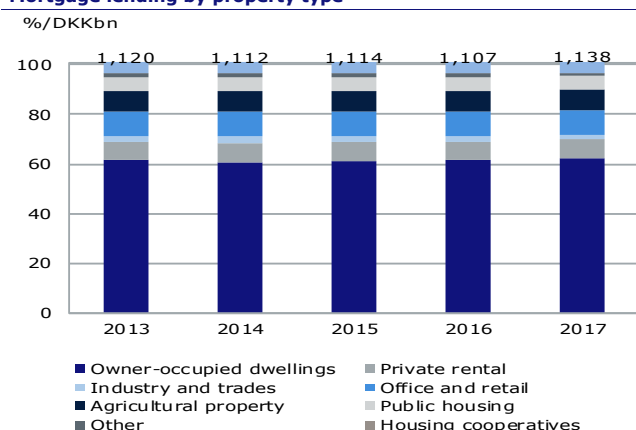
DKK million	Loans, advances and guarantees		Total provisions for loan impairment and guarantees		Impairment charges for loans and advances, earnings impact	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	FY 2017	FY 2016
Mortgage lending, nominal value						
Nykredit Realkredit	508,606	516,176	4,004	4,620	(143)	770
Totalkredit	629,502	590,959	1,563	1,130	645	51
Total	1,138,109	1,107,135	5,567	5,751	502	821
Bank lending						
Nykredit Bank	55,783	55,003	2,290	2,538	(85)	(93)
Total	55,783	55,003	2,290	2,538	(85)	(93)
Receivables from credit institutions	-	-	-	44	(44)	-
Total	-	-	-	44	(44)	-
Reverse repurchase lending	27,566	30,091	-	-	-	-
Guarantees	7,055	6,694	58	52	6	(48)
Loan impairment, % ¹						
Nykredit Realkredit	-	-	0.79	0.89	(0.03)	0.15
Totalkredit	-	-	0.25	0.19	0.11	0.01
Total	-	-	0.49	0.52	0.04	0.07
Nykredit Bank	-	-	3.94	4.41	(0.15)	(0.16)
Total	-	-	3.94	4.41	(0.15)	(0.16)

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

Nykredit Realkredit Group
Mortgage lending by loan type



Nykredit Realkredit Group
Mortgage lending by property type



MORTGAGE LENDING

Loan portfolio

Nykredit's credit exposure in terms of nominal mortgage lending went up by DKK 31.0bn to DKK 1,138bn at end-2017. Of the increase, private residential rental lending amounted to DKK 9.4bn, corresponding to a decline in private rental lending of 0.82%, while owner occupier lending rose by DKK 23.3bn and public housing fell by DKK 1.9bn.

Nominal lending by property category was relatively unchanged. Owner occupier mortgage lending accounted for 62.1% and remained the largest segment. Lending for private residential rental, agriculture and office and retail properties represented 7.9%, 8.0% and 10.1%, respectively.

The remaining proportion, 11.9%, related to the property categories industry and trades, public housing, cooperative housing and other.

Geographically, 58.2% of lending was in Jutland. The Copenhagen area represented 24.6% of the loan portfolio, and the rest of Sealand represented 11.9%. The international share of the loan portfolio was unchanged at 5.3% at end-2017.

Lending by loan type

In 2017 Nykredit registered a relatively heavy decline in the proportion of loans with an interest-only period (IO). IO loans represented 49.0% against 51.1% at end-2016.

The proportion of IO loans remains high, partly because loans based on the two-tier lending model consist of two loan types; a base loan (0-60% of the property value) which mainly consists of an IO loan, and a loan which is a repayment loan.

Security

The main type of security provided for loans is mortgages on real estate. The security value is assessed regularly relative to the current market value of a property, reflected by the LTV ratio.

In addition to mortgages on real estate, Nykredit accepts guarantees issued by public authorities or banks. Guarantees issued by public authorities contribute to reducing the credit risk of mainly mortgage loans for public housing. The guarantor assumes primary liability in respect of such guarantees. Mortgage lending guaranteed by public authorities amounted to DKK 36bn at end-2017.

The bank guarantees comprise guarantees for the registration of mortgages free from any adverse endorsements barring registration, guarantees for interim loans in connection with new building and loss guarantees. Mortgage lending guaranteed by banks amounted to DKK 30.7bn.

Furthermore, mortgage loans granted via Totalkredit are covered by set-off agreements with the partner banks arranging Totalkredit loans. Under these agreements, Totalkredit may set off part of losses incurred on mortgage lending against future commission payments to these partner banks. Lending covered by set-off agreements totalled DKK 117.9bn at end-2017.

Fair value at end-2017	Owner-occupied dwellings	Public housing ²	Cooperative housing	Private rental	Office and retail	Agricultural property	Industry and trades	Other	Total
Mortgage lending									
- Bond debt outstanding	725,422	69,833	36,514	89,990	114,491	90,912	21,467	15,250	1,163,879
- Number of loans	679,445	15,214	5,425	27,656	21,082	31,971	2,967	2,352	786,112
Bond debt outstanding by loans involving									
- public guarantees ³	0	35,390	422	11	3	167	-	73	36,066
- bank guarantees	30,744	-	-	-	-	-	-	-	30,744
- set-off agreements with partner banks	117,937	-	-	-	-	-	-	-	117,937
- no guarantee	576,740	34,444	36,091	89,980	114,488	90,745	21,467	15,177	979,132
Total	725,422	69,833	36,514	89,990	114,491	90,912	21,467	15,250	1,163,879
Bond debt outstanding by loan type									
Fixed-rate loans									
- repayment loans	207,007	26,583	9,968	6,488	14,594	6,399	2,430	3,457	276,926
- interest-only loans	91,387	12	2,414	6,835	1,775	5,824	25	218	108,491
Adjustable-rate mortgage loans (ARMs)									
- repayment loans, 1-year interest reset	13,881	228	155	1,484	1,990	1,957	385	151	20,231
- other repayment loans	72,517	20,465	1,699	9,177	13,426	8,344	2,940	1,316	129,882
- interest-only loans, 1-year interest reset	29,497	-	242	1,414	876	2,803	29	6	34,865
- other interest-only loans	163,623	18	5,528	18,073	10,577	12,514	1,284	201	211,818
Money market-linked loans									
Loans with interest rate cap									
- repayment loans	41,651	86	333	692	825	1,801	87	405	45,878
- interest-only loans	21,152	-	104	163	77	711	3	5	22,214
Loans without interest rate cap									
- repayment loans	25,463	352	754	11,286	25,697	19,522	8,450	5,456	96,979
- interest-only loans	59,245	103	13,458	34,283	44,648	30,969	5,835	3,920	192,461
Index-linked loans	1	21,987	1,859	97	7	67	-	116	24,133
Total	725,422	69,833	36,514	89,990	114,491	90,912	21,467	15,250	1,163,879
Bond debt outstanding by region									
- Capital region	176,874	25,357	19,268	24,958	30,833	2,237	1,100	5,309	285,935
- Sealand Region	94,379	7,998	3,363	5,022	11,566	13,245	2,094	1,352	139,018
- North Denmark Region	101,881	8,068	3,565	9,667	8,964	23,140	3,150	1,264	159,699
- Central Denmark Region	180,157	13,673	5,015	20,621	21,651	27,887	6,316	4,218	279,538
- South Denmark Region	158,532	14,738	5,199	12,612	16,673	24,369	3,097	2,773	237,992
- International	13,600	-	104	17,109	24,805	34	5,709	335	61,697
Total	725,422	69,833	36,514	89,990	114,491	90,912	21,467	15,250	1,163,879
Bond debt by debt outstanding, DKKm									
0-2	509,716	5,191	1,608	16,711	11,420	16,606	1,508	918	563,678
2-5	193,341	7,075	5,705	14,958	13,497	28,871	2,000	1,772	267,219
5-10	20,883	25,664	17,909	23,087	24,171	39,496	3,806	4,539	159,555
20-50	1,196	18,736	7,245	11,579	14,045	5,121	1,849	3,171	62,942
50-100	184	8,775	1,844	5,555	11,651	712	774	1,339	30,833
100-	102	4,393	2,204	18,100	39,707	105	11,530	3,511	79,652
Total	725,422	69,833	36,514	89,990	114,491	90,912	21,467	15,250	1,163,879
Bond debt outstanding by remaining loan term, years									
0-10	20,529	4,624	539	13,812	35,079	1,853	6,636	1,443	84,514
10-15	27,768	9,404	980	8,958	23,183	3,325	5,604	1,482	80,704
15-20	115,556	7,939	9,460	12,830	33,995	19,734	8,019	4,273	211,807
20-25	178,840	18,380	12,776	15,808	8,222	16,837	1,174	4,840	256,876
25-30	382,728	25,992	12,431	38,582	14,012	49,163	34	3,212	526,156
30-35	-	3,495	326	-	-	-	-	-	3,821
35-	-	0	-	0	-	-	-	-	0
Total	725,422	69,833	36,514	89,990	114,491	90,912	21,467	15,250	1,163,879

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

² Public housing includes mortgage lending for subsidised urban renewal.

³ Mortgage lending guaranteed by public authorities is recognised for the entire mortgage loan irrespective of the amount guaranteed.

Mortgage loan impairment

As mentioned in note 1, accounting policies, a new accounting estimate of impairment provisions for expected credit losses of DKK 1,039m relating to mortgage lending was carried out in 2017. Please also refer to note 52.

Total impairment provisions

Total impairment provisions for mortgage lending remained low, equalling 0.49% of total mortgage lending compared with 0.52% at the end 2016.

Total impairment provisions were down by DKK 184m compared with end-2016 representing DKK 5,567m at end-2017, including impairment provisions for expected credit losses of DKK 1,039m. Of this decline, DKK 95m was attributable to agriculture. Further, impairment provisions for "owner-occupied dwellings" and "other" rose by DKK 457m and DKK 22m, respectively. By contrast, provisions for "private residential rental", "industry and trades" and "public housing", "agriculture" and "cooperative housing" were down DKK 662m. Compared with end-2016, impairment provisions for owner-occupied dwellings were up, amounting to 8.20%, whereas impairment provisions for agricultural property fell from 1.49% to negative 1.71% of lending.

Owner-occupied dwellings accounted for DKK 2,577m of impairment provisions at end-2017, while commercial property accounted for DKK 2,990m.

Earnings impact

Impairment charges for mortgage lending were DKK 502m against DKK 821m in 2016. Excluding the impact of impairment provisions for expected credit losses of DKK 1,039m, impairment provisions were a gain of DKK 537m.

Of loan impairment charges for the year, DKK 762m was attributable to the owner occupier segment, while DKK 99m related to agricultural property. This should be seen in contrast to a total gain of DKK 359m for the remaining property categories.

Weak exposures

Nykredit's individually impaired weak mortgage exposures decreased by DKK 2.6bn to DKK 15.5bn at end-2017, equal to 0.23% of total loans and advances. The decrease was attributable to lending in all property categories but chiefly owner-occupied dwellings and housing cooperatives.

Nykredit Realkredit Group

Mortgage lending by property type¹

DKK million/%

	2017			2016		
	Total impairment provisions	Total impairment provisions, %	Total earnings impact	Total impairment provisions	Total impairment provisions, %	Total earnings impact
Owner-occupied dwellings	2,577	0.35	762	2,120	0.31	247
Private rental	366	0.41	(108)	530	0.64	(17)
Industry and trades	88	0.42	(56)	188	0.89	(23)
Office and retail	493	0.43	21	529	0.48	82
Agricultural property	1,353	1.49	99	1,447	1.52	628
Public housing	39	0.06	(0)	35	0.05	(11)
Cooperative housing	531	1.48	(250)	802	2.09	(79)
Other	121	0.80	34	99	0.60	(6)
Total	5,567	0.49	502	5,751	0.52	821

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

Nykredit Realkredit Group

Credit exposures to mortgage lending by property type¹

DKK million

	2017			2016		
	Lending, year-end	Weak exposures, individually impaired	Weak exposures, not individually impaired	Lending, year-end	Weak exposures, individually impaired	Weak exposures, not individually impaired
Owner-occupied dwellings	707,107	7,133	46,943	683,759	7,863	46,161
Private rental	89,522	1,160	3,156	80,161	1,306	4,416
Industry and trades	20,762	226	599	21,082	420	599
Office and retail	114,628	1,257	5,149	109,625	1,455	5,629
Agricultural property	91,037	3,540	14,967	92,976	3,591	16,839
Public housing	64,124	156	430	65,415	176	320
Cooperative housing	35,828	1,894	870	37,731	3,103	1,264
Other	15,102	140	217	16,386	163	161
Nominal value	1,138,109	15,506	72,332	1,107,135	18,077	75,389
Fair value	1,163,879	15,506	72,332	1,124,693	18,077	75,389

Note: For a complete breakdown of mortgage lending by rating category, see note 48.

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

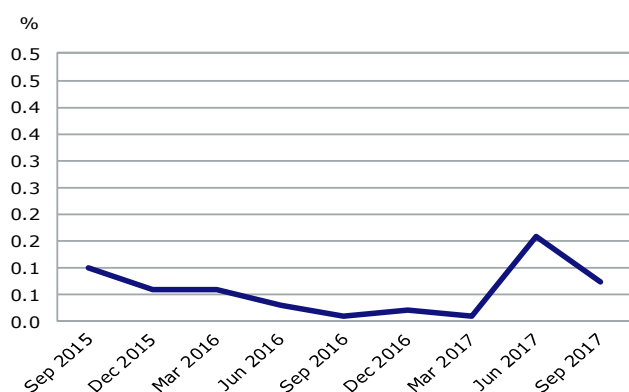
Nykredit Realkredit Group

Arrears ratio – 75 days past due

Due dates	Arrears relative to total mortgage payments	Debt outstanding affected by arrears relative to total debt outstanding	Debt outstanding, year-end affected by arrears
	%	%	DKK billion
2017			
- September	0.30	0.29	3.30
- June	0.35	0.33	3.80
- March	0.38	0.39	4.40
2016			
- December	0.37	0.48	5.30
- September	0.39	0.40	4.50
- June	0.43	0.48	4.80

Nykredit Realkredit Group

Arrears 75 days past September due date



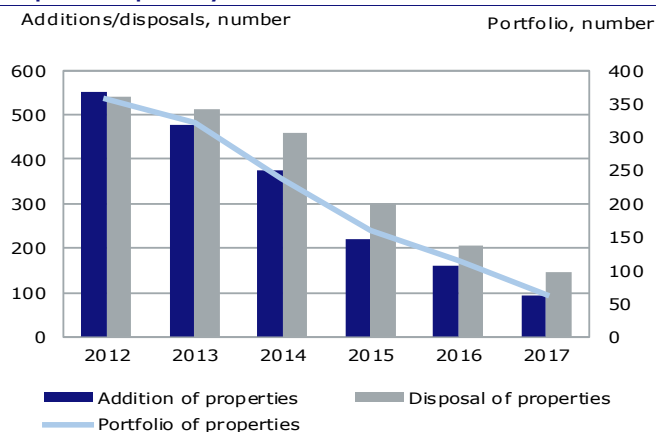
Nykredit Realkredit Group

Bank lending and guarantees

	2017		2016	
	Performing	Non-performing	Performing	Non-performing
Other	3,076	4,399	3,246	6,453
Forbearance	886	1,215	460	1,244
Total	3,962	5,614	3,706	7,697

Nykredit Realkredit Group

Properties acquired by foreclosure



Weak mortgage exposures which have not been individually impaired amounted to DKK 72.3bn at end-2017, equal to 6.36% of total loans and advances. These exposures imply an elevated risk of future default, but not necessarily a high risk of future losses, as the loss risk also depends on the security underlying the loans.

Arrears

Mortgage loan arrears are determined 15 and 75 days past the due date. Mortgage loan arrears represented 0.30% of total mortgage payments due 75 days past the September due date against 0.39% at the same time the year before. Arrears determined 15 days past the September due date represented 0.66% against 0.88% at the same time the year before.

By contrast, bond debt outstanding affected by arrears as a percentage of total bond debt outstanding decreased from 0.40% to 0.29% compared with the same time the year before.

Lending with forbearance

Nykredit focuses on having a risk management framework that ensures agreement between our risk profile, risk appetite and current legislation, and on having a robust capital structure. Risk management should ensure financial solutions that are viable in the short, medium and long term.

Reference is made to note 50 for a more detailed description of Nykredit's risk management. The report Risk and Capital Management 2017, available at nykredit.com/riskandcapitalmanagement, contains a detailed presentation of Nykredit's capital and risk policies.

Forbearance has been granted to a small part of Nykredit's customers. Forbearance is offered to customers with temporary financial difficulties.

Customers treated with forbearance have a more realistic possibility of being able to meet their obligations to Nykredit. This could be in the form of a reduced interest margin or an extraordinary interest-only period. Forbearance treatment is granted solely in accordance with the credit policy guidelines and is an instrument to reduce the risk of loss or minimise losses.

Forborne exposure totalled DKK 9.5bn at end-2017 against DKK 11.4bn at end-2016. Of this amount, DKK 5.6bn related to customers who defaulted on their obligations.

Properties acquired by foreclosure

Nykredit acquires properties at forced sales on a current basis with a view to resale. The number of properties was down to 63 at end-2017 against 114 properties at end-2016 and 356 properties at end-2012. The owner-occupied properties portfolio amounted to 26.

The value of acquired properties totalled DKK 184m. In 2017 the Group acquired 95 properties by foreclosure and sold 146.

BANK LENDING

Bank lending at amortised cost amounted to DKK 55.8bn against DKK 55.0bn at end-2016. The level reflected increasing loan demand. Bank lending before provisions for loan impairment was DKK 58.1bn against DKK 57.5bn at end-2016.

Finance and insurance still accounted for the largest single sector exposure at DKK 35.0bn against DKK 34.7bn at end-2016. The exposure widely comprised reverse repurchase lending with bonds serving as security, and the DKK 0.3bn rise should partly be seen in light of a general decrease in reverse repurchase lending of DKK 2.5bn.

Finance and insurance accounted for 32.2% against 34.0% at end-2016, the real estate sector 10.5% against 11.3% at end-2016 and personal customers 25.6% against 21.7% at end-2016.

Nykredit Bank recorded lending growth of 1.7%, excluding reverse repurchase lending, determined pursuant to the rules of the Danish FSA, including rules relating to the FSA Supervisory Diamond model. The Danish FSA's lending limit value indicates that growth of 20.0% or more may imply increased risk-taking.

Inclusive of reverse repurchase lending, the Bank's lending dropped by 1.9% on end-2016.

Lending to the real estate and construction sectors totalled DKK 14.2bn at end-2017 compared with DKK 14.8bn at end-2016. Of total loans, advances and guarantees, DKK 9.4bn derived from the category renting of real estate compared with DKK 9.3bn at end-2016.

At end-2017, loan impairment provisions for lending to the real estate sector totalled DKK 0.8bn against DKK 1.2bn at end-2016, equal to 5.6% of loans and advances to this sector compared with 7.3% at end-2016.

Bank loan impairment and provisions for guarantees

Nykredit's individually impaired weak exposures dropped by DKK 1,054m to DKK 2,538m at end-2017.

Nykredit Realkredit Group Bank lending and guarantees

	2017	2016
Bank lending	55,783	55,003
Reverse repurchase lending	27,566	30,091
Guarantees	7,055	6,694
Total	90,404	91,788

Nykredit Realkredit Group

Credit exposures by sector – bank lending, reverse repurchase lending and guarantees

DKK million

	2017		2016	
	Lending, year-end	Weak exposures, individually impaired	Lending, year-end	Weak exposures, individually impaired
Public sector	714	-	597	-
Agriculture, hunting, forestry and fishing	4,645	119	2,661	137
Manufacturing, mining and quarrying	4,687	199	6,290	234
Energy supply	1,970	12	2,252	7
Construction	2,844	217	3,177	308
Trade	3,886	83	3,843	77
Transport, accommodation and food service activities	2,954	179	3,101	202
Information and communication	1,050	31	1,551	22
Finance and insurance	34,966	77	34,749	175
Real estate	11,345	776	11,589	1,401
Other	11,562	240	10,273	276
Total business customers	79,909	1,933	79,486	2,839
Personal customers	27,805	605	22,163	753
Total	108,428	2,538	102,246	3,592
- Of which provisions for intercompany guarantees	18,025		10,458	

As the breakdown is based on public sector statistics, it is not directly comparable with the Bank's business areas.
Note: For a complete breakdown of bank lending by rating category, see note 50.

Total impairment provisions

Nykredit's total provisions for bank loan impairment declined by DKK 248m in 2017 to DKK 2,290m at end-2017, equal to 3.94% of total bank lending. Provisions for guarantees amounted to DKK 58m against DKK 52m at end-2016.

Individual impairment provisions for bank lending totalled DKK 1,931m against DKK 2,429m at end-2016, and collective impairment provisions for bank lending were DKK 359m against DKK 132m at end-2016.

The decline in individual impairment provisions of DKK 497m consisted of new impairment provisions of DKK 416m, reversals of DKK 692m and write-offs of DKK 199m.

Guarantees

The Bank provides guarantees on a current basis. Guarantees provided were DKK 1,470m, down DKK 23m on end-2016.

At end-2017, provisions for guarantees amounted to DKK 58m against DKK 52m at end-2016.

Earnings impact

Loan impairment charges for the year were a reversal of DKK 86m. Provisions for guarantees increased by DKK 6m, and reversal of impairment provisions for credit institutions was DKK 23m – totalling a gain of DKK 102m. By comparison, provisions for loan impairment and guarantees were a gain of DKK 141m in 2016.

Nykredit Realkredit Group

Provisions for bank loan impairment and guarantees by sector¹

	2017		2016	
	Total impairment provisions	Total earnings impact	Total impairment provisions	Total earnings impact
Public sector	2	2	-	-
Agriculture, hunting, forestry and fishing	104	10	96	14
Manufacturing, mining and quarrying	195	24	185	24
Energy supply	14	12	3	(1)
Construction	177	(22)	206	(41)
Trade	176	125	57	(36)
Transport, accommodation and food service activities	100	33	114	35
Information and communication	25	12	18	16
Finance and insurance	72	(42)	119	(97)
Real estate	663	(321)	950	(304)
Other	239	58	222	14
Total business customers	1,765	(111)	1,969	(376)
Personal customers	581	30	621	235
Total	2,348	(79)	2,590	(141)
- of which provisions for losses under guarantees	58	6	52	(48)
Impairment provisions for credit institutions	-	(23)	23	-
Total including impairment provisions for credit institutions	2,348	(102)	2,613	(141)

¹ 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

BUSINESS CONCEPT

For more than 165 years, Nykredit has helped Danish families buy their homes and Danish businesses grow. Today, we are Denmark's leading credit provider, the largest lender to homeowners and one of the largest lenders to small and medium-sized enterprises, the agricultural sector and the housing sector. Nykredit is lender to people and businesses all over Denmark.

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

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

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



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



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



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



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



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



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

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

Corporate responsibility

Being Denmark's largest credit provider and a systemically important financial institution implies significant corporate responsibility.

This includes the responsibility for supporting financial stability in Denmark. For that purpose, we have a strong focus on maintaining a solid and stable capital position. Forenet Kredit's sale of a minority shareholding to pension companies in 2017 strengthens Nykredit's capacity for providing loans across Denmark – at all times.

And by pursuing a responsible credit policy, Nykredit can offer financing to customers all over Denmark and, most notably, in ways that do not raise financial stability concerns.

As a financial business, Nykredit also undertakes to combat financial crime. We are strongly committed to actively combatting financial crime, such as tax evasion, terrorist financing, money laundering and cybercrime.

Nykredit has been a UN Global Compact member since 2008. For almost 10 years, we have been committed to meeting the Ten Principles of the UN Global Compact in the areas of human rights, labour standards, the environment and anti-corruption.

We have also endorsed the UN Principles for Responsible Investments (the UN PRI), which, together with our own policies in this area, form the framework for responsible investments of more than DKK 20bn.

For additional information on Nykredit's corporate social responsibility and Nykredit's statutory disclosure, please refer to our CSR Report 2017 at nykredit.com/CSRreport2017. Information on corporate governance is available at nykredit.com/corporategovernance. By publishing our CSR Report, we meet the CSR reporting requirements stipulated in the Danish FSA Executive Order on the presentation of financial reports of credit institutions and investment companies, etc. (sections 135 and 135a).

The Board of Directors of Nykredit Realkredit A/S counts 15 members, of whom 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.

ORGANISATION AND RESPONSIBILITIES

Board of Directors

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

Group-level boards

Audit Board

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

Remuneration Board

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

Nomination Board

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

Risk Board

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

Group Executive Board

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

Group-level committees

Governance and management within selected fields

Credits

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

Asset/Liability

- Capital, funding, liquidity and market risk management

Risk

- Monitors risk profile and capital requirement

Contingency

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

Products

- Ensures development and maintenance of services, products and concepts

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

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

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

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

Group-level boards

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

Audit Board

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

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

The Audit Board held six meetings in 2017.

Risk Board

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

The Risk Board consists of Merete Eldrup, CEO (Chairman), Michael Demnitz, CEO, Per W. Hallgren, CEO, and Bent Naur,

former CEO, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting.

The Risk Board held six meetings in 2017.

Nomination Board

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

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

The Nomination Board held four meetings in 2017.

Remuneration Board

The principal tasks of the Remuneration Board are to qualify proposals for remuneration prior to consideration by the Board of Directors and to make recommendations in respect of Nykredit's remuneration policy, including guidelines on incentive pay, for the approval of the Board of Directors as well as to assist in ensuring that they are observed. Moreover, the Remuneration Board makes proposals for remuneration of the Board of Directors and the Group Executive Board. It reviews and considers the criteria for and process of appointing risk takers, assesses whether the Group's processes and systems are sufficient and take into consideration the Group's risks relative to the remuneration structure, and ensures that the remuneration policy and practices are in alignment with and promote sound and effective risk management and are in accordance with the Group's business strategy, objectives, values and long-term interests, which is coordinated with the Risk Board as required. Also, the Remuneration Board considers the overall results of the Group and the individual companies and business units and ensures that the Executive Board has evaluated whether the performance criteria behind the calculation of variable remuneration of members of the Board of Directors and the Executive Board and other risk takers are still met at the time of payout through spot checks of these evaluations. Finally, the Remuneration Board ensures that the information in the Annual Report about remuneration of the Board of Directors and the Group Executive Board is correct, fair and satisfactory. The Remuneration Board consists of Steffen Kragh, CEO (Chairman), Merete Eldrup, CEO, and Nina Smith, Professor, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting, and Leif Vinther, Chairman of Staff Association and staff-elected member of the Board of Directors of Nykredit Realkredit A/S.

The Remuneration Board held four meetings in 2017.

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

Committees

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

The Credits Committee is charged with approving credit applications and loan impairments as well as overseeing the management of risks in the Nykredit Group's credits area. The Committee regularly carries out portfolio management and submits recommendations on credit policies etc to the individual Executive Boards and Boards of Directors. The Committee lays down business procedures for the granting of credits within the limits of the guidelines laid down by the Group Executive Board and the Board of Directors. The Committee's remit covers Nykredit Realkredit A/S, Nykredit Bank A/S and Nykredit Leasing A/S.

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

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

The Contingency Committee has the overall responsibility for compliance with IT security policy rules in relation to contingencies (major accidents and catastrophes) and the Group's entire spectrum of contingency plans covering IT as well as business aspects. The Committee's remit covers Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S.

The Products Committee's overarching objective is to ensure that the development and maintenance of new services, products and concepts potentially involving material risks for the Group, counterparties and/or customers complies with the business models and the guidelines approved by the Executive Boards of the respective companies for development and approval of new concepts and products. Further, the Committee must monitor and evaluate the existing products and assess any need for changing or adjusting individual products or an entire product range. The Committee's remit covers Nykredit Realkredit A/S, Totalkredit A/S, Nykredit Bank A/S, Nykredit Portefølje Administration A/S and Nykredit Leasing A/S.

THE UNDER-REPRESENTED GENDER

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

Nykredit has also adopted a policy for board diversity and for increasing the number of women at other managerial levels.

Further information on Nykredit's gender equality policy and objectives is available in Nykredit's CSR Report 2017, available at nykredit.com/CSRreport2017.

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

CORPORATE GOVERNANCE

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

In consequence, Nykredit regularly considers the Recommendations on Corporate Governance of the Danish Committee on Corporate Governance subject to the adjustments that follow from Nykredit's special ownership and management structure and complies with the recommendations where 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, address an ordinary listed company with many shareholders.

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

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

Where appropriate, Nykredit also complies with the managerial code of conduct of Finance Denmark, which supplements

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

Forenet Kredit

In 1991 the mortgage association Nykredit was converted into a public limited company. Nykredit operates through Nykredit Realkredit A/S, the object of which is to carry on mortgage banking and other financial business. The company is wholly owned by Nykredit A/S, the object of which is to carry on Nykredit's activities. Forenet Kredit is the largest shareholder of Nykredit A/S, owning 78.9% of the shares. Its objects are to be a shareholder of Nykredit and to carry on financially sustainable mortgage banking and other financial business for the benefit of its customers. Thus, the members of Forenet Kredit's Board of Directors elected by the Committee of Representatives make up half (five of ten) of the Board of Directors of Nykredit Realkredit A/S and less than half (five of 12) of the Board of Directors of Nykredit A/S.

REMUNERATION

Material risk takers

At end-2017, the Group had identified a total of 195 risk takers:

- Members of the Board of Directors: 26
- Group Managing Directors: 5
- Subsidiary managing directors: 7
- Other material risk takers: 157

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

Remuneration of material risk takers

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

The Board of Directors of Nykredit A/S and Nykredit Realkredit A/S may under special circumstances decide to grant members of the Executive Board retention remuneration earned over one or more years. Provisions for retention remuneration for the Executive Board of DKK 3m were made for 2017.

Except from the above retention remuneration, the members of the Board of Directors and the Group Executive Board do not receive variable remuneration, nor bonus awards. The total remuneration of the Board of Directors and the Group Executive Board appears from note 12 of the Financial Statements.

The 2017 variable remuneration provisions in respect of subsidiary Managing Directors and other risk takers amounted to DKK 99m for 2017 compared with DKK 58m for 2016. The provisions for variable remuneration for 2017 corresponded to 47% of their fixed salaries.

The total remuneration of risk-takers subject to variable remuneration appears from note 12 of these Financial Statements. Details on bonuses to risk takers, remuneration policy and practices are available at nykredit.com/remuneration.

Bonus programmes

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 2017 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 72m compared with bonus provisions of DKK 64m for 2016. The 2017 bonus provisions corresponded to 54% of their fixed salaries.

In addition, a limited number of individual bonus programmes apply to selected staff members. The 2017 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 19m compared with bonus provisions of DKK 10m for 2016. The 2017 bonus provisions corresponded to 24% of their fixed salaries.

Management executives and a small number of senior staff members participate in an individual bonus programme with a bonus potential of up to three months' salary. The 2017 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 5m compared with bonus provisions of DKK 8m for 2016. The 2017 bonus provisions corresponded to 3% of their fixed salaries.

The bonus programmes do not apply to other management or staff members, but they may receive individual one-off awards. For 2017, provisions of DKK 15m were made for one-off awards compared with DKK 15m for 2016. The 2017 provisions for one-off awards corresponded to 1% of their fixed salaries.

Total provisions for bonuses and one-off awards for 2017 came to DKK 183m against DKK 155m for 2016. The total provisions for bonuses and one-off awards for 2017 corresponded to 8% of total fixed salaries. The rise in provisions for bonuses and one-off awards is attributable to Nykredit's extraordinarily strong performance in 2017.

In order to retain selected executive and key staff members, a commitment has been made that these may receive retention remuneration. For 2017, provisions for retention remuneration amounted to DKK 35m.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

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

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

Financial reporting process

The Board of Directors and the Executive Board have the overall responsibility for the financial reporting process and for compliance with relevant accounting legislation and any other regulation of financial reporting.

The financial reporting process is based on internal control and risk management systems, which together ensure that all relevant financial transactions are correctly reflected for accounting purposes and in financial statements. Nykredit's Management regularly reviews items in respect of which estimates may have a material impact on the value of assets and liabilities.

The process is based on a number of fixed routines, including the planning process, which are prepared together with essential business units, management support functions and the Executive Board.

Prior to the process a number of meetings are held between Group Finance, internal and external auditors and, on an ad-hoc basis, specialists from, for instance, the Group's risk and credits areas. Significant accounting issues will be discussed at the meetings, including any changes to accounting policies or measurement principles and any new relevant legislation.

Group Finance, which includes the finance functions of Nykredit A/S, Nykredit Realkredit, Totalkredit, Nykredit Bank and Nykredit Portefølje Administration, undertakes the Group's overall financial reporting and is responsible for ensuring that Group financial reporting complies with policies laid down and current legislation. Group Finance is also responsible for the day-to-day internal reporting in the Treasury and Markets areas.

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

The finance units of other subsidiaries, including Nykredit Leasing A/S, contribute to the Group's financial control and reporting. They are responsible for the financial reporting of the subsidiaries, which includes compliance with current legislation and the Group's accounting policies.

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

Control environment

Business procedures have been laid down and controls implemented for all material areas and risk areas, and overall principles and requirements for the preparation of business procedures and a process for the approval of business procedures in material risk areas have been established at Group level.

The Executive Board is responsible for risk delineation, management and monitoring.

In addition to this, the Audit Board oversees the effectiveness of Nykredit's internal control systems, financial reporting, internal audit and risk management. The Committees perform the current management and monitoring on behalf of the Executive Board.

Group Finance reports to the Audit Board on accounting matters six times a year, covering material areas, such as accounting policies, the use of significant estimates, measurement of financial instruments and notes describing significant changes in financial reporting standards, practices and executive orders. Moreover, annual and interim reports for the Nykredit Realkredit Group and the Nykredit A/S Group are submitted to the Audit Board for review.

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

Risk assessment

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

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

Controls

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

Business procedures have been laid down and controls implemented for all material and risk areas, and overall principles and requirements for the preparation of business procedures and a process for the approval of business procedures in material risk areas have been established at Group level. The controls comprise manual and physical controls as well as general IT controls and automatic controls in the IT systems applied.

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

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

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

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

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

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

Communication and information

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

Internal and external financial reports are regularly submitted to Nykredit's Boards of Directors and Executive Boards. Internal reports include analyses of material matters in, for instance, Nykredit's business areas and subsidiaries.

Risk is reported to the Board of Directors, the Executive Board, the relevant management levels and the individual business areas. For further information on the Group's risk and capital management, please refer to the publication Risk and Capital Management 2017, available at nykredit.com/riskandcapitalmanagement.

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

ALTERNATIVE PERFORMANCE MEASURES

NEW EARNINGS PRESENTATION IN MANAGEMENT COMMENTARY

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

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

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

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

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

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

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

Supplementary financial ratios

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

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

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

Profit (loss) for the year as % of business capital (ROAC), %. The return target in the financial highlights shows profit (loss) for the year relative to business capital. Profit (loss) corresponds to net profit or loss less interest expenses for AT1 capital, which is treated as dividend in the Financial Statements. Profit (loss) also includes value adjustment of strategic equities, which is recognised in "Other comprehensive income" in the Financial Statements. Business capital corresponds to a capital target of 16% of the risk exposure amount.

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

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

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

GROUP COMPANIES

NYKREDIT A/S

Nykredit A/S is the Parent of Nykredit Realkredit.

The Company's core business is the ownership of Nykredit Realkredit.

The Parent recorded a loss of DKK 75m excluding the profit of the subsidiary Nykredit Realkredit.

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

Please refer to the Annual Report 2017 of Nykredit A/S which is available at nykredit.com/reports.

NYKREDIT REALKREDIT A/S

In 2017 the Parent Nykredit Realkredit A/S increased profit before tax to DKK 8,822m against DKK 6,257m in 2016. Profit after tax was DKK 8,074m against DKK 5,660m the year before.

Results for 2017 were mainly affected by profit from investments in subsidiaries of DKK 5,057m against DKK 3,173m in 2016. Performance was chiefly influenced by a net reversal of previous impairment provisions on loans and advances as well as lower costs.

Business profit from mortgage banking went up by DKK 681m to DKK 3,765m compared with 2016.

Operating costs fell by 11% to DKK 3,166m driven by increased efficiency and continued cost awareness.

Impairment charges for loans and advances went down from DKK 770m to a net reversal of DKK 164m.

Nykredit Realkredit A/S		
Business profit and profit for the year		
DKK million	2017	2016
Income	6,767	7,403
Costs	3,166	3,549
Business profit before impairment charges	3,601	3,854
Impairment charges for loans and advances	(164)	770
Business profit	3,765	3,084
Profit from investments in Group enterprises	5,057	3,173
Profit before tax	8,822	6,257
Tax	749	597
Profit for the year	8,074	5,660

Impairment charges came to negative 0.03% of total loans and advances of nominally DKK 509bn.

Total impairment provisions amounted to DKK 4,004m, down by DKK 638m on end-2016. Individual impairment provisions stood at DKK 2,529m and collective impairment provisions at DKK 1,475m.

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 2017, 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 profit 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 mainly 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.

Equity stood at DKK 78.8bn at end-2017 compared with DKK 71.0bn the year before.

Equity includes Additional Tier 1 capital of EUR 500m (DKK 3.8bn).

It will be recommended for approval by the Annual General Meeting that a dividend of DKK 4.1bn be distributed for 2017.

Nykredit Realkredit A/S		
Capital and capital adequacy		
DKK million	2017	2016
Equity (incl AT1 capital)	78,847	70,954
AT1 capital	(3,765)	(3,760)
Proposed dividend	(4,100)	-
CET1 capital deductions	(549)	(380)
CET1 capital	70,433	66,814
AT1 capital	3,723	3,717
AT1 capital deductions	(134)	(27)
Tier 1 capital	74,022	70,504
Tier 2 capital	10,795	10,780
Tier 2 capital additions/deductions	230	146
Own funds	85,048	81,430
CET1 capital ratio, %	17.0	17.0
Tier 1 capital ratio, %	17.9	18.0
Total capital ratio, %	20.5	20.7

Nykredit Realkredit A/S		
Required own funds and internal capital adequacy requirement		
DKK million	2017	2016
Credit risk	31,109	29,363
Market risk	970	1,104
Operational risk	975	864
Total Pillar I	33,054	31,331
Total Pillar II	4,623	4,771
Total required own funds	37,678	36,102
Internal capital adequacy requirement (Pillar I and Pillar II), %	9.1	9.2

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-2017 own funds were DKK 85.0bn, corresponding to a total capital ratio of 17.9%.

The internal capital adequacy requirement was 9.1%.

Additional Tier 1 capital

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

In 2015, Nykredit Realkredit issued AT1 capital of EUR 500m (DKK 3.8bn). The notes are perpetual, and payment of principal and interest is discretionary, for which reason the issue is recognised in equity for accounting purposes.

TOTALKREDIT A/S

Totalkredit is a central element of Nykredit's strategy as a provider of mortgage loans to personal and business customers arranged via partner banks.

Totalkredit recorded a profit before tax of DKK 2,181m against DKK 2,628m in 2016, and profit after tax was DKK 1,752m against DKK 2,048m in 2016.

Totalkredit A/S		
Business profit and profit for the year		
DKK million	2017	2016
Net interest income	3,111	2,880
Net fee income	510	490
Net interest from capitalisation	(62)	(141)
Trading, investment portfolio and other income	(15)	129
Income	3,544	3,359
Costs	726	673
Business profit before impairment charges	2,818	2,686
Impairment charges for loans and advances	637	47
Business profit	2,181	2,640
Tax	428	582
Profit for the year	1,752	2,058

Totalkredit A/S		
Summary balance sheet		
DKK million	2017	2016
Mortgage loans at fair value	644,310	599,943
Bonds and equities	80,558	69,364
Bonds in issue, Totalkredit	9,104	11,162
Bonds in issue, Nykredit Realkredit	688,460	636,001
Subordinated debt	2,000	2,000
Equity	26,300	24,674
Total assets	736,055	690,527

The negative earnings impact was driven mainly by increased impairment charges for loans and advances due to a change in the estimate of impairment provisions for expected credit losses. By contrast, results were positively affected by increased net interest income and net fee income.

Costs went up by DKK 53m attributable to an increase in IT costs due to the development of a new future-proof IT platform for mortgage lending.

Impairment charges for loans and advances rose to DKK 637m against DKK 47m in 2016. IFRS 9 is implemented with effect from 1 January 2018. In 2017, a management estimate of DKK 561m was recognised, as the intention is still for impairment charges for loans and advances at fair value and for loans and advances at amortised cost to be determined according to the same principles.

Individual impairment provisions improved by DKK 141m from DKK 260m in 2016 to DKK 119m in 2017.

Collective impairment provisions were down DKK 732m on 2016, primarily relating to the above-mentioned management estimate of DKK 561m at end-2017.

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

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

To this end, in 2017 the company has offset DKK 220m against commission for the year payable to the partner banks compared with DKK 240m in 2016. The amount is recognised through profit or loss as a reduction of "Impairment charges for loans and advances".

Equity stood at DKK 26,300m at end-2017 compared with DKK 24,674m in 2016.

Own funds were DKK 28,522m at end-2017, corresponding to a total capital ratio of 29.6% against 28.7% at end-2016.

The internal capital adequacy requirement was 10.6% at end-2017.

Please refer to the Annual Report 2017 of Totalkredit A/S which is available at nykredit.com/reports.

NYKREDIT BANK GROUP

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

As a result of these activities – which support mortgage lending – Nykredit Bank generally has a relatively large risk exposure, including exposures to interest rate swaps concluded as a consequence of mortgage customers wishing to hedge the interest rate risk on their mortgage loans. By far the greater majority of these customers make current payments under their contracts, but a number of customers, including housing cooperatives, have ceased making current payments in part or entirely, as reflected by the Bank's value adjustments.

Profit before tax for the Nykredit Bank Group was DKK 4,034m against DKK 788m in 2016.

Nykredit Bank Group		
Business profit and profit for the year		
DKK million	2017	2016
Net interest income	1,493	1,467
Net fee income	540	385
Wealth management income	1,402	1,184
Net interest from capitalisation	(32)	5
Trading, investment portfolio and other income	986	428
Income	4,389	3,470
Costs	1,974	2,060
Business profit before impairment charges	2,415	1,410
Impairment charges for loans and advances	(102)	(141)
Business profit	2,517	1,551
Legacy derivatives	1,517	(763)
Profit before tax	4,034	788
Tax	901	161
Profit for the year	3,133	627

Nykredit Bank Group		
Summary balance sheet		
DKK million	2017	2016
Loans and advances	83,349	85,094
Bonds and equities	47,454	42,576
Payables to credit institutions and central banks	40,218	51,606
Deposits	76,501	66,263
Equity	19,877	16,744
Total assets	173,585	194,926

Income totalled DKK 4,389m against DKK 3,470m in 2016. Income rose due to increasing activity in Wealth Management and growth in trading, investment portfolio and other income.

Costs fell by DKK 86m to DKK 1,974m due to reduced other capacity costs.

Impairment charges for loans and advances equalled a net reversal of DKK 102m against a net reversal of DKK 141m in 2016.

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

Tax on profit for the year was DKK 901m against DKK 161m in 2016.

Equity stood at DKK 19,877m at end-2017 against DKK 16,744m at end-2016.

The Nykredit Bank Group's own funds were DKK 21,912m at end-2017, corresponding to a total capital ratio of 22.3% against 16.6% at end-2016.

The internal capital adequacy requirement was 10.6% at year-end against 10.7% at end-2016.

Reference is made to the Annual Report 2017 of the Nykredit Bank Group, which is available at nykredit.com/reports.

OTHER SUBSIDIARIES

The subsidiaries Nykredit Mægler A/S, Nykredit Ejendomme A/S and Ejendomsselskabet Kalvebod A/S delivered a total profit of DKK 172m in 2017 against DKK 631m in 2016. Equity totalled DKK 880m at end-2017.

MANAGEMENT STATEMENT AND AUDIT REPORTS

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

The Board of Directors and the Executive Board have today reviewed and approved the Annual Report 2017 of Nykredit Realkredit A/S and the Nykredit Realkredit Group.

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

In our opinion, the Consolidated Financial Statements and the Financial Statements give a true and fair view of the Group's and the Parent's assets, liabilities, equity and financial position at 31 December 2017 and of the results of the Group's and the Parent's operations and the Group's cash flows for the financial year 2017.

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

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

Copenhagen, 8 February 2018

Executive Board

Michael Rasmussen
Group Chief Executive

Kim Duus
Group Managing Director

David Hellemann
Group Managing Director

Søren Holm
Group Managing Director

Anders Jensen
Group Managing Director

Board of Directors

Steffen Kragh
Chairman

Merete Eldrup
Deputy Chairman

Nina Smith
Deputy Chairman

Helge Leiro Baastad

Hans Bang-Hansen

Olav Bredgaard Brusén*

Michael Demsitz

Per W. Hallgren

Marlene Holm*

Vibeke Krag

Allan Kristiansen*

Bent Naur

Erling Bech Poulsen

Inge Sand*

Leif Vinther*

* Staff-elected member

INTERNAL AUDITORS' REPORT

Opinion

In our opinion, the Consolidated Financial Statements and the Financial Statements of Nykredit Realkredit A/S give a true and fair view of the Group's and the Company's assets, liabilities, equity and financial position at 31 December 2017 and of the results of the Group's and the Company's operations and the Group's cash flows for the financial year 1 January – 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds in respect of the Consolidated Financial Statements, and in accordance with the Danish Financial Business Act in respect of the Financial Statements.

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

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

Basis for opinion

We have audited the Consolidated Financial Statements and the Financial Statements of Nykredit Realkredit A/S for the financial year 1 January – 31 December 2017. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds. The Financial Statements are prepared in accordance with the Danish Financial Business Act.

We conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Undertakings etc. as well as Financial Groups and with International Standards on Auditing concerning planning and performing of audits.

We conducted a review of the risk management, compliance function, business procedures and internal control of the Company in all material areas and risk areas.

We planned and performed the audit to obtain reasonable assurance that the Consolidated Financial Statements and the Financial Statements are free from material misstatement. We participated in the audit of all material areas and risk areas.

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

Statement on the Management Commentary

Management is responsible for the Management Commentary.

Our opinion on the Consolidated Financial Statements and the Financial Statements does not cover the Management Commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements and the Financial Statements, our responsibility is to read the Management Commentary and, in doing so, consider whether the Management Commentary is materially inconsistent with the Consolidated Financial Statements or the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management Commentary provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management Commentary is in accordance with the Consolidated Financial Statements and the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the Management Commentary.

Copenhagen, 8 February 2018

Lars Maagaard
Chief Audit Executive

Kim Stormly Hansen
Deputy Chief Audit Executive

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Nykredit Realkredit A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Nykredit Realkredit A/S/Nykredit Realkredit A/S for the financial year 1 January to 31 December 2017, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including the summary of significant accounting policies, for the Group as well as the Parent and the consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds, and the parent financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2017 and of its financial performance and cash flows for the financial year 1 January to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds.

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

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

Basis for opinion

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

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

We were appointed auditors of Nykredit Realkredit A/S/Nykredit Realkredit A/S for the first time on 1 August 1991 for the financial year 19911991. We have been reappointed annually by decision of the general meeting for a contiguous engagement period of 27 years up to and including the financial year 20172017.

Key audit matters

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

Loan impairment charges	How the matter was addressed in our audit
<p>The Group's loans and advances amount to DKK 1,248,003m at 31 December 2017 (DKK 1,210,516m at 31 December 2016), and impairment charges therefor amount to DKK 379m in 2017 (DKK 680m in 2016) in the consolidated financial statements.</p> <p>Determining impairment charges for loans and advances is subject to significant uncertainty and is highly based on management judgement. Due to the significance of such management judgement and the loan volumes of the Parent and the Group, impairment charges for loans and advances are a key audit matter.</p> <p>The principles for determining the impairment charges are described in the Summary of significant accounting policies and note 52, and Management has further described the management of credit risks and the review for impairment in notes 14 and 48 to the consolidated financial statements.</p> <p>In 2017, loans and advances to agriculture and housing cooperatives still required special audit attention due to heavy indebtedness in agriculture and swaps in the cooperative housing segment. Furthermore, management estimates of expected credit losses have required special attention.</p> <p>The most significant judgements requiring special audit attention are:</p> <ul style="list-style-type: none"> ▪ Assessment of whether loans and advances are impaired ▪ Valuation of security, including properties in particular which form part of the determination of impairment charges ▪ Management estimates related to the add-on for collective impairment provisions as well as expected credit losses. 	<p>Our audit comprised a review of relevant central and decentral business procedures, test of controls and analysis of the amount of impairment charges.</p> <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"> ▪ Challenging the procedures and methodologies applied for the areas involving the highest level of management judgement by using our industry knowledge and experience ▪ Assessing the changes in the assumptions for the areas requiring the highest level of management judgement against sector trends and historical observations ▪ Performing a risk-based test of exposures to ensure timely identification of impairment of loans and advances and for impaired loans and advances to ensure appropriate impairment charging. In this connection, we focused particularly on agriculture and housing cooperatives ▪ Challenging management add-ons with special focus on management consistency and bias, including special focus on documentation of the adequacy of management add-ons related to agriculture and housing cooperatives as well as expected credit losses.
<p>Fair value of swaps</p> <p>Determining the value of swaps is subject to significant uncertainty and complexity and is highly based on management judgement. Due to the significance of such management judgement, swaps are a key audit matter. The Group's swaps amount to DKK 18,161m (DKK 27,119m at 31 December 2016) and DKK 11,701m (DKK 23,588m at 31 December 2016) for positive and negative fair values at 31 December 2017.</p> <p>The principles for determining the value are described in the Summary of significant accounting policies, and Management has further described the management of market risks and the determination of value in notes 46 and 48 to the consolidated financial statements.</p> <p>The most significant judgements and complexity requiring special audit attention are:</p> <ul style="list-style-type: none"> ▪ Assessment of customers' ability to pay ▪ Practice for methodologies applied in the valuation of swaps. 	<p>How the matter was addressed in our audit</p> <p>Our audit comprised a review of relevant business procedures, test of key controls and analysis of valuations.</p> <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"> ▪ Assessing the model applied to calculate the risk of customers' non-payment by using our industry knowledge and experience ▪ Assessing the changes in the assumptions against sector trends and historical observations ▪ Performing a risk-based test of valuation of swaps with customers.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the management commentary.

Management's responsibilities for the consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds, and for the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in the preparation of the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Parent or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in the preparation of the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent

the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 8 February 2018

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Henrik Wellejus
State-Authorised
Public Accountant
MNE no 2480724807

Bjørn Philip Rosendal
State-Authorised
Public Accountant
MNE no 40039

INCOME STATEMENTS

DKK million

Nykredit Realkredit A/S				Nykredit Realkredit Group	
2016	2017		Note	2017	2016
INCOME STATEMENT					
21,778	19,700	Interest income	6	27,160	28,788
17,199	15,491	Interest expenses	7	15,675	17,319
4,579	4,209	Net interest income		11,485	11,470
96	121	Dividend on equities	8	133	108
894	775	Fee and commission income	9	2,687	2,381
147	270	Fee and commission expenses	10	2,919	2,677
5,423	4,835	Net interest and fee income		11,386	11,281
919	1,161	Value adjustments	11	3,820	775
-	(200)	Value adjustment relating to sale of branch	11	(200)	-
1,054	952	Other operating income		501	589
3,155	2,773	Staff and administrative expenses	12	4,533	4,796
163	227	Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	13	248	185
231	166	Other operating expenses		196	285
770	(164)	Impairment charges for loans, advances and receivables	14	379	680
3,181	5,076	Profit from investments in associates and Group enterprises	15	21	8
6,257	8,822	Profit before tax		10,170	6,708
597	749	Tax	16	2,091	1,378
5,660	8,074	Profit for the year		8,080	5,329
Distribution of profit for the year					
5,428	7,841	Shareholder of Nykredit Realkredit A/S		7,847	5,097
-	-	Minority interests		-	(0)
233	233	Holders of Additional Tier 1 capital notes		233	233
5,660	8,074	Profit for the year		8,080	5,329
Proposal for the distribution of profit					
3,171	5,108	Statutory reserves			
2,257	(1,367)	Retained earnings			
-	4,100	Proposed dividend			
233	233	Additional Tier 1 capital			

STATEMENTS OF COMPREHENSIVE INCOME

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
5,660	8,074	8,080	5,329
	Profit for the year		
	OTHER COMPREHENSIVE INCOME		
	Items that cannot be reclassified to profit or loss:		
10	11 Actuarial gains/losses on defined benefit plans	11	10
-	(2) Tax on actuarial gains/losses on defined benefit plans	(2)	-
-	- Fair value adjustment of owner-occupied properties	(10)	3
-	- Tax on fair value adjustment of owner-occupied properties	2	(1)
2	(8) Share of comprehensive income in associates and Group enterprises	-	-
12	1 Total items that cannot be reclassified to profit or loss	1	12
	Items that can be reclassified to profit or loss:		
-	- Fair value adjustment of equities available for sale	6	330
-	- Tax on fair value adjustment of equities available for sale	(12)	1
-	- Realised value adjustment of equities available for sale reclassified to profit or loss	-	-
-	- Total items that can be reclassified to profit or loss	(6)	331
12	1 Other comprehensive income	(5)	343
5,673	8,074 Comprehensive income for the year	8,074	5,672
	Distribution of comprehensive income		
5,440	7,842 Shareholder of Nykredit Realkredit A/S	7,842	5,440
-	- Minority interests	-	(0)
233	233 Holders of Additional Tier 1 capital notes	233	233
5,673	8,074 Comprehensive income for the year	8,074	5,672

BALANCE SHEETS

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group		
2016	2017	Note	2017	2016
ASSETS				
101	177		2,070	2,087
31,732	55,022	17	45,961	32,742
1,172,128	1,212,448		1,191,378	1,155,155
-	499		499	-
1,172,128	1,212,947	18	1,191,877	1,155,155
299	282	19	56,126	55,361
44,026	38,390	20	97,149	111,981
Equities				
4,316	4,758		2,526	2,129
-	-		2,450	2,445
4,316	4,758	21	4,977	4,574
127	143	22	150	130
42,848	47,099	23	-	-
202	200	24	227	243
Land and buildings				
-	-		50	232
14	14		223	432
14	14	25	273	664
151	98	26	117	177
122	366	35	549	162
1	1	36	143	113
274	175	27	184	311
9,008	7,347	28	26,476	36,667
204	273		532	238
1,305,554	1,367,291		1,426,810	1,400,606

BALANCE SHEETS

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group			
2016	2017		Note	2017	2016
LIABILITIES AND EQUITY					
18,054	5,353	Payables to credit institutions and central banks	29	13,319	21,681
-	-	Deposits and other payables	30	75,914	65,415
1,181,335	1,234,844	Bonds in issue at fair value		1,178,372	1,152,383
-	721	Bonds in issue at fair value relating to sold foreign portfolio		721	-
1,181,335	1,235,565	Bonds in issue at fair value	31	1,179,093	1,152,383
11,133	17,059	Bonds in issue at amortised cost	32	23,532	21,292
-	8,501	Other non-derivative financial liabilities at fair value	33	19,021	17,735
-	-	Current tax liabilities	36	43	14
-	-	Liabilities temporarily assumed		-	29
12,663	10,462	Other liabilities	34	25,248	39,400
-	-	Deferred income		9	11
1,223,186	1,276,939	Total payables		1,336,178	1,317,960
Provisions					
149	135	Provisions for pensions and similar obligations	37	141	155
6	295	Provisions for deferred tax	35	439	126
55	51	Repayable reserves in pre-1972 series	38	51	55
-	-	Provisions for losses under guarantees	39	58	52
128	81	Other provisions	40	153	224
337	562	Total provisions		842	611
11,078	10,942	Subordinated debt	40	10,942	11,078
Equity					
1,182	1,182	Share capital		1,182	1,182
Accumulated value adjustments					
-	-	- revaluation reserves		19	26
-	-	- value adjustment of equities available for sale		973	979
Other reserves					
10,957	15,239	- statutory reserves		-	-
35,198	38,038	- series reserves		38,038	35,198
-	-	- non-distributable reserve fund		1,646	1,646
19,856	16,523	- retained earnings		29,124	28,162
-	4,100	- proposed dividend		4,100	-
67,194	75,082	Shareholder of Nykredit Realkredit A/S		75,082	67,194
-	-	Minority interests		-	3
3,760	3,765	Holders of Additional Tier 1 capital		3,765	3,760
70,954	78,847	Total equity		78,847	70,957
1,305,554	1,367,291	Total liabilities and equity		1,426,810	1,400,606
OFF-BALANCE SHEET ITEMS					
-	-	Contingent liabilities	42	7,055	6,694
1,537	1,596	Other commitments		8,443	6,934
1,537	1,596	Total		15,498	13,628

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Realkredit Group

	Share capital ¹	Revaluation reserves	Accumulated value adjustment of equities available for sale	Series reserves	Non-distributable reserve fund ²	Retained earnings	Proposed dividend	Shareholder of Nykredit Realkredit A/S	Minority interests	Additional Tier 1 capital ³	Total equity
2017											
Equity, 1 January	1,182	26	979	35,198	1,646	28,162	-	67,194	3	3,760	70,957
Profit for the year	-	-	-	-	-	3,747	4,100	7,847	-	233	8,080
Total other comprehensive income	-	(8)	(6)	-	-	9	-	(5)	-	-	(5)
Total comprehensive income	-	(8)	(6)	-	-	3,756	4,100	7,842	-	233	8,074
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	-	-	(233)	(233)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	-	(5)	-	(5)	-	5	-
Tax on Additional Tier 1 capital	-	-	-	-	-	49	-	49	-	-	49
Adjustment pursuant to capital adequacy rules	-	-	-	2,840	-	(2,840)	-	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	(0)	-	2	-	2	-	-	2
Other adjustments	-	-	-	-	-	-	-	-	(3)	-	(3)
Equity, 31 December	1,182	19	973	38,038	1,646	29,124	4,100	75,082	-	3,765	78,847
2016											
Equity, 1 January	1,182	160	648	26,787	1,646	31,263	-	61,686	-	3,774	65,460
Profit (loss) for the year	-	-	-	-	-	5,097	-	5,097	(0)	233	5,329
Total other comprehensive income	-	2	331	-	-	10	-	343	-	-	343
Total comprehensive income	-	2	331	-	-	5,107	-	5,440	(0)	233	5,672
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	-	-	(233)	(233)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	-	14	-	14	-	(14)	-
Tax on Additional Tier 1 capital	-	-	-	-	-	48	-	48	-	-	48
Additions relating to acquisition of Group enterprise	-	-	-	-	-	-	-	-	3	-	3
Realised from the sale of properties	-	(136)	-	-	-	136	-	-	-	-	-
Adjustment pursuant to capital adequacy rules	-	-	-	8,411	-	(8,411)	-	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	(0)	-	5	-	5	-	-	5
Equity, 31 December	1,182	26	979	35,198	1,646	28,162	-	67,194	3	3,760	70,957

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

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

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

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

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Realkredit A/S

	Share capital ¹	Revaluation reserves	Statutory reserves ²	Series reserves	Retained earnings	Proposed dividend	Shareholder of Nykredit Realkredit A/S	Additional Tier 1 capital ³	Total equity
2017									
Equity, 1 January	1,182	-	10,957	35,198	19,856	-	67,194	3,760	70,954
Profit (loss) for the year	-	-	5,108	-	(1,367)	4,100	7,841	233	8,074
Total other comprehensive income	-	-	(8)	-	9	-	1	-	1
Total comprehensive income	-	-	5,100	-	(1,358)	4,100	7,842	233	8,074
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	(233)	(233)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	(5)	-	(5)	5	-
Tax on Additional Tier 1 capital	-	-	-	-	49	-	49	-	49
Distributed dividend	-	-	(145)	-	145	-	-	-	-
Dividend from associates	-	-	(3)	-	3	-	-	-	-
Dividend from Group enterprises	-	-	(670)	-	670	-	-	-	-
Other movements concerning equity investments	-	-	(0)	-	0	-	-	-	-
Adjustment pursuant to capital adequacy rules	-	-	-	2,840	(2,840)	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	(0)	2	-	2	-	2
Equity, 31 December	1,182	-	15,239	38,038	16,523	4,100	75,082	3,765	78,847
2016									
Equity, 1 January	1,182	1	6,288	26,787	27,427	-	61,686	3,774	65,460
Profit for the year	-	-	3,171	-	2,257	-	5,428	233	5,660
Total other comprehensive income	-	-	2	-	10	-	12	-	12
Total comprehensive income	-	-	3,173	-	2,267	-	5,440	233	5,673
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	(233)	(233)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	14	-	14	(14)	-
Tax on Additional Tier 1 capital	-	-	-	-	48	-	48	-	48
Dividend from associates	-	-	(3)	-	3	-	-	-	-
Dividend from Group enterprises	-	-	(70)	-	70	-	-	-	-
Other movements concerning equity investments	-	-	148	-	(148)	-	-	-	-
Transfer of non-distributable reserve fund	-	-	1,420	-	(1,420)	-	-	-	-
Adjustment pursuant to capital adequacy rules	-	-	-	8,411	(8,411)	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	-	5	-	5	-	5
Other adjustments	-	(1)	-	-	1	-	-	-	-
Equity, 31 December	1,182	-	10,957	35,198	19,856	-	67,194	3,760	70,954

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

² The item relates to a transfer to reserves for net revaluation according to the equity method. The item includes a non-distributable reserve fund of DKK 1,646m in Totalkredit. There is an ongoing dialogue with the Danish FSA concerning the accounting treatment of the non-distributable reserve fund in Nykredit A/S's and Nykredit Realkredit A/S's Financial Statements, as well as the inclusion of such in capital adequacy. Reference is made to note 2.

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

Dividend policy

Nykredit's long-term ambition is to provide its owners with a competitive return in the form of dividend of up to 50% profit for the year taking into account Nykredit's capital policy. Based on profit for the full year 2017 and Nykredit's strong capital position, the Board of Directors will recommend for approval by the Annual General Meeting that a cash dividend of DKK 4.1bn be distributed.

CASH FLOW STATEMENT

DKK million

Nykredit Realkredit Group	2017	2016
Profit for the year	8,080	5,329
Adjustments		
Interest income, net	(11,485)	(11,470)
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	248	185
Profit from investments in associates	(21)	(8)
Impairment charges for loans, advances and receivables	379	680
Prepayments/deferred income, net	(295)	(13)
Tax on profit for the year	2,091	1,378
Other adjustments	(622)	(201)
Total	(1,625)	(4,119)
Change in operating capital		
Loans, advances and other receivables	(37,866)	(5,234)
Deposits and payables to credit institutions	2,136	(5,761)
Bonds in issue	28,950	12,417
Other operating capital	(2,301)	9,650
Total	(10,706)	6,953
Interest income received	28,765	30,379
Interest expenses paid	(17,803)	(19,449)
Corporation tax paid, net	(2,194)	(1,627)
Cash flows from operating activities	(1,938)	16,256
Cash flows from investing activities		
Acquisition of associates	(6)	-
Sale of associates	4	-
Dividend received from associates	3	3
Purchase and sale of bonds and equities, net	14,843	(6,102)
Purchase of intangible assets	(154)	(72)
Sale of intangible assets	64	-
Purchase of property, plant and equipment	(54)	(45)
Sale of property, plant and equipment	441	1,580
Total	15,142	(4,636)
Cash flows from financing activities		
Redemption of subordinated debt	-	(100)
Purchase and sale of self-issued subordinated debt instruments	-	1
Total	0	(99)
Total cash flows for the year	13,203	11,520
Cash and cash equivalents, beginning of year	34,829	23,253
Foreign currency translation adjustment of cash	(1)	56
Cash and cash equivalents, year-end	48,031	34,829
Cash and cash equivalents, year-end:		
Cash balances and demand deposits with central banks	2,070	2,087
Receivables from credit institutions and central banks	45,961	32,742
Total	48,031	34,829

NOTES

1. Accounting policies	68	39. Provisions for losses under guarantees	109
2. Capital and capital adequacy	78	40. Other provisions	109
3. Business areas	80	41. Subordinated debt	110
4. Reconciliation of internal and regulatory income statement	82	42. Off-balance sheet items	111
5. Net interest income and value adjustments	83	43. Related party transactions and balances	112
6. Interest income	84	44. Fair value disclosures	115
7. Interest expenses	84	45. Offsetting	120
8. Dividend on equities	85	46. Derivative financial instruments	121
9. Fee and commission income	85	47. Repo transactions and reverse repurchase lending	123
10. Fee and commission expenses	85	48. Risk management	124
11. Value adjustments	85	49. Hedge accounting	137
12. Staff and administrative expenses	86	50. Currency exposure	138
13. Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	89	51. Other information	139
14. Impairment charges for loans, advances and receivables	90	52. Transition to IFRS 9	140
15. Profit from investments in associates and group enterprises	91	53. Financial ratios, definitions	143
16. Tax	92	54. Five-year financial highlights	144
17. Receivables from credit institutions and central banks	93	55. Group structure	146
18. Loans, advances and other receivables at fair value	93		
19. Loans, advances and other receivables at amortised cost	95		
20. Bonds at fair value	97		
21. Equities	98		
22. Investments in associates	98		
23. Investments in Group enterprises	99		
24. Intangible assets	99		
25. Land and buildings	100		
26. Other property, plant and equipment	101		
27. Assets in temporary possession	101		
28. Other assets	101		
29. Payables to credit institutions and central banks	104		
30. Deposits and other payables	104		
31. Bonds in issue at fair value	104		
32. Bonds in issue at amortised cost	106		
33. Other non-derivative financial liabilities at fair value	107		
34. Other liabilities	107		
35. Provisions for deferred tax/deferred tax assets	108		
36. Current tax assets and liabilities	108		
37. Provisions for pensions and similar obligations	109		
38. Repayable reserves in pre-1972 series	109		

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 prior to rounding. Due to the rounding-off to the nearest whole million Danish kroner, the sum of individual figures and the stated totals may differ slightly.

Changed presentation of financial highlights as well as business areas

The earnings presentation of financial highlights on page 5 as well as business areas (pages 13-23 and note 3) have been adjusted compared with the Annual Report 2016, and investment portfolio income is now included in "Income", and interest on capital is now allocated to the business areas. This item was previously included in "Group Items".

In the presentation of business areas "Net interest income" includes interest from deposits and lending activities. The corresponding item in the income statement (page 60) includes all interest.

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

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

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

Comparative figures have been restated. Reference is made to notes 3 and 4.

New accounting estimate for impairment charges for mortgage lending

Impairment of mortgage lending measured at fair value is not covered by IFRS 9. Consequently, value adjustment of financial assets measured at fair value is still determined within the framework of the provisions set out in IFRS 13, which remain unchanged, and the Danish Executive Order on Financial Reports.

In accordance with amendments to the Danish Executive Order on Financial Reports issued by the Danish FSA, in future, Nykredit will continue to record impairments of mortgage lending applying the same principles as are used for impairment of loans and advances at amortised cost (cf IFRS 9) and within the framework of IFRS 13. Therefore, in the Financial Statements for 2017, Nykredit has made a new accounting estimate of the impairment impact on mortgage lending and has resolved to recognise the impact under profit for the year. As this is an accounting estimate and not a change in accounting policies, the amount has been charged to the income statement. The impact on Nykredit's impairments totals DKK 1.0bn. The earnings impact after tax totalled DKK 0.8bn. The amendment is described in further detail in note 52.

Other general comments on accounting policies

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

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

New and amended standards and interpretations

Implementation of new or amended standards and interpretations in force and effective for financial years beginning on 1 January 2017:

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

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

The amendment has not had an impact on the financial reporting.

Reporting standards and interpretations not yet in force

At the time of presentation of the Annual Report, a number of new or amended standards and interpretations had not yet entered into force and/or had not been approved for use in the EU for the financial year beginning on 1 January 2017.

IFRS 9 "Financial Instruments" (new standard) (approved for use in the EU, effective from 1 January 2018). The standard significantly affects the level of Nykredit's impairment charges for loans and advances [at amortised cost] (total impairment provisions). The standard and its impact as at 1 January 2018 are described in note 52, which is a supplement to the accounting policies.

In connection with the implementation of IFRS 9, Nykredit has chosen to recognise fair value adjustment of strategic equities through profit or loss instead of, as previously, in other comprehensive income until realisation. The impact as at 1 January 2018 is described in note 52.

IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (amendment to standards) (not approved for use in the EU; the effective date has been postponed).

IFRS 14 "Regulatory Deferral Accounts" (new standard) (not approved for use in the EU; the effective date has been postponed).

IFRS 15 "Revenue from Contracts with Customers" (new standard) (approved for use in the EU; effective from 1 January 2018). This standard has no discernible effect on Nykredit's Financial Statements.

IFRS 16 "Leases" (new standard). The standard will imply capitalisation of a lessee's rights to the leased assets, including leasehold premises and the recognition of liabilities arising from the lease (approved for use in the EU with effect from 1 January 2019). For Nykredit the implementation will comprise capitalisation of rents and the establishment of a corresponding liability. This change is estimated to make up less than 0.25% of the balance sheet total. Depreciation of leased assets and interest on leasing commitments are recognised in the income statement. Compared with current policies, the earnings impact will be insignificant.

Annual improvements to IFRS 2014-2016. Issued on 8 December 2016 and comprises minor amendments to standards as a result of the IASB's annual improvements (not approved for use in the EU; expected to be effective for financial years starting on 1 January 2018).

Annual improvements to IFRS 2015-2017. Issued on 12 December 2017 and comprises minor amendments to standards as a result of the IASB's annual improvements (not approved for use in the EU; expected to be effective for financial years starting on 1 January 2019).

NOTES

IFRIC 22 Foreign Currency Transactions and Advance Consideration. Issued on 8 December 2016 (not approved for use in the EU; expected to be effective for financial years starting on 1 January 2018).

Amendment to IAS 40 "Transfers of Investment Property". Issued on 8 December 2016 (not approved for use in the EU; expected to be effective for financial years starting on 1 January 2018).

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

In Management's view, the implementation of the above standards and amendments to standards, except for the implementation of IFRS 9, will have only a modest impact on Nykredit's Financial Statements.

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSESSMENTS

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

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

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

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

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

Note 44 specifies the methods applied to determine the carrying amounts and the specific uncertainties related to the measurement of financial instruments at fair value.

Based on level 2 or level 3 inputs of the fair value hierarchy, the fair value of financial assets and liabilities was 88.3% and 0.3%, respectively, of the balance sheet total at end-2017 (90% and 0.3% at end-2016) for the financial assets, and 3.2% and 0.0%, respectively (3.7% and 0.8% at end-2016) for financial liabilities.

Particularly, the fair value measurement of unlisted derivative financial instruments involves significant estimates and assessments in connection with the choice of calculation methods and valuation and estimation techniques. Valuation of unlisted derivative financial instruments changes continuously, and Nykredit is closely monitoring market practice to ensure that the valuation of unlisted derivative financial instruments is consistent with market practice.

The valuation is based on yield curves, volatilities and market prices on which data is usually obtained through providers such as Reuters, Bloomberg and market makers. On valuation of derivatives, further input in the form of CVA, DVA and FVA adjustments is used, where credit and funding elements are included in the valuation.

The fair value of unlisted derivative financial instruments was 0.3% of the Group's assets at end-2017 (2.1% at end-2016).

The fair value determination of financial instruments for which no listed prices in an active market or observable data are available implies the use of significant estimates and assessments in connection with the choice of credit spread, maturity and extrapolation of each instrument. The fair value of financial instruments for which no listed prices in an active market are available accounted for 90% of the Group's assets at end-2017 (93% at end-2016).

Measurement of loans and advances – impairments

Credit risk reflects the risk of loss following the non-performance of parties with whom Nykredit has contracted. Counterparty risk, which is the risk of loss that Nykredit may sustain if a counterparty defaults on its obligations under financial instruments, is an element of credit risk. Reference is made to note 48 for a more detailed description of credit risk.

Impairment charges for loans and advances involve significant estimates and assessments in the assessment of whether there is objective evidence of impairment (OEI) and in the determination of the size of the loss. Similarly, impairment provisions for expected credit losses relating to Mortgage lending in 2017 involve a number of judgments in laying down the parameters that form the basis of the underlying models, including risk premiums and the determination of scenarios.

In connection with the determination of the size of the loss, realisable values of security received and expected dividend payments from bankrupt estates are subject to a number of estimates. Similarly, the determination of the timing interval in which the cash flows are received, involves significant estimates. Reference is made to "Impairment charges for loans, advances and receivables" below for a detailed description.

Credit risk is linked to the assessment of individual counterparties as well as groups of loans and advances.

In order to ensure consistency in the determination of credit risk and to underpin the estimation element with statistical data, Nykredit uses internally developed models (IRB models), and in 2016, the Danish FSA authorised Nykredit to apply the advanced IRB method with internal LGD and CF estimates to Nykredit Bank's business exposures.

In a number of instances, the model-based collective impairment provisions need to be supplemented by management judgement. This is typically in connection with eg macroeconomic events that may affect the level of impairment provisioning, but which have not yet been captured by the model-based impairments (rating model). This estimate is made by managers and staff with in-depth knowledge of the credits area. The reasons may be changes in agricultural settlement prices due to changed economic trends and/or changed export opportunities as well as special financial and legal conditions in the cooperative housing sector that may affect credit risk beyond the result derived on the basis of model-based impairment provisions. The estimates are adjusted and evaluated on a regular basis.

In accordance with the accounting rules, impairment of loans measured at fair value or amortised cost is based on an assessment of whether there is objective evidence of impairment (OEI), and, for loans and advances measured at fair value, consideration for any expected credit losses.

According to IFRS 9, from 1 January 2018, impairment must be based on expected credit losses and recognised in three stages depending on the credit quality of the customer. Impairment in accordance with IFRS 9 applies to loans and advances, guarantees and loan commitments measured at amortised cost, and the implementation effect of the new rules is recognised directly in equity as at 1 January 2018, cf the description in note 52.

Impairment of mortgage lending measured at fair value is not subject to IFRS 9. However, according to current practice, impairment of mortgage lending is determined according to the same principles as apply to loans and advances at amortised cost. The intention is for this consistent practice to continue after 1 January 2018, and the Danish FSA has issued guidelines for that purpose.

The transition to the new impairment principles may, however, not take place by way of a change in accounting policies, as impairment in accordance with IFRS 9 does not include loans and advances at fair value, but must rather be deemed an accounting estimate to be recognised at the time of reliable determination of the impact. This means that an estimate covering the impact in connection with the transition to the new impairment rules have been recognised in the Financial Statements 2017. The impact has been charged to the income statement, seeing as a change in accounting policies is not taking place. Loans and advances made up 85% of the Group's assets at end-2017 (84% at end-2016).

RECOGNITION AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial instruments, including loans, advances and receivables, bonds in issue and other debt as well as derivative financial instruments represented more than 94% of the Group's assets as well as liabilities (95% at end-2016).

Recognition

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

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

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

Initially, financial instruments are recognised at fair value. Financial instruments are subsequently measured at amortised cost or fair value depending on the categorisation of the individual instrument. Financial instruments subsequently measured at amortised cost are recognised inclusive or exclusive of the transaction costs inherent in the issue.

Valuation and classification

Valuation principles and classification of financial instruments are described below as well as in 44.

Financial instruments are classified as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- a group of financial assets/liabilities is under management, and earnings are assessed by Nykredit's Management based on fair value in accordance with a documented risk management strategy or investment strategy. A part of the Group's senior debt in issue 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 delivering the underlying bonds, and the Group buys and sells self-issued covered bonds on a continuing basis as they constitute a significant part of the Danish money market.

If mortgage loans and covered bonds in issue were measured at amortised cost, the purchase and sale of self-issued covered bonds would lead to a timing difference between the recognition of gains and losses in the Financial Statements. At the same time, the purchase price of the portfolio would not equal the amortised cost of the bonds in issue. If the portfolio of self-issued covered bonds was subsequently sold, the new amortised cost of the "new issue" would not equal the amortised cost of the matching mortgage loans, and the difference would be amortised over the remaining term-to-maturity.

In order to avoid the consequently inconsistent impact on results, 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 in issue and a part of senior 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 changes in the fair value of "Financial assets and liabilities at fair value by means of the fair value option through profit or loss" are recognised in "Value adjustments" in the income statement. However, value adjustments due to credit risk are recognised in "Impairment charges for 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 both 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 charges resulting from material or permanent impairment. Such impairment charges 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.

Impairment charges for loans, advances and receivables

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

Individual impairment provisions

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 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 (including the value of security provided). With respect to asset-backed financing, impairment is recognised for the difference between the carrying amount before impairment and the fair value of the security less all expected costs.

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

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

If there is OEI in respect of loans at fair value, Nykredit assesses the probability of losses, and the assessment is included in the calculation of individual impairment provisions. However, 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 credit losses relative to the time the loans were granted. For each loan in a group of loans, the contribution to the impairment of that group is calculated as the difference between the present value of the loss flow at the balance sheet date and the present value of the expected loss when the loan was granted.

Collective impairment provisions are the total of inputs from a rating model and management judgement.

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

Impact of transition to expected impairment of mortgage lending

Neither IAS 39 nor IFRS 9 addresses impairment of mortgage lending measured at fair value. According to previously applied practice, impairment of mortgage lending has, however, been determined along the same principles as lending measured at amortised cost and within the framework of IFRS 13. This practice is continued after 1 January 2018, and therefore, Nykredit has calculated the impact of the change relative to current impairments. The impact has been recognised in the balance sheet as at 31 December 2017 and charged to the income statement as a change to an accounting estimate together with other impairment charges for loans and advances. The amount has been offset against loans and advances.

Compared with previously applied practice, impairment charges are based on 12-month expected losses (stage 1) for loans and advances with unchanged or improved credit quality, whereas impairment of loans and advances with significantly increased credit risk since the initial recognition (stage 2) are calculated based on expected losses on a loan throughout its full useful life. Individual impairment is classified as stage 3. Reference is made to note 52.

Impairment provisions in general

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

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

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

Impairments deemed to be conclusive are recorded as written off.

RECOGNITION, MEASUREMENT AND PRESENTATION IN GENERAL

Recognition and measurement

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

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

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

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

Hedge accounting

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

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

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported when the Group has a legally enforceable right of set-off and intends either to settle by way of netting or to realise the asset and settle the liability simultaneously.

Offsetting mostly takes place in connection with repo transactions and derivative financial instruments cleared through recognised clearing centres.

Consolidation

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

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

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

Acquired enterprises are included from the time of acquisition, which is when the acquiring party obtains control over the acquired enterprises' financial and operational decisions.

Divested enterprises are included up to the time of divestment.

NOTES

Business profit

The Group financial highlights in the Management Commentary as well as the segment financial statements are presented in a statement of business profit as well as certain items falling outside the scope of this statement, as Management finds that this presentation best reflects the activities and earnings of the Group.

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

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

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

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

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

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

Segment information

Segment information is provided on business areas as well as specification of core income and loans and advances in geographical markets. Nykredit has very few business activities outside Denmark. Business areas are defined on the basis of differences in customer segments and services. Items that cannot be allocated to the business areas are included in Group Items. The presentation of the business areas is based on the internal management reporting and reflects the Group's return and risk, and these business areas are considered the Group's core segments. Segment information is in accordance with the Group's accounting policies.

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

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

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

Segment information is provided exclusively at Group level.

Currency

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

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction date. Exchange gains and losses arising on the settlement of these transactions are recognised in the income statement.

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

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

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

Repo transactions and reverse repurchase lending

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

The amount received is recognised under payables 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 where Nykredit is the lessor are classified as finance leases when all material risk and returns associated with the title to an asset have been transferred to the lessee.

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

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

Leases where Nykredit acts as lessee are classified as operating leases. Nykredit has entered into leases in respect of rent, including rent paid for certain owner-occupied properties, as well as a few car leases.

NOTES

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 subject to joint control.

INCOME STATEMENT

Interest income and expenses

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

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

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

Interest expenses comprise interest and similar expenses including adjustment over the life of financial liabilities measured at amortised cost and where the cost differs from the redemption price.

Negative interest

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

Dividend

Dividend from equity investments is recognised as income in the income statement in the financial year in which the dividend is declared.

Fees and commissions

Fees and commissions comprise income and costs relating to services, including management fees. Fee income relating to services provided on a current basis is accrued over their terms.

For accounting purposes, fees, commissions and transaction costs relating to loans and advances measured at amortised cost are treated as interest if they form an integral part of the effective interest of a financial instrument.

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

Other operating income

"Other operating income" comprises operating income not attributable to other income statement items, including income under operating leases, as well as gain on the sale of investment and owner-occupied properties.

Value adjustments

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

Staff and administrative expenses

Staff expenses comprise wages and salaries as well as social security costs, pensions etc. Anniversary bonus, termination benefits as well as holiday pay/allowance obligations are recognised successively.

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

Other operating expenses

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

Tax

Tax for the year, consisting of current tax for the year and changes to deferred tax and adjustment of tax for previous years, is recognised in the income statement, unless the tax effect concerns items recognised in "Other comprehensive income". Tax relating to "Other comprehensive income" items is recognised in the same item. Tax on interest relating to Additional Tier 1 capital are recognised in equity.

Current tax liabilities and current tax assets are recognised in the balance sheet as tax calculated on taxable income for the year adjusted for tax paid on account. The current tax for the year is calculated on the basis of the tax rates and rules prevailing on the balance sheet date. The Danish tax of the jointly taxed companies is payable in accordance with the scheme for payment of tax on account. Interest payable or deductible relating to voluntary payment of tax on account and interest receivable or payable on over-/underpaid tax are recognised in "Other interest income" or "Other interest expenses", as appropriate.

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

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

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

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

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

ASSETS

Loans, advances and other financial assets

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

Investments in associates

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

NOTES

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

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

Intangible assets

Goodwill

Goodwill comprises positive balances between the cost of enterprises acquired and the fair value of the net assets of such enterprises at the time of acquisition. Goodwill is tested for impairment at least once a year, and the carrying amount is written down to the lower of the recoverable amount and the carrying amount in the income statement.

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

Other intangible assets

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

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

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

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

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

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

Other intangible assets are written down to the recoverable amount where OEI is identified.

Land and buildings

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 any 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 not carried out by an external valuer, as Nykredit makes use of an internal valuer.

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 charges. Revaluations are made annually to prevent the carrying amounts from differing significantly from the values determined using the fair value on the balance sheet date.

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 under equity via "Other comprehensive income". Impairment charges offsetting former revaluation of the same property are deducted from revaluation reserves via "Other comprehensive income", while other impairment charges are recognised through profit or loss.

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

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

Other property, plant and equipment

Equipment

Equipment is measured at cost less accumulated depreciation and impairment. 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.

NOTES

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

Assets in temporary possession

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

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

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

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

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

Impairment charges arising on initial classification as assets in temporary possession and gains and losses on subsequent measurement at the lower of the carrying amount and the fair value less selling costs are recognised in "Impairment charges for loans, advances and receivables" in the income statement.

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

LIABILITIES AND EQUITY

Payables

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

Provisions

Provisions are recognised where, as a result of an event having occurred on or before the balance sheet date, the Group has a legal or constructive obligation which can be measured reliably, and where it is probable that economic benefits must be given up to settle the obligation. Provisions are measured at Management's best estimate of the amount considered necessary to honour the obligation.

Provisions for pensions and similar obligations

The Group has entered into pension agreements with the majority of its staff. The agreements may be divided into two main types of plans:

- Defined contribution plans according to which the Group makes fixed contributions to staff pension plans on a current basis. The Group is under no obligation to make further contributions. The contributions to defined contribution plans are recognised in the income statement for the period concerned, and any contributions payable are recognised in "Other payables" in the balance sheet.

- Defined benefit plans under which the Group is obliged to pay certain benefits in connection with retirement. Defined benefit plans are subject to an annual actuarial calculation (the projected unit credit method) of the value in use of future benefits payable under the plans.

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

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

A number of the Group's staff members are entitled to receive a bonus on attaining retirement age and when having been employed by the Group for 25 and 40 years. 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 probability of staff members retiring before the benefit vests and therefore losing entitlement to the benefit. The obligations are recognised at present value using a zero-coupon rate plus a risk margin. The present value changes prompted by changes to the discount rate within the financial year are recognised in "Other interest income" or "Other interest expenses". Other present value changes are recognised in "Staff and administrative expenses".

Repayable reserves in pre-1972 series

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

Provisions for losses under guarantees

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.

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 which are subject to permanent write-down through profit or loss if Nykredit's Common Equity Tier 1 capital ratio drops to 7% or less. Until this level is reached, Nykredit is obliged to pay interest to bondholders, which combined with the current high capital level has resulted in the issue being classified as subordinated debt.

Equity

Share capital

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

Revaluation reserves

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

NOTES

Value adjustment of equities available for sale

The reserve includes unrealised value adjustment of equities available for sale (strategic equities) less deferred tax on the value adjustment. If there is impairment of a significant or permanent nature, the accumulated unrealised loss is reclassified from the reserve to the income statement.

Series reserves

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

Retained earnings

Retained earnings comprise reserves which are in principle distributable to the Company's shareholders. However, under the Danish Financial Business Act, distribution must in certain circumstances ensure Nykredit's compliance with the so-called combined capital buffer requirement in respect of the Parent and the Group.

Proposed dividend

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

Minority interests

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

Additional Tier 1 capital

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

CASH FLOW STATEMENT

The consolidated cash flow statement is prepared according to the indirect method based on profit or loss for the year. The consolidated cash flow statement shows cash flows for the year stemming from:

- Operating activities
- Investing activities
- Financing activities.

Operating activities include the Group's principal and other activities which are not part of its investing or financing activities.

Investing activities comprise the purchase and sale of non-current assets and financial investments not included in cash and cash equivalents.

Financing activities comprise subordinated debt raised as well as redeemed, including the sale and purchase of self-issued subordinated debt, and payments to or from shareholders as well as holders of Additional Tier 1 capital.

Furthermore, the cash flow statement shows the changes in the Group's cash and cash equivalents for the year and the Group's cash and cash equivalents at the beginning and end of the year.

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

ACCOUNTING POLICIES APPLYING SPECIFICALLY TO THE PARENT NYKREDIT REALKREDIT A/S

The Financial Statements of the Parent Nykredit Realkredit A/S are prepared in accordance with the Danish Financial Business Act and the Danish FSA Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

In all material respects, these rules comply with the International Financial Reporting Standards (IFRS) and the Group's accounting policies as described above. An exception to these accounting policies includes recognition of "Equities available for sale". This exception and other special circumstances relating to the Parent are described below.

Changes to the Executive Order on Financial Reports

The Danish FSA did not make any amendments to the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc for 2017 that have affected the Parent Financial Statements.

Other ordinary income

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

Financial assets available for sale

Unlike the IFRS, the Danish 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, equities available for sale (strategic equities) are classified as equities measured at fair value through profit or loss.

Investments in Group enterprises

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

The proportional ownership interest of the equity value of the enterprises less/plus unrealised intercompany gains and losses is recognised as goodwill in "Investments in Group enterprises" in the Parent's balance sheet. Any positive difference between the total cost of investments in Group enterprises and the fair value of the net assets at the time of acquisition is recognised in "Intangible assets" in the balance sheet.

Nykredit's share of the enterprises' profit or loss after tax and elimination of unrealised intercompany gains and losses less depreciation, amortisation and impairment charges is recognised in the Parent's income statement.

Total net revaluation of investments in Group enterprises is transferred to equity in "Statutory reserves" through the distribution of profit for the year.

Statutory reserves

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

The non-distributable reserve fund concerns the reserve fund of the subsidiary Totalkredit A/S that is non-distributable.

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group		
2016	2017	2017	2016	
2. CAPITAL AND CAPITAL ADEQUACY				
70,954	78,847	Equity for accounting purposes	78,847	70,957
-	-	Minority interests not included	(1,646)	(1,649)
(3,760)	(3,765)	Carrying amount of Additional Tier 1 capital recognised in equity	(3,765)	(3,760)
67,194	75,082	Equity excluding Additional Tier 1 capital and minority interests	73,436	65,548
-	(4,100)	Proposed dividend	(4,100)	-
(46)	(32)	Prudent valuation adjustment	(65)	(95)
-	-	Minority interests	815	988
(157)	(156)	Intangible assets excluding deferred tax liabilities	(184)	(199)
-	(124)	Provisions for expected credit losses in accordance with IRB approach	-	(329)
(273)	(327)	Other additions/deductions	(327)	(277)
96	90	Transitional adjustment of deductions	65	228
(380)	(4,649)	Common Equity Tier 1 capital deductions	(3,795)	315
66,814	70,433	Common Equity Tier 1 capital	69,641	65,863
3,717	3,723	Additional Tier 1 capital	3,860	3,800
(46)	(151)	Additional Tier 1 capital deductions	(159)	(42)
18	18	Transitional adjustment of deductions	3	(82)
3,689	3,589	Total Additional Tier 1 capital after deductions	3,704	3,676
70,504	74,022	Tier 1 capital	73,345	69,539
10,780	10,795	Tier 2 capital	11,519	11,315
146	227	Tier 2 capital additions/deductions	461	25
-	3	Transitional adjustment of deductions	(129)	(280)
-	-	Set-off of excess deductions	-	-
81,430	85,048	Own funds	85,196	80,599
367,030	388,864	Credit risk (incl CVA)	290,643	304,275
13,800	12,127	Market risk	24,724	25,437
10,806	12,189	Operational risk	21,246	19,636
391,637	413,180	Total risk exposure amount	336,613	349,348
Financial ratios				
17.0	17.0	Common Equity Tier 1 capital ratio, %	20.6	18.8
18.0	17.9	Tier 1 capital ratio, %	21.7	19.9
20.7	20.5	Total capital ratio, %	25.3	23.0

Capital and capital adequacy have been determined in accordance with Capital Requirements Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 as well as the Danish transitional rules laid down by the Danish FSA.

Nykredit has been designated as a systemically important financial institution (SIFI) by the Danish authorities. As a result, a special SIFI CET1 capital buffer requirement will apply to the Nykredit Realkredit Group. The requirement of 2% is being phased in and currently constitutes 1.2%. To this should be added the phase-in of the permanent buffer requirement, currently 1.25%, applicable to all financial institutions.

In the Group's capital determination, a deduction has been made for parts of Totalkredit's non-distributable reserve fund. The deduction is based on the assessment of the Danish FSA that the non-distributable reserve fund cannot be recognised fully according to a decision made by the Danish FSA concerning the non-distributable reserve fund of another financial undertaking. Nykredit does not agree with the assessment of the Danish FSA and expects to discuss the issue with the Danish FSA from a legal perspective in the course of 2018 with a view to reaching a formal decision concerning the treatment of Totalkredit's non-distributable reserve fund for capital adequacy purposes. The deduction totals DKK 137m, consisting of a CET1 capital deduction of DKK 831m and additions to Tier 1 capital and own funds of DKK 115m and DKK 579m, respectively.

NOTES

2. CAPITAL AND CAPITAL ADEQUACY (CONTINUED)

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

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

Stress tests and capital projection

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

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

The most important macroeconomic factors identified are:

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

Nykredit generally operates with three macroeconomic scenarios: a baseline case scenario, a slightly weaker economic climate and a severe recession. The capital requirement for credit risk builds primarily on correlations between the macroeconomic factors, customer default rates (PD) and the size of the loss in case of customer default (LGD). These correlations are an essential element of the capital projection model. Operating losses in a stress scenario increase the capital requirement, while operating profits are not included. The scenarios operate with the impacts of both rising and falling interest rates. The capital charge is calculated based on the most severe scenario.

Nykredit Realkredit Group

Stress scenarios for determination of capital requirement

	2018	2019	2020
Baseline scenario			
Property prices, growth	2.7	2.5	2.2
Interest rates ¹	0.1	0.6	0.9
Unemployment	3.5	3.6	3.7
GDP growth	2.1	2.0	1.7
Slightly weaker economic climate (applied under Pillar II)			
Property prices, growth	(3.0)	(3.0)	(2.0)
Interest rates ¹	1.4	2.2	3.0
Unemployment	4.8	5.7	6.5
GDP growth	(0.3)	0.0	0.0
Severe recession (applied under countercyclical buffer)			
Property prices, growth	(12.0)	(10.0)	(5.0)
Interest rates ¹	2.5	3.5	4.5
Unemployment	6.5	9.0	10.0
GDP growth	(3.0)	(2.0)	0.0

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

Baseline scenario

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

Stress scenario: Slightly weaker economic climate

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

Stress scenario: Severe recession

A central element of Nykredit's capital policy is to have sufficient own funds, also in the long term and in a severe recession. Nykredit continually calculates the impact of severe recession combined with rising interest rates. The stress scenario reflects an unusual, but not unlikely, situation.

The calculations are factored into the current assessments of capital targets going forward.

According to Nykredit's stress test calculations, REA may increase by about DKK 100bn in a severe recession. The rise reflects the increased capital requirement in case of plunging housing prices, rising interest rate levels and high unemployment.

Other stress scenarios

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

Nykredit also participates in the stress test exercises of the EBA, most recently in 2016. The results have confirmed Nykredit's strong capital position under the current capital requirements. The EBA will conduct a new stress test exercise in autumn 2018.

Internal process

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

The Boards of Directors will reassess the ICAAP results if any major unexpected events occur.

The determination of the internal capital adequacy requirements of the individual companies by the Boards of Directors is based on a number of stress tests as well as an assessment of the company's business model, risk profile and capital structure.

Furthermore, the Risk Board and the Risk Committee monitor the development in the internal capital adequacy requirements of the individual companies closely and are briefed at least quarterly. The Asset/Liability Committee monitors and coordinates the capital, funding and liquidity of the Group and the individual Group companies.

The report Risk and Capital Management 2017, available at nykredit.com/reports, contains a detailed description of the determination of required own funds and internal capital adequacy requirement of Nykredit as well as all Group companies. The report is not audited.

NOTES

DKK million

Nykredit Realkredit Group

3. BUSINESS AREAS

The business areas reflect Nykredit's organisation and internal reporting. Retail serves personal customers as well as small and medium-sized enterprises (SMEs). Wholesale Clients comprises activities with corporate and institutional clients, securities trading and derivatives trading. Wealth Management comprises wealth and asset management activities. Please refer to the Management Commentary.

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

	Personal Banking	Business Banking	Total Retail	Totalcredit Partners	Corporate & Institutional Banking	Markets	Total Wholesale Clients	Wealth Management	Group Items	Total
RESULTS 2017										
Results by business area										
Net interest income	1,913	2,879	4,791	2,657	1,456	-	1,456	99	3	9,006
Net fee income	717	671	1,389	498	571	-	571	23	(11)	2,470
Wealth management income	359	176	535	-	106	-	106	739	22	1,402
Net interest from capitalisation	(78)	(178)	(256)	(178)	(86)	(7)	(92)	(6)	172	(360)
Trading, investment portfolio and other income	(207)	307	100	4	101	393	493	14	882	1,492
Income	2,704	3,855	6,559	2,981	2,148	386	2,534	869	1,067	14,010
Costs	2,065	1,116	3,181	631	404	228	632	453	81	4,977
Business profit before impairment charges	640	2,738	3,378	2,350	1,744	158	1,902	416	987	9,033
Impairment charges for loans and advances	5	(326)	(321)	91	(403)	-	(403)	16	996	379
Business profit	635	3,064	3,699	2,259	2,147	158	2,305	400	(9)	8,653
Legacy derivatives	(1)	358	357	-	1,130	30	1,160	0	-	1,517
Profit before tax	634	3,422	4,056	2,259	3,276	188	3,465	400	(9)	10,170
Of which transactions between business areas	356	151	506	(36)	65	(395)	(330)	(371)	231	-
Average allocated business capital	6,199	16,444	22,643	11,565	10,137	955	11,092	691	8,385	54,376
Business profit as % of average business capital	10.2	18.6	16.3	19.5	21.2	16.5	20.8	57.9		15.9
BALANCE SHEET										
Assets										
Mortgage loans at fair value	181,324	240,149	421,473	544,861	189,940	-	189,940	7,605	-	1,163,879
Reverse repurchase lending at fair value									27,566	27,566
Loans and advances at amortised cost	12,047	20,247	32,294	-	19,793	-	19,793	3,364	674	56,126
Assets by business area	193,371	260,397	453,767	544,861	209,733	-	209,733	10,969	28,240	1,247,571
Unallocated assets										179,239
Total assets										1,426,810
Liabilities and equity										
Bank deposits and other payables at amortised cost	27,214	19,432	46,645	-	14,164	-	14,164	13,464	1,640	75,914
Liabilities by business area	27,214	19,432	46,645	-	14,164	-	14,164	13,464	1,640	75,914
Unallocated liabilities										1,272,049
Equity										78,847
Total liabilities and equity										1,426,810

The income statement format has been adjusted in some areas. The previous income statement items "Income from core business" and "Profit from core business" have been replaced by "Income" and "Business profit". Compared with previously, these items now comprise "Investment portfolio income" which was separated out from core business but will be recognised as an integral part of "Income" ("Trading, investment portfolio and other income") going forward. Another important element is a more detailed presentation reflecting partly the composition of income and origin in the individual business divisions, and partly, the degree of volatility of the individual items. Previously, income from the business divisions was presented as one single item "Core income from business operations". In future income will be divided into and presented as five different items:

"Net interest income" comprising net administration margin income from mortgage lending, including loyalty bonuses (KundeKroner) as well as interest income from bank lending and deposits. "Net fee income" comprising income from mortgage refinancing and mortgage lending, income from bank lending, service fees, guarantee and leasing business. "Wealth management income" comprising asset management and administration fees. This item pertains to business with custom-

ers performed through the Group's entities Nykredit Markets, Nykredit Asset Management and Nykredit Portefølje Administration A/S but where income is ascribed to the business divisions serving the customers.

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

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

Geographical markets

Income from international lending came to DKK 335m (2016: DKK 406m). The international loan portfolio totalled DKK 58bn at end-2017 (2016: DKK 52bn).

NOTES

DKK million

Nykredit Realkredit Group

3. BUSINESS AREAS (CONTINUED)

RESULTS 2016	Personal Banking	Business Banking	Total Retail	Totalkredit Partners	Corporate & Institutional Banking	Markets	Total Wholesale Clients	Wealth Management	Group Items	Total
Results by business area										
Net interest income	1,943	2,820	4,763	2,511	1,399	-	1,399	74	(1)	8,747
Net fee income	681	594	1,275	505	458	-	458	15	(2)	2,251
Wealth management income	336	172	508	-	54	-	54	606	17	1,184
Net interest from capitalisation	(92)	(189)	(281)	(224)	(80)	(7)	(87)	(5)	149	(448)
Trading, investment portfolio and other income	2	(37)	(35)	(15)	(46)	403	357	12	1,357	1,676
Income	2,869	3,361	6,230	2,777	1,785	396	2,181	702	1,520	13,410
Costs	2,113	1,171	3,285	580	383	268	651	409	336	5,260
Business profit before impairment charges	756	2,190	2,945	2,198	1,402	128	1,530	293	1,184	8,151
Impairment charges for loans and advances	315	638	953	10	(291)	-	(291)	14	(6)	680
Business profit	441	1,552	1,993	2,188	1,693	128	1,821	279	1,190	7,471
Legacy derivatives	(0)	(232)	(232)	-	(440)	(91)	(530)	(0)	-	(763)
Profit before tax	441	1,319	1,760	2,188	1,253	38	1,290	279	1,190	6,708
Of which transactions between business areas	344	119	463	(30)	(9)	(290)	(299)	(336)	202	-
Average allocated business capital	6,736	16,939	23,674	11,225	9,699	1,034	10,732	570	8,079	54,280
Business profit as % of average business capital	6.6	9.2	8.4	19.5	17.5	12.4	17.0	49.0		13.8
BALANCE SHEET										
Assets										
Mortgage loans at fair value	186,260	242,028	428,288	511,757	179,202	-	179,202	5,447	-	1,124,693
Reverse repurchase lending at fair value									30,091	30,091
Loans and advances at amortised cost	12,030	18,245	30,275	-	21,694	-	21,694	2,620	772	55,361
Assets by business area	198,289	260,273	458,563	511,757	200,897	-	200,897	8,066	30,863	1,210,145
Unallocated assets										190,461
Total assets										1,400,606
Liabilities and equity										
Bank deposits and other payables at amortised cost	25,760	17,277	43,037	-	12,203	4	12,207	9,522	649	65,415
Liabilities by business area	25,760	17,277	43,037	-	12,203	4	12,207	9,522	649	65,415
Unallocated liabilities										1,264,234
Equity										70,957
Total liabilities and equity										1,400,606

4. RECONCILIATION OF INTERNAL AND REGULATORY INCOME STATEMENT	2017			2016		
	Earnings presentation in Management Commentary	Reclassification	Income statement	Earnings presentation in Management Commentary	Reclassification	Income statement
Net interest income	9,006	2,479	11,485	8,747	2,723	11,470
Dividend on equities		133	133		108	108
Fee and commission income, net	2,470	(2,703)	(232)	2,251	(2,547)	(296)
Net interest and fee income		(90)	11,386		283	11,281
Wealth management income	1,402	(1,402)	-	1,184	(1,184)	-
Net interest from capitalisation	(360)	360	-	(447)	447	-
Trading, investment portfolio and other income	1,492	(1,492)	-	1,676	(1,676)	-
Value adjustments		3,620	3,620		775	775
Other operating income		501	501		589	589
Total income	14,010			13,410		
Costs	4,977	-	4,977	5,260	6	5,266
Business profit before impairment charges	9,033			8,151		
Impairment charges for loans and advances	379	-	379	680	-	680
Profit from investments in associates		21	21		8	8
Business profit	8,653			7,471		
Legacy derivatives	1,517	(1,517)	-	(763)	763	-
Profit before tax	10,170	-	10,170	6,708	-	6,708

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

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

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

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

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

NOTES

DKK million

Nykredit Realkredit Group

5. NET INTEREST INCOME AND VALUE ADJUSTMENTS

	Interest income	Interest expenses	Net interest income	Dividend on equities	Value adjustments	Total
2017						
Financial portfolios at amortised cost						
Receivables from and payables to credit institutions and central banks	(28)	10	(38)	-	-	(38)
Lending and deposits	1,968	17	1,951	-	-	1,951
Bonds	-	-	-	-	-	-
Bonds in issue	-	-	-	-	-	-
Subordinated debt	-	359	(359)	-	-	(359)
Other financial instruments	99	80	18	-	-	18
Total	2,038	466	1,572	-	-	1,572
Financial portfolios at fair value and financial instruments at fair value						
Mortgage loans and bonds in issue	24,869	15,323	9,546	-	(4)	9,542
Repo transactions and reverse repurchase lending	(99)	(114)	15	-	7	22
Bonds	688	-	688	-	806	1,494
Equities	-	-	-	133	419	552
Investment properties	-	-	-	-	(7)	(7)
Derivative financial instruments	(336)	-	(336)	-	2,314	1,978
Total	25,121	15,209	9,913	133	3,535	13,580
Foreign currency translation adjustment					85	85
Net interest income and value adjustments	27,160	15,675	11,485	133	3,620	15,238
2016						
Financial portfolios at amortised cost						
Receivables from and payables to credit institutions and central banks	(4)	28	(32)	-	-	(32)
Lending and deposits	1,824	29	1,795	-	-	1,795
Bonds	-	-	-	-	-	-
Bonds in issue	-	-	-	-	-	-
Subordinated debt	-	367	(367)	-	-	(367)
Other financial instruments	90	57	33	-	-	33
Total	1,911	482	1,429	-	-	1,429
Financial portfolios at fair value and financial instruments at fair value						
Mortgage loans and bonds in issue	26,147	16,967	9,180	-	122	9,302
Repo transactions and reverse repurchase lending	(131)	(130)	(1)	-	4	3
Bonds	1,242	-	1,242	-	1,522	2,764
Equities	-	-	-	108	154	262
Investment properties	-	-	-	-	10	10
Derivative financial instruments	(380)	-	(380)	-	(1,087)	(1,467)
Total	26,878	16,837	10,041	108	726	10,874
Foreign currency translation adjustment					49	49
Net interest income and value adjustments	28,788	17,318	11,470	108	775	12,352

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
6. INTEREST INCOME			
(8)	(5)	37	(34)
16,800	15,188	17,219	18,623
4,084	4,020	9,527	9,248
Bonds			
193	188	293	384
558	309	476	494
186	62	70	208
130	109	155	557
Derivative financial instruments			
(21)	(31)	40	146
(33)	(34)	(366)	(510)
-	-	(10)	(22)
-	-	(1)	6
85	87	99	90
21,973	19,891	27,466	29,189
(193)	(188)	(293)	(384)
(2)	(4)	(13)	(17)
21,778	19,700	27,160	28,788
7	70	266	167
Of which interest income from reverse repurchase lending entered as:			
(7)	(29)	(9)	(31)
-	-	(90)	(100)
Of total interest income:			
-	-	24	79
-	-	85	89
-	-	138	135
Interest income accrued on individually impaired bank loans totalled DKK 24m (2016: DKK 79m). Nykredit Bank A/S generally does not charge interest on individually impaired loans. Interest income attributable to the impaired part of loans after the first time of impairment is offset against subsequent impairment.			
7. INTEREST EXPENSES			
(55)	(49)	(15)	(25)
-	(39)	(73)	(48)
16,987	15,382	15,629	17,368
367	359	359	367
96	29	80	57
17,395	15,682	15,981	17,720
(193)	(188)	(293)	(384)
(2)	(4)	(13)	(17)
17,199	15,491	15,675	17,319
27	129	344	183
Of which interest expenses from repo transactions entered as:			
(69)	(49)	(25)	(53)
-	(39)	(89)	(77)

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
8. DIVIDEND ON EQUITIES			
96	121	45	47
-	-	88	61
96	121	133	108
9. FEE AND COMMISSION INCOME			
-	-	213	190
-	-	1,155	1,026
894	775	1,319	1,165
894	775	2,687	2,381
10. FEE AND COMMISSION EXPENSES			
-	-	24	20
-	-	69	123
147	270	2,826	2,534
147	270	2,919	2,677
11. VALUE ADJUSTMENTS			
Assets measured at fair value through profit or loss			
4,399	2,023	8,286	14,082
9,828	6,322	0	-
(97)	(64)	7	4
1,094	414	806	1,522
463	449	419	154
-	-	(7)	10
6	32	85	49
(672)	135	1,575	(1,067)
-	-	739	-
Assets measured at fair value and recognised in "Other comprehensive income"			
-	-	-	-
Liabilities measured at fair value through profit or loss			
(4,274)	(2,027)	(24,230)	(13,959)
(9,828)	(6,322)	15,940	(20)
919	961	3,620	775
<p>¹ In 2017 Nykredit Realkredit A/S decided to wind up the Polish branch, leading to a negative value adjustment of DKK 200m. In recent years, the Polish branch has generated income of around DKK 10m and expenses of the same size.</p> <p>² Of which value adjustment of assets and liabilities recognised at amortised cost.</p> <p>³ Of which value adjustment of interest rate swaps.</p> <p>a) Financial assets and liabilities classified at fair value on initial recognition. b) Financial assets and liabilities classified under the trading book.</p>		1,334	503
		1,890	(819)
Of which value adjustment relating to fair value hedging for accounting purposes			
-	-	1	19
Value adjustments mainly relate to financial assets, financial liabilities and derivative financial instruments included in the Group's mortgage lending, banking and trading activities.			

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
12. STAFF AND ADMINISTRATIVE EXPENSES			
60	49	49	60
2,106	1,786	2,743	3,055
989	938	1,741	1,680
3,155	2,773	4,533	4,796
Remuneration of Board of Directors and Executive Board			
Board of Directors			
4	4	4	4
Executive Board			
36	39	39	36
5	6	6	5
15	-	-	15
60	49	49	60

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.

2017 DKK '000	Nykredit Realkredit A/S	Nykredit A/S /Nykredit Realkredit A/S				Nykredit A/S	Nykredit Group	Forenet Kredit ²	Forenet Kredit Group ²
		Nomination Board	Audit Board	Risk Board	Remuneration Board				
Fees	Fees paid to the Board of Directors					Fees paid to the Board of Directors	Total	Fees paid to the Board of Directors	Total
Steffen Kragh	390	50	-	-	88	683	1,210	-	1,210
Merete Eldrup	288	25	75	188	50	455	1,080	-	1,080
Nina Smith	288	25	-	-	50	455	818	195	1,013
Hans Bang-Hansen	125	-	-	-	-	228	353	130	483
Olav Bredgaard Brusén	125	-	-	-	-	228	353	75	428
Helge Leiro Baastad	125	-	100	-	-	228	453	-	453
Michael Demstz	125	-	-	125	-	228	478	75	553
Per W. Hallgren	125	-	188	75	-	228	615	75	690
Marlene Holm	125	-	-	-	-	228	353	-	353
Vibeke Krag ¹	95	-	-	-	-	181	276	144	420
Allan Kristiansen	125	-	-	-	-	228	353	-	353
Bent Naur	125	-	125	100	-	228	578	-	578
Anders C. Obel ¹	30	-	25	25	-	46	126	19	145
Erling Bech Poulsen	125	-	-	-	-	228	353	-	353
Inge Sand	125	-	-	-	-	228	353	75	428
Leif Vinther	125	-	-	-	50	228	403	75	478
Total	2,465	100	513	513	238	4,323	8,150	863	9,013

¹ Vibeke Krag joined Nykredit A/S and Nykredit Realkredit A/S in 2017 and Anders C. Obel resigned from Nykredit A/S and Nykredit Realkredit A/S in 2017.

² As a result of the intra-group link between Forenet Kredit and the Nykredit Group and the requirement pursuant to the Danish Financial Business Act, information regarding total fees paid to the Board of Directors of the Nykredit Group and the Forenet Kredit Group are included.

Annual fees, end-2017 (applicable from 1 July 2017)	Chairman	Deputy Chairman	Director
Nykredit Realkredit A/S	390	260	130
Nykredit A/S	810	540	270
Forenet Kredit	195	130	75

The chairmen of the Audit, Risk, Remuneration and Nomination Boards receive fees of DKK 225 thousand, DKK 225 thousand, DKK 100 thousand and DKK 100 thousand, respectively. Other members of the Audit, Risk, Remuneration and Nomination Boards receive fees of DKK 150 thousand, DKK 150 thousand, DKK 50 thousand and DKK 50 thousand, respectively. For the Audit and Risk Boards in particular, the fee is reduced by DKK 50 thousand if members join both boards as either chairman or ordinary member.

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.

12. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

2017	Michael Rasmussen	Kim Duus	Søren Holm	Anders Jensen	David Hellemann	Total
Remuneration of the Executive Board						
Contractual salary	10,786	6,374	6,374	6,374	6,374	36,282
Pension contributions ¹	2,497	-	-	1,466	1,466	5,429
Total	13,283	6,374	6,374	7,840	7,840	41,711
Defined benefit plans for a maximum of five years	-	1,511	1,511	-	-	3,022
Total expenses for accounting purposes/total earned income	13,283	7,885	7,885	7,840	7,840	44,733
Various benefits ²	30	16	16	25	12	99

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

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

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

Members of the Executive Board receive fixed salaries covering all directorships and executive positions in Nykredit A/S as well as Group enterprises and associates. Neither bonus schemes nor other variable remuneration plans have been established for the members of the Executive Board. However, the Board of Directors considers it important for Nykredit's value creation, realisation of the business plan behind the new capital structure and successful delivery of the Winning the Double strategy that the members of Nykredit's Executive Board who are not covered by defined benefit pension plans, be incentivised by a retention agreement, see the table below

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

¹ If the Group Managing Directors Kim Duus and Søren Holm decide to retire, they must give 12 months' notice from the age of 60 until the age of 70 and are entitled to pension benefits equal to 60% of their base salaries. Pension benefits are paid for a maximum of five years, and the benefits entitlement lapses when a Group Managing Director attains the age of 70. Further, Nykredit may ask a Group Managing Director to retire in this period subject to six months' notice.

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

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

12. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

2016	Nykredit Realkredit	Nykredit A/S /Nykredit Realkredit A/S			Nykredit A/S	Nykredit Group	Forenet Kredit	Forenet Kredit Group
		Audit Board	Risk Board	Remuneration Board				
Fees	Fees paid to the Board of Directors				Fees paid to the Board of Directors	Total	Fees paid to the Board of Directors	Total
Steffen Kragh	371	38	13	69	509	999	56	1,055
Merete Eldrup	266	38	138	38	324	803	56	859
Nina Smith	266	13	38	38	324	678	179	856
Hans Bang-Hansen	169	-	-	13	231	413	116	529
Olav Bredgaard Brusen ¹	90	-	-	-	139	229	56	285
Helge Leiro Baastad ¹	90	-	-	-	139	229	-	229
Steen E. Christensen ²	98	-	-	19	139	255	49	304
Michael Demnitz	120	-	100	-	185	405	75	480
Per W. Hallgren ¹	104	75	-	-	139	318	75	393
Marlene Holm	120	-	-	-	185	305	19	324
Allan Kristiansen	120	-	-	-	185	305	-	305
Bent Naur	120	75	100	-	185	480	-	480
Ina Nielsen ²	30	-	-	-	46	76	19	95
Anders C. Obel	120	138	38	-	185	480	75	555
Erling Bech Poulsen	120	-	-	-	185	305	-	305
Inge Sand ¹	90	-	-	-	139	229	56	285
Lars Peter Skaarup ²	30	-	-	-	185	215	19	234
Jens Erik Udsen ²	30	25	-	-	46	101	19	120
Leif Vinther	120	-	-	50	185	355	75	430
Total	2,474	400	425	225	3,654	7,178	944	8,121

¹ Olav Bredgaard Brusen, Helge Leiro Baastad, Per W. Hallgren and Inge Sand joined Nykredit A/S and Nykredit Realkredit A/S in 2016.

² Steen E. Christensen, Ina Nielsen and Jens Erik Udsen resigned from Nykredit A/S and Nykredit Realkredit A/S in 2016. Lars Peter Skaarup resigned from Nykredit Realkredit A/S in 2016.

2016	Michael Rasmussen	Kim Duus	Søren Holm	Anders Jensen	David Hellemann	Bente Overgaard	Total
Remuneration of the Executive Board							
Contractual salary	9,805	6,070	6,070	6,070	2,024	3,035	33,074
Pension contributions ¹	2,270	-	-	1,396	466	698	4,830
Total	12,075	6,070	6,070	7,466	2,490	3,733	37,903
Defined benefit plans for a maximum of 5 years	-	1,717	1,717	-	-	-	3,434
Salary, pension and termination benefits in the notice period	-	-	-	-	-	15,332	15,332
Total expenses for accounting purposes/ total earned income	12,075	7,787	7,787	7,466	2,490	19,065	56,670
Various benefits ²	27	13	20	23	4	66	153

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

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

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
12. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)			
Staff expenses			
1,683	1,366	2,134	2,455
176	173	249	248
229	230	337	328
18	17	22	23
2,106	1,786	2,743	3,055
136	130	180	182
<p>In addition to the Board of Directors and Executive Board, Nykredit has designated the following number (average) of staff whose activities significantly affect Nykredit's risk profile (material risk takers). The average number:</p> <p>Details of Nykredit's remuneration policy appear from page 46 of the Management Commentary under Remuneration and at nykredit.com.</p>			
Remuneration of material risk takers is included in "Staff expenses" and breaks down into:			
161	159	236	230
29	22	24	29
37	62	99	58
(1)	(4)	(7)	(1)
226	239	353	316
<p>Material risk takers are only covered by defined contribution pension plans.</p> <p>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".</p>			
Number of staff			
2,674	2,526	3,505	3,648
Fees to auditor appointed by the General Meeting			
7	6	12	14
Total fees include:			
2	2	4	4
0	1	1	1
0	1	1	1
5	3	6	8
7	6	12	14
<p>Fees for non-auditing services provided by Deloitte Statsautoriseret Revisionspartnerselskab to the Group such as advice relating to IT platform, sundry statements, review in connection with ongoing recognition of earnings and general accounting, regulatory and tax advice.</p>			
13. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES FOR PROPERTY, PLANT AND EQUIPMENT AS WELL AS INTANGIBLE ASSETS			
Intangible assets			
83	76	87	99
-	56	56	-
Property, plant and equipment			
81	95	108	104
-	-	5	1
-	-	(8)	(19)
163	227	248	185

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
14. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES			
14 a. Earnings impact			
424	(78)	Change in individual impairment provisions for loans and advances	(209) 670
-	(21)	Change in individual impairment provisions for receivables from credit institutions	(44) -
184	(580)	Change in collective impairment provisions for loans and advances	(395) (39)
176	98	Write-offs for the year, not previously written down for impairment	396 469
(54)	(59)	Recoveries on claims previously written off	(162) (137)
-	-	Provisions for guarantees, net	6 (48)
-	478	Impairment provisions for expected credit losses	1,039 -
730	(163)	Total impairment charges for loans, advances and receivables, and provisions for guarantees	632 916
83	20	Value adjustment of assets in temporary possession	(1) 99
(43)	(22)	Value adjustment of claims previously written off	(39) (99)
-	-	Write-offs offset against commission payments to partner banks	(212) (236)
770	(164)	Total	379 680
14 b. Specification of impairment provisions for loans, advances and receivables			
3,065	2,529	Individual impairment provisions	4,929 6,047
1,577	1,475	Collective impairment provisions	2,929 2,285
4,642	4,004	Total impairment provisions	7,857 8,332
Impairment provisions have been offset against the following items:			
4,415	3,854	Mortgage loans – note 18	5,311 5,437
205	150	Arrears and outlays – note 18	256 314
-	-	Bank loans and advances – note 19	2,290 2,538
21	-	Receivables from credit institutions	- 44
4,642	4,004	Total impairment provisions	7,857 8,332
14 c. Individual impairment provisions for loans and advances			
2,958	3,043	Impairment provisions, beginning of year	6,003 6,223
959	669	Impairment provisions for the year	1,429 1,906
(535)	(747)	Impairment provisions reversed	(1,637) (1,202)
(65)	(77)	Transferred to "Impairment provisions for properties acquired by foreclosure" – note 14 g.	(95) (109)
(274)	(359)	Impairment provisions written off	(771) (814)
3,043	2,529	Impairment provisions, year-end	4,929 6,003

Of total individual impairment provisions for bank lending to business customers of DKK 1.4bn (2016: approximately DKK 1.7bn), approximately DKK 0.2bn, or 17% (2016: approximately 29%), is attributable to exposures to customers whose financial circumstances have led to bankruptcy, bankruptcy proceedings or compulsory dissolution.

Of total individual impairment provisions for mortgage lending, 87% (2016: 74%), or DKK 2,606m (2016: DKK 2,660m), is attributable to customers in serious financial difficulties but not in arrears. 10% (2016: 10%), or DKK 291m (2016: DKK 419m), of total individual impairment provisions is attributable to customers in bankruptcy, undergoing bankruptcy proceedings, compulsory dissolution or who have died.

Loans are impaired if a customer is deemed to be in serious financial difficulty, or forbearance has been granted as a result of financial difficulty. When assessing whether loans are impaired, factors such as non-performance of contractual obligations and personal circumstances such as divorce, unemployment or long-term illness are taken into consideration.

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
14. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES (CONTINUED)			
14 d. Collective impairment provisions for loans and advances			
1,393	1,577	2,285	2,324
184	(580)	(395)	(39)
-	478	1,039	-
1,577	1,475	2,929	2,285
14 e. Individual impairment provisions for receivables from credit institutions			
21	21	44	44
-	(21)	(44)	-
21	-	-	44
14 f. Specification of loans, advances and receivables from credit institutions with objective evidence of impairment			
14,185	12,064	17,627	21,128
3,043	2,529	4,929	6,003
11,142	9,535	12,698	15,125
35,818	30,585	128,323	129,878
1,577	1,475	2,929	2,285
34,241	29,110	125,395	127,593
29	29	29	54
21	-	-	44
8	29	29	10
14 g. Impairment provisions for properties acquired by foreclosure			
217	204	272	287
65	77	95	109
106	33	39	117
(23)	(13)	(49)	(51)
(161)	(187)	(218)	(190)
204	114	139	272
Impairment provisions for properties acquired by foreclosure have been offset against "Assets in temporary possession".			
15. PROFIT FROM INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES			
9	22	25	9
1	4	4	1
3,954	6,411	-	-
781	1,354	-	-
3,181	5,076	21	8

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
16. TAX			
16 a. Tax on profit for the year			
Tax on profit for the year has been calculated as follows:			
588	618	1,972	1,430
9	158	142	(41)
(10)	(49)	(49)	(24)
10	22	25	13
597	749	2,091	1,378
Tax on profit for the year can be specified as follows:			
1,377	1,941	2,237	1,476
Tax effect of:			
(781)	(1,211)	(183)	(92)
1	45	61	6
0	(27)	(24)	(12)
597	749	2,091	1,378
22.0	22.0	22.0	22.0
12.5	13.5	1.4	1.5
9.5	8.5	20.6	20.5
Permanent deviations are attributable to investments in Group enterprises and associates as well as equities and financial contracts and divestment of activities.			
16 b. Payroll tax			
In addition to corporation tax, the Nykredit Group has paid a payroll tax, included in "Staff expenses", cf note 12.			
		337	328

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group		
2016	2017	2017	2016	
17. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS				
8,752	28,118	Receivables from central banks	34,058	21,400
20,485	21,954	Receivables from credit institutions	9,671	10,064
-	-	Reverse repurchase lending to central banks	231	-
2,495	4,950	Reverse repurchase lending to credit institutions	2,002	1,279
31,732	55,022	Total	45,961	32,742
By time-to-maturity				
4,497	2,885	On demand	10,184	9,880
17,679	33,534	Up to 3 months	35,701	22,854
3,050	4,334	Over 3 months and up to 1 year	-	-
2,498	10,193	Over 1 year and up to 5 years	-	-
4,008	4,077	Over 5 years	77	8
31,732	55,022	Total	45,961	32,742
18. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE				
524,984	519,721	Mortgage loans	1,163,879	1,124,693
183	296	Arrears and outlays	432	371
-	-	Reverse repurchase lending to undertakings other than credit institutions and central banks	27,566	30,091
10,976	4,486	Loans to Totalkredit serving as collateral in capital centres	-	-
635,985	688,444	Totalkredit mortgage loan funding	-	-
1,172,128	1,212,947	Total	1,191,877	1,155,155
18 a. Mortgage loans				
544,356	516,221	Balance, beginning of year, nominal value	1,107,135	1,114,324
62,134	78,660	New loans	217,933	199,973
113	120	Indexation	120	113
(1,190)	(428)	Foreign currency translation adjustment	(428)	(1,190)
(12,540)	(15,080)	Ordinary principal payments	(25,394)	(21,470)
(76,651)	(70,871)	Prepayments and extraordinary principal payments	(161,257)	(184,615)
516,221	508,622	Balance, year-end, nominal value	1,138,109	1,107,135
(102)	(27)	Loans transferred relating to properties in temporary possession	(36)	(134)
160	(0)	Loans assumed by the Danish Agency for Governmental Management	(0)	160
516,279	508,595	Total	1,138,073	1,107,161
13,120	14,979	Adjustment for interest rate risk	31,117	22,969
-	(200)	- of which adjustment relating to sold foreign portfolio	(200)	-
Adjustment for credit risk				
(2,838)	(2,379)	Individual impairment provisions	(2,741)	(3,284)
(1,577)	(1,475)	Collective impairment provisions	(2,569)	(2,153)
524,984	519,721	Balance, year-end, fair value	1,163,879	1,124,693

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
18. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE (CONTINUED)			
As collateral for loans and advances, Nykredit has received mortgages over real estate and:			
31,090	32,191	63,479	51,219
1,130	428	18,776	15,686
2,892	4,668	25,792	20,192
Mortgage loans at nominal value by property category:			
Loans and advances as %, year-end			
17	15	59	59
1	1	3	3
20	20	9	9
16	17	8	7
4	4	2	2
21	22	10	10
18	18	8	8
3	3	1	1
100	100	100	100
For further specification of mortgage loans by loan type and property category, please refer to note 48.			
18 b. Arrears and outlays			
282	244	340	411
106	202	348	274
(205)	(150)	(256)	(314)
183	296	432	371
Arrears on non-impaired loans and advances in arrears at fair value			
		619	690
		231	357
		110	214
		41	93
		305	171
		1,306	1,525
Non-impaired loans and advances in arrears at fair value (as % of loans and advances)			
		0.05	0.06
		0.02	0.03
		0.01	0.02
		0.00	0.01
		0.03	0.02
		0.11	0.14
Mortgage loans, arrears and outlays as well as other loans and advances by time-to-maturity			
5,519	4,464	36,059	39,435
14,455	13,659	21,894	24,055
79,916	86,409	151,915	140,618
425,277	415,484	982,009	951,047
525,167	520,016	1,191,877	1,155,155
The breakdown by time-to-maturity is based on mortgage loans at fair value, arrears and outlays as well as other loans and advances after impairment provisions.			

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
18. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE (CONTINUED)			
18 c. Loans to Totalkredit serving as collateral in capital centres			
Loans to Totalkredit serving as collateral in capital centres by time-to-maturity			
1,004	2,781	Up to 3 months	-
4,339	-	Over 3 months and up to 1 year	-
4,757	1,705	Over 1 year and up to 5 years	-
877	-	Over 5 years	-
10,976	4,486	Total	-
18 d. Totalkredit mortgage loan funding			
593,432	626,782	Balance, beginning of year, nominal value	-
251,201	227,837	New loans	-
(7,121)	(8,274)	Ordinary principal payments	-
(210,730)	(173,458)	Prepayments and extraordinary principal payments	-
626,782	672,888	Balance, year-end, nominal value	-
9,203	15,557	Adjustment for interest rate risk	-
635,985	688,444	Balance, year-end, fair value	-
Totalkredit mortgage loan funding by time-to-maturity			
37,286	42,602	Up to 3 months	-
91,681	90,826	Over 3 months and up to 1 year	-
254,625	277,689	Over 1 year and up to 5 years	-
252,393	277,327	Over 5 years	-
635,985	688,444	Total	-
Totalkredit mortgage loan funding by time-to-maturity is stated at fair value.			
19. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST			
-	-	Bank loans and advances	58,073
16	16	Totalkredit mortgage loan funding	-
-	-	Mortgage loans	16
304	284	Other loans and advances	345
320	300	Balance, year-end	58,434
Adjustment for credit risk			
-	-	Individual impairment provisions	(1,931)
-	-	Collective impairment provisions	(359)
320	300	Balance after impairment, year-end	56,144
(21)	(18)	Set-off of "Other loans and advances" against "Bonds in issue at amortised cost" – note 32	(18)
299	282	Total	56,126
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	712
-	-	Fair value of fixed-rate loans	1

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
19. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (CONTINUED)			
Loans, advances and other receivables at amortised cost by time-to-maturity			
-	-	5,184	11,277
3	2	13,272	15,603
8	7	7,066	4,735
43	43	18,199	12,786
246	230	12,405	10,961
299	282	56,126	55,361
The breakdown by time-to-maturity is based on loans and advances after impairment and after set-off of self-issued securities.			
Non-impaired loans and advances in arrears at amortised cost			
	5-10 days	39	10
	11-30 days	70	18
	31-90 days	177	58
	91-360 days	65	189
	Over 360 days	33	21
	Total	384	296
Non-impaired loans and advances in arrears at amortised cost (as % of loans and advances)			
	5-10 days	0.07	0.02
	11-30 days	0.13	0.03
	31-90 days	0.32	0.11
	91-360 days	0.12	0.34
	Over 360 days	0.06	0.04
	Total	0.69	0.54
19 a. Bank loans and advances			
Non-accrual loans or loans carrying a reduced interest rate			
-	-	175	199
-	-	4	6
Bank loans, advances and guarantee debtors by sector			
Loans and advances as %, year-end			
-	-	1	0
Public sector			
Business customers			
-	-	4	4
-	-	8	10
-	-	4	4
-	-	4	5
-	-	6	6
-	-	4	5
-	-	1	2
-	-	12	8
-	-	16	17
-	-	18	15
-	-	78	76
-	-	22	24
-	-	100	100
The sector distribution is based on the official Danish activity codes.			

NOTES

DKK million

Nykredit Realkredit A/S			Nykredit Realkredit Group	
2016	2017		2017	2016
19. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (CONTINUED)				
19 a. Bank loans and advances (continued)				
Finance leases				
Of total loans and advances at amortised cost, finance leases represent				
-	-	Balance, beginning of year	4,525	4,031
-	-	Additions	2,360	2,144
-	-	Disposals	(1,831)	(1,650)
-	-	Balance, year-end	5,055	4,525
-	-	Impairment provisions for finance leases represent	45	47
Non-guaranteed residual values on expiry of the leases represent DKK 0.				
Finance leases by time-to-maturity				
-	-	Up to 3 months	460	428
-	-	Over 3 months and up to 1 year	1,060	835
-	-	Over 1 year and up to 5 years	3,376	3,146
-	-	Over 5 years	159	116
-	-	Total	5,055	4,525
Where loans and advances under finance leases are concerned, amortised cost represents their fair value. The leases comprise equipment as well as real estate. The leases have been concluded on an arm's length basis. The term of the leases is generally 3 to 6 years, but may be up to 20 years for leased properties.				
Gross investments in finance leases				
Gross investments in finance leases by time-to-maturity				
-	-	Up to 1 year	1,588	1,317
-	-	Over 1 year and up to 5 years	3,520	3,226
-	-	Over 5 years	396	423
-	-	Total	5,504	4,966
-	-	Non-earned income	449	441
20. BONDS AT FAIR VALUE				
47,532	39,701	Self-issued SDOs	88,418	81,077
14,205	21,095	Self-issued ROs	34,324	21,099
-	-	- Self-issued corporate bonds	722	1,340
202	200	Self-issued senior debt	200	206
34,037	25,488	Other covered bonds	80,094	98,700
6,945	10,716	Government bonds	12,031	8,142
3,044	2,187	Other bonds	5,023	5,140
105,965	99,387	Total	220,812	215,703
(47,515)	(39,685)	Set-off of self-issued SDOs against "Bonds in issue at fair value" – note 31	(88,402)	(81,061)
(16)	(16)	Set-off of self-issued SDOs against "Bonds in issue at amortised cost" – note 32	(16)	(16)
(14,205)	(21,095)	Set-off of self-issued ROs against "Bonds in issue at fair value" – note 31	(34,324)	(21,099)
-	-	Set-off of self-issued corporate bonds against "Bonds in issue at amortised cost" – note 32	(722)	(1,340)
(202)	(200)	Set-off of self-issued senior debt against "Bonds in issue at fair value" – note 31	(200)	(206)
44,026	38,390	Total	97,149	111,981

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
20. BONDS AT FAIR VALUE (CONTINUED)			
Of bonds at fair value before set-off of self-issued bonds:			
-	-	374	1,733
9,156	28,651	28,736	12,441
<p>Redeemed bonds</p> <p>As collateral security for the Danish central bank and foreign clearing centres, bonds and certificates of deposit have been deposited of a total market value of</p> <p>The deposits were made on an arm's length basis in connection with clearing and settlement of securities and foreign exchange trades. The deposits are adjusted on a daily basis and generally have a repayment term of very few value days.</p> <p>Collateral security was provided on an arm's length basis.</p> <p>As the majority – around DKK 97bn – of the Group's bond portfolio is included in the Group's trading activities, the actual maturities of these bonds are expected to be less than one year. Of the Group's bond portfolio, bonds of approximately DKK 9bn are expected to have a maturity over five years.</p>			
21. EQUITIES			
4,316	4,758	2,526	2,129
-	-	2,450	2,445
4,316	4,758	4,977	4,574
21 a. Equities measured at fair value through profit or loss			
1,787	2,056	713	396
159	159	161	163
2,369	2,544	1,652	1,570
4,316	4,758	2,526	2,129
21 b. Equities available for sale			
-	-	1,435	1,502
-	-	1,015	943
-	-	2,450	2,445
-	-	2,445	2,115
-	-	-	0
-	-	6	330
-	-	2,450	2,445
<p>Equities in Spar Nord Bank A/S, Sydbank A/S, DLR Kredit 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.</p>			
22. INVESTMENTS IN ASSOCIATES			
112	107	109	114
-	4	6	-
(5)	(3)	(3)	(5)
107	107	111	109
10	21	22	10
8	18	21	8
(3)	(3)	(3)	(3)
5	(0)	(0)	5
21	35	39	22
127	143	150	130

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
23. INVESTMENTS IN GROUP ENTERPRISES			
27,938	31,942		
		Cost, beginning of year	-
		Reclassification of Additional Tier 1 capital in Totalkredit from receivables from credit institutions	-
4,000	-		-
31,938	31,942	Cost as restated, beginning of year	-
3	-	Additions	-
-	(3)	Disposals	-
31,942	31,938	Cost, year-end	-
7,656	10,907	Revaluations and impairment charges, beginning of year	-
3,173	5,057	Profit	-
(70)	(670)	Dividend	-
-	0	Reversal of revaluations and impairment charges	-
148	(133)	Disposals	-
10,907	15,161	Revaluations and impairment charges, year-end	-
42,848	47,099	Balance, year-end	-
41,418	46,177	Of which credit institutions	-
		Subordinated receivables	
4,000	4,000	Group enterprises	-
1,729	1,575	Other enterprises	1,732
5,729	5,575	Total	1,732
24. INTANGIBLE ASSETS			
-	-	Goodwill	14
-	-	Fixed-term rights	13
133	68	Software	68
69	132	Development projects in progress	132
-	-	Customer relationships	-
202	200	Total	227
			243

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
25. LAND AND BUILDINGS			
-	-	50	232
14	14	223	432
14	14	273	664
25 a. Investment properties			
-	-	232	244
-	-	-	-
-	-	(171)	(23)
-	-	(11)	11
-	-	50	232
-	-	50	232
-	-	10	23
-	-	3	7
The Group's investment properties were sold as at 2 January 2018 at sales value.			
-	-	50	118
Rental income under non-cancellable operating leases			
-	-	-	5
-	-	-	11
-	-	-	16
25 b. Owner-occupied properties			
16	15	540	2,126
-	-	2	1
(1)	-	(267)	(1,515)
-	-	-	(71)
15	15	275	540
2	-	30	307
-	-	(10)	3
(2)	-	-	(155)
-	-	-	(11)
-	-	-	(114)
-	-	20	30
2	1	138	974
0	0	4	15
-	-	(25)	3
(0)	-	(44)	(783)
-	-	-	(71)
1	1	73	138
14	14	223	432
-	-	15	16
Owner-occupied properties are depreciated over a period of 20-50 years. Residual depreciation period at 31 December (average number of years)			
The latest revaluation of owner-occupied properties was made at end-2017.			
The valuations were carried out by an internal valuer based on the return method. In 2017 the required rate of return ranged between 5.0% and 7.75% (6.60% on average) depending on the nature, location and state of repair of the owner-occupied property.			
14	14	239	464
If no revaluations had been made, the carrying amount of owner-occupied properties would have been:			

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
26. OTHER PROPERTY, PLANT AND EQUIPMENT			
684	651	738	842
34	45	49	45
(66)	(49)	(84)	(148)
651	647	703	738
27. ASSETS IN TEMPORARY POSSESSION			
480	500	561	607
81	95	102	89
-	-	2	-
(61)	(46)	(80)	(134)
500	550	585	561
151	98	117	177
2	2	2	2
<p>Other assets are depreciated over 4-15 years. 2 Residual depreciation period at 31 December (average number of years)</p>			
274	175	184	311
274	175	184	311
28. OTHER ASSETS			
6,022	5,335	3,528	4,851
-	34	-	-
2,458	1,309	19,269	28,895
241	327	327	241
287	343	3,352	2,679
9,008	7,347	26,476	36,667

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 divest the mortgaged property at the highest obtainable price within 12 months. The assets are recognised in Group Items in the segment financial statements.

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
28. OTHER ASSETS (CONTINUED)			
28 b. Defined benefit plans			
The majority of the Group's pension plans are defined contribution plans. The contributions are charged against income on a current basis.			
The Group's defined benefit plans are funded through contributions from Nykredit Realkredit A/S into the pension fund Nykredits Afviklingspensionskasse, which acts in the members' interests 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 scheme is closed to new members and covers staff employed before 1972.			
(496)	(458)	(458)	(496)
737	785	785	737
241	327	327	241
Net assets, year-end			
(521)	(496)	(496)	(521)
Obligations, beginning of year			
(6)	(2)	(2)	(6)
(6)	(0)	(0)	(6)
1	3	3	1
36	36	36	36
(496)	(458)	(458)	(496)
Obligations, year-end			
748	737	737	748
Plan assets, beginning of year			
10	9	9	10
15	8	8	15
(36)	(36)	(36)	(36)
-	68	68	-
737	785	785	737
Plan assets, year-end			
241	327	327	241
Net assets, year-end			
Pension costs/income relating to defined benefit plans recognised in "Staff and administrative expenses" in the income statement			
4	8	8	4
4	8	8	4
Total			
Pension costs/income relating to defined benefit plans recognised in "Other comprehensive income" in "Actuarial gains/losses on defined benefit plans"			
(6)	(0)	(0)	(6)
16	11	11	16
10	11	11	10
Total			
Plan assets break down as follows:			
806	793	793	806
16	9	9	16
(85)	(17)	(17)	(85)
737	785	785	737
Total assets			

All pension fund assets are measured on the basis of listed prices (level 1 input).

The pension fund extensively seeks to match the maturity of its assets with the expected term of its obligations. Further, expected pension benefit increases are matched through investment in index-linked bonds.

NOTES

DKK million

Nykredit Realkredit Group	2017	2016	2015	2014	2013
28. OTHER ASSETS (CONTINUED)					
28 b. Defined benefit plans (continued)					
Average actuarial calculation assumptions					
Inflation, %	2.0	2.0	2.0	2.0	2.0
Discount rate, %	1.1	1.1	1.2	2.1	1.8
Wage growth, %	1.2	0.8	0.5	2.0	2.0
Nykredit Group pension obligations					
Plan obligations	(458)	(496)	(521)	(555)	(548)
Plan assets	785	737	748	769	736
Net assets	327	241	227	214	188
Net actuarial changes					
Actuarial changes to plan obligations	3	(5)	1	(33)	9
Actuarial changes to plan assets	7	16	(2)	58	(46)
Tax adjustments	1	(1)	11	(3)	13
Total actuarial changes	11	10	10	22	(24)
Expected maturity of pension obligations					
Within 1 year	(33)	(36)			
1-5 years	(118)	(132)			
5-10 years	(119)	(138)			
Over 10 years	(188)	(190)			
Total pension obligations	(458)	(496)			

The expected maturity of the pension obligations is based on the discounted obligation.

Sensitivities	End-2017		End-2016	
	+1%/+10%	(1%)/(10%)	+1%/+10%	(1%)/(10%)
Effect (DKK million) pension obligations on changes to:				
Discount rate (+/- 1 percentage point)	36	(42)	40	(46)
Wage growth and pension benefit increases (+/- 1 percentage point)	(47)	41	(52)	44
Life expectancy (+/- 10%)	(22)	22	(23)	23

Sensitivities are computed subject to "all things being equal", meaning that one parameter is changed, 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	
2016	2017	2017	2016
29. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS			
1,207	493	6,353	13,913
-	-	3,337	-
16,847	4,861	3,398	7,769
-	-	231	-
18,054	5,353	13,319	21,681
Payables to credit institutions and central banks by time-to-maturity			
957	493	9,303	10,769
11,762	3,904	3,467	8,087
5,335	956	278	2,136
-	-	270	689
18,054	5,353	13,319	21,681
30. DEPOSITS AND OTHER PAYABLES			
-	-	64,528	54,564
-	-	1,286	2,096
-	-	7,484	5,923
-	-	2,616	2,832
-	-	75,914	65,415
Deposits and other payables by time-to-maturity			
-	-	62,263	55,171
-	-	10,727	5,751
-	-	645	838
-	-	695	1,856
-	-	1,584	1,799
-	-	75,914	65,415
31. BONDS IN ISSUE AT FAIR VALUE			
200,789	183,175	192,360	212,280
1,026,550	1,104,641	1,100,930	1,026,550
11,613	4,981	4,981	11,613
4,306	3,748	3,748	4,306
1,243,258	1,296,545	1,302,019	1,254,749
(61,923)	(60,980)	(122,926)	(102,366)
1,181,335	1,235,565	1,179,093	1,152,383

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

Determined relative to other Danish mortgage lenders, the fair value has not been subject to changes attributable to the Nykredit Group's own credit risk in 2017 or since the issue, as there are no measurable price differences between bonds with uniform properties issued by different lenders.

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
31. BONDS IN ISSUE AT FAIR VALUE (CONTINUED)			
<p>Yield spreads between government bonds and senior debt issues and ROs/SDOs tightened in 2017, causing a total increase in the fair value of bonds in issue of approx DKK 10bn attributable to Nykredit's own credit risk. Since 2007 spread widening between government bonds and ROs/SDOs has resulted in a fair value decline of approx DKK 4bn attributable to Nykredit's own credit risk, whereas spread tightening between government bonds and senior debt issues has resulted in a fair value increase of senior debt in issue of approx DKK 0.2bn.</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 lending has changed correspondingly.</p> <p>The determination allows for both maturity and nominal holding, but is to some extent based on estimates.</p>			
31 a. ROs			
192,496	174,622	183,226	203,341
8,293	8,553	9,134	8,939
200,789	183,175	192,360	212,280
(14,205)	(21,095)	(34,324)	(21,099)
186,584	162,079	158,035	191,181
45	44	44	45
28,752	33,893	34,354	29,541
31 b. SDOs			
1,012,517	1,082,459	1,078,747	1,012,517
14,033	22,183	22,183	14,033
1,026,550	1,104,641	1,100,930	1,026,550
(47,515)	(39,685)	(88,402)	(81,061)
979,035	1,064,956	1,012,528	945,489
4,655	4,544	4,544	4,655
54,885	71,305	71,305	54,885
31 c. Senior secured debt			
11,146	4,690	4,690	11,146
467	291	291	467
11,613	4,981	4,981	11,613
(202)	(200)	(200)	(206)
11,411	4,781	4,781	11,407
-	-	-	-

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
31. BONDS IN ISSUE AT FAIR VALUE (CONTINUED)			
31 d. Senior unsecured debt			
4,282	3,723	3,723	4,282
24	26	26	24
4,306	3,748	3,748	4,306
-	-	-	-
Bonds in issue at fair value by time-to-maturity			
66,725	92,601	67,296	55,552
176,075	173,297	164,931	169,206
554,126	569,149	549,946	539,483
384,409	400,517	396,920	388,142
1,181,336	1,235,565	1,179,092	1,152,383
Bonds in issue by time-to-maturity are stated at fair value after set-off against self-issued bonds.			
32. BONDS IN ISSUE AT AMORTISED COST			
-	-	7,196	11,498
17	16	16	17
3,759	3,735	3,735	3,759
7,367	13,314	13,314	7,367
28	27	27	28
11,171	17,092	24,288	22,669
-	-	(722)	(1,340)
(16)	(16)	(16)	(16)
(21)	(18)	(18)	(21)
11,133	17,059	23,532	21,292
Bonds in issue at amortised cost by time-to-maturity			
-	-	2,624	1,913
-	3,735	5,420	5,539
11,108	13,299	15,463	13,815
25	25	25	25
11,133	17,059	23,532	21,292
Bonds in issue by time-to-maturity are stated at amortised cost after set-off against self-issued bonds.			
32 a. Corporate bonds			
Issues			
-	-	4,624	7,686
-	-	2,513	3,657
-	-	58	155
-	-	7,196	11,498

* Listed on Nasdaq Copenhagen or the Luxembourg Stock Exchange.

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group		
2016	2017	2017	2016	
33. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE				
-	8,500	Repo transactions with undertakings other than credit institutions and central banks	16,714	14,562
-	1	Negative securities portfolios	2,307	3,173
-	8,501	Total	19,021	17,735
Other non-derivative financial liabilities by time-to-maturity				
-	3,501	On demand	4,471	223
-	5,000	Up to 3 months	14,551	14,422
-	-	Up to 1 year	-	3,090
-	8,501	Total	19,021	17,735
34. OTHER LIABILITIES				
8,113	7,198	Interest and commission payable	8,457	10,060
2,946	1,756	Negative market value of derivative financial instruments	12,905	25,427
1,604	1,508	Other	3,885	3,913
12,663	10,462	Total	25,248	39,400

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group		
2016	2017	2017	2016	
35. PROVISIONS FOR DEFERRED TAX/DEFERRED TAX ASSETS				
Deferred tax				
33	(4)	Deferred tax, beginning of year	(13)	(20)
-	(68)	Plan assets, adjustment of tax, beginning of year	(68)	-
-	-	Disposals	2	-
(9)	(147)	Deferred tax for the year recognised in profit for the year	(131)	40
(10)	(22)	Adjustment of deferred tax relating to previous years	(25)	(13)
(19)	(50)	Deferred tax for the year recognised in equity	(59)	(20)
-	(2)	Deferred tax for the year recognised in "Other comprehensive income"	(2)	-
(4)	(294)	Deferred tax, year-end	(296)	(13)
Deferred tax recognised in the balance sheet				
1	1	Deferred tax assets	143	113
(6)	(295)	Provisions for deferred tax	(439)	(126)
(4)	(294)	Deferred tax, year-end, net	(296)	(13)
Deferred tax relates to:				
4	4	Loans and advances	(125)	(101)
1	3	Equities	3	1
32	-	Derivative financial instruments	-	32
(44)	(44)	Intangible assets	(42)	(44)
12	19	Property, plant and equipment, including buildings	12	5
(3)	(78)	Other assets and prepayments	(32)	31
(1)	(1)	Bonds in issue	15	(21)
-	-	Other liabilities	72	88
124	101	Provisions	100	126
(129)	(298)	Subordinated debt	(298)	(129)
(4)	(294)	Total	(296)	(13)
Deferred tax assets not recognised in the balance sheet:				
13	54	Deferred tax relating to land, buildings and provisions as well as derivative financial instruments	60	25
13	54	Total	60	25
The asset has not been recognised, as it is not likely to crystallise in the near future.				
36. CURRENT TAX ASSETS AND LIABILITIES				
Current tax assets				
0	122	Current tax assets, beginning of year	162	0
(16)	1	Transferred to/from tax liabilities	(4)	(128)
652	755	Corporation tax paid for the year, net	1,293	1,627
9	49	Adjustment relating to previous years	48	26
(590)	(661)	Current tax for the year recognised in profit for the year	(1,081)	(1,430)
-	-	Current tax for the year recognised in "Other comprehensive income"	(12)	1
67	100	Current tax for the year recognised in equity	142	67
122	366	Current tax assets, year-end	549	162
Current tax liabilities				
16	-	Current tax liabilities, beginning of year	14	142
(16)	-	Transferred to/from tax liabilities	(4)	(128)
-	-	Corporation tax paid for the year, net	(901)	0
-	-	Adjustment relating to previous years	(1)	0
-	-	Current tax for the year recognised in profit for the year	934	(0)
-	-	Current tax liabilities, year-end	43	14

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
37. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS			
169	149	155	175
(23)	(22)	(22)	(23)
19	25	25	19
(16)	(17)	(17)	(16)
149	135	141	155
38. REPAYABLE RESERVES IN PRE-1972 SERIES			
63	55	55	63
(9)	(5)	(5)	(9)
0	1	1	0
55	51	51	55
<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>			
39. PROVISIONS FOR LOSSES UNDER GUARANTEES			
-	-	52	100
-	-	27	21
-	-	(21)	(68)
-	-	58	52
40. OTHER PROVISIONS			
88	128	224	169
(7)	(106)	(141)	(40)
48	62	94	96
(0)	0	0	(0)
-	(3)	(25)	-
128	81	153	224

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
41. SUBORDINATED DEBT			
Subordinated debt consists of financial liabilities in the form of subordinate loan capital and Additional Tier 1 capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.			
Subordinated debt is included in Nykredit's own funds in accordance with the EU's Capital Requirements Regulation.			
Subordinate loan capital			
Nom EUR 600m. The loan matures on 3 June 2036, but may be redeemed at par (100) from 3 June 2021. The loan carries a fixed interest rate of 4.0% pa up to 3 June 2021, after which date the interest rate will be fixed every five years. If the Common Equity Tier 1 capital ratio of Nykredit Realkredit, the Nykredit Realkredit Group or the Nykredit Group falls below 7%, the loan will be written down			
4,647	4,584	4,584	4,647
Nominally EUR 800m. The loan matures on 17 November 2027, but may be redeemed at par (100) from 17 November 2022. The loan carries a fixed interest rate of 2.75% pa up to 17 November 2022, after which date the interest rate will be fixed for the next five years			
6,058	5,986	5,986	6,058
Nom EUR 50m. The loan matures on 28 October 2030. The loan carries a fixed interest rate of 4% pa for the first two years after issuance. In the remaining loan term, the interest rate will be fixed every six months.			
372	372	372	372
11,078	10,942	10,942	11,078
Total subordinate loan capital			
-	-	-	-
Portfolio of self-issued bonds			
11,078	10,942	10,942	11,078
Total subordinated debt			
10,780	10,795	11,519	10,780
Subordinated debt that may be included in own funds			
-	-	-	-
Costs related to raising and redeeming subordinated debt			
-	-	-	100
Extraordinary principal payments and redemption of subordinated debt in the financial period			
Hedge accounting			
The exposure to fair value changes in the price of the bonds as a result of changes in market rates is hedged. The Nykredit Group has countered this risk by entering into interest rate swaps:			
1	0	0	1
Market value of interest rate swaps of EUR 50m (nominal)			
208	136	136	208
Market value of interest rate swaps of EUR 600m (nominal)			
133	51	51	133
Market value of interest rate swaps of EUR 800m (nominal)			
372	372	372	372
Market value of subordinate loan capital of EUR 50m (nominal)			
4,461	4,467	4,467	4,461
Market value of subordinate loan capital of EUR 600m (nominal)			
5,942	5,956	5,956	5,942
Market value of subordinate loan capital of EUR 800m (nominal)			
11,115	10,982	10,982	11,115
Total			

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
42. OFF-BALANCE SHEET ITEMS			
Guarantees and warranties provided, irrevocable credit commitments and similar obligations not recognised in the balance sheets are presented below.			
-	-	7,055	6,694
1,537	1,596	8,443	6,934
1,537	1,596	15,498	13,628
42 a. Contingent liabilities			
-	-	1,362	1,285
-	-	108	208
-	-	5,585	5,201
-	-	7,055	6,694
"Other contingent liabilities" chiefly comprises purchase price and payment guarantees.			
Contingent liabilities by remaining terms			
-	-	4,282	3,845
-	-	1,579	2,334
-	-	1,193	515
-	-	7,055	6,694
42 b. Other commitments			
0	-	6,617	5,130
1,537	1,596	1,826	1,803
1,537	1,596	8,443	6,934
"Other" under "Other commitments" comprises obligations to and charges in favour of securities depositaries, investment commitments to private equity funds and non-callable lease payments.			
The following non-callable lease payments are recognised in "Other" under "Other commitments":			
171	170	154	155
643	440	440	643
5	77	77	5
819	686	670	803

Remaining terms are partly based on estimates as not all guarantees have a fixed term and as it may depend on the time of registration etc.

Non-callable lease payments comprise Nykredit's rental obligations.

42. OFF-BALANCE SHEET ITEMS (CONTINUED)

Additional contingent liabilities

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

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

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

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

BEC is an IT provider of Nykredit Bank. According to BEC's articles of association, Nykredit Bank may terminate its membership of BEC giving five years' notice to expire at the end of a financial year. Should the membership terminate otherwise for reasons related to Nykredit Bank, compensation will be payable to BEC as defined in BEC's articles of association. If a bank merges and ceases being an independent bank, the BEC membership terminates without notice but a transitional scheme may apply.

Nykredit Realkredit 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 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%.

Nykredit Realkredit is jointly taxed in Denmark with Forenet Kredit as the administration company. Pursuant to the Danish Corporation Tax Act, the Company is liable for income taxes etc payable by the jointly taxed companies 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.

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

43. RELATED PARTY TRANSACTIONS AND BALANCES

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

No unusual related party transactions occurred in 2017.

The companies have entered into various intercompany agreements as a natural part of the Group's day-to-day operations. The agreements typically involve financing, provision of guarantees, sales commission, tasks relating to IT support and IT development projects, payroll and staff administration as well as other administrative tasks.

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

Significant related party transactions prevailing/entered into in 2017 include:

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

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

Totalkredit A/S funds its lending by issuing a master bond for each capital centre with Nykredit Realkredit A/S as the only creditor. The master bond constitutes security for Nykredit Realkredit A/S's issuance of covered bonds (ROs and SDOs) and serves to ensure that Totalkredit A/S transfers all payments to bondholders under the loans and advances granted by Totalkredit A/S to Nykredit Realkredit A/S, no later than at the same time as Nykredit Realkredit A/S makes payments to bondholders. The bondholders therefore enjoy the same security as if the Totalkredit loans had been granted directly from Nykredit Realkredit A/S's own balance sheet.

Nykredit Realkredit A/S has granted loans, cf section 15 of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, to Totalkredit A/S serving as supplementary collateral in Totalkredit A/S's capital centres. The loans amounted to DKK 4.5bn as at 31 December 2017. The loans constitute secondary preferential claims and rank after the master bond in respect of the assets in Totalkredit A/S's capital centres.

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

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

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

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

Framework agreement on the terms for financial transactions relating to loans and deposits in the securities and money market areas.

Nykredit Realkredit A/S contributed DKK 2.0bn to Nykredit Bank A/S in the form of Tier 2 capital.

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
43. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)			
43 a. Transactions with subsidiaries			
Income statement			
10,203	9,503	-	-
257	85	-	-
614	442	-	-
93	201	-	-
9,758	6,527	-	-
69	61	-	-
(1,030)	(1,052)	-	-
Asset items			
24,783	25,051	-	-
11,022	4,502	-	-
635,985	688,444	-	-
16	16	-	-
225	398	-	-
4,392	3,971	-	-
Liability items			
13,389	3,908	-	-
42,184	62,205	-	-
806	876	-	-
43 b. Transactions with Parents			
Income statement			
-	-	0	0
0	(0)	(1)	0
-	0	236	-
(4)	(8)	-	-
Asset items			
-	-	-	2
-	-	39	-
-	34	7	-
Liability items			
-	-	2,557	-
8	1,414	1,414	10
43 c. Transactions with joint venture			
Income statement			
208	204	209	212
Asset items			
0	0	0	0
Liability items			
-	-	-	-

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
43. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)			
43 d. Transactions with associates			
Income statement			
-	-	0	0
-	-	-	-
Liability items			
-	-	1	1
43 e. Transactions with the Board of Directors and Executive Board			
Interest expenses of the members of:			
0	-	0	0
0	0	0	1
1	1	1	1
Loans, charges or guarantees granted to the members of:			
0	-	24	29
9	7	26	23
76	73	88	83
Deposits from the members of:			
-	-	8	10
-	-	9	6
-	-	1	1

The facilities of related parties were granted on standard business terms. Rates applying to ordinary loans range between 0.55% and 12.40% (2016: 0.35% and 12.50%), and deposit rates were around 0.00% (2016: 0.0% and 0.25%)

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

44. FAIR VALUE DISCLOSURES

Valuation principles

Financial instruments are measured at fair value or amortised cost in the balance sheets. The tables in notes 44 a. and 44 b. show the fair values of all instruments compared with the carrying amounts at which the instruments are recognised in the balance sheet.

Financial instruments measured at fair value

The Group's fair value assets and liabilities are generally measured based on publicly listed prices or market terms in active markets on the balance sheet date. If an asset or liability measured at fair value has both a purchase and a sales price, the mean value is used as a basis for measurement. The measurement is the value at which a financial asset may be traded, or the amount at which a financial liability may be settled, between two independent and willing parties.

If the market for a financial asset or liability is illiquid, or if there are no publicly recognised prices, Nykredit determines the fair value using generally accepted valuation techniques. These techniques include corresponding recent transactions between independent parties, reference to other corresponding instruments and an analysis of discounted cash flows as well as option and other models based on observable market data.

Valuation techniques are generally applied to OTC derivatives and unlisted assets and liabilities.

Unlisted equities are measured at fair value using valuation methods according to which the fair value is estimated as the price of an asset traded between independent parties or based on the company's equity value, if the equity value is assumed equal to the fair value of the instrument.

Financial instruments measured at amortised cost

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

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

Note 44 a shows the fair value of the financial instruments measured at amortised cost and the instances where the fair value does not correspond to the carrying amount.

Listed prices

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

Bonds at fair value are recognised at listed prices if external prices have been updated within the past three trading days prior to the balance sheet date. If no listed prices have been observed during this time span, the portfolio is recognised at observable input.

Observable inputs

When an instrument is not traded in an active market, measurement is based on the most recent listed price in an inactive market, the price of comparable transactions or generally accepted valuation techniques and is based on, for instance, discounted cash flows and option models.

Observable inputs are typically yield curves, volatilities and market prices of similar instruments which are usually obtained through ordinary providers such as Reuters, Bloomberg and market makers. If the fair value is based on transactions in similar instruments, measurement is exclusively based on transactions at arm's length. Reverse repurchase lending and repo transactions as well as unlisted derivatives generally belong to this category.

Bonds not traded in the past three trading days belong to this category. The valuation is based on the most recent observed price, and adjustments are made for subsequent changes in market conditions, eg by including transactions in similar instruments (matrix pricing). Redeemed bonds are transferred to this category, as there is no access to official prices in active markets.

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

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

FVA may involve both funding benefit and funding costs, but for Nykredit, the net FVA adjustment will be a funding cost resulting from customers' insufficient or lacking provision of collateral. Debit Valuation Adjustment (DVA) is now a sub-element of the FVA adjustment. Net value adjustment due to CVA, DVA and FVA comprised a negative DKK 366m at 31 December 2017 against a negative DKK 791m at end-2016.

44. FAIR VALUE DISCLOSURES (CONTINUED)

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

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

Unobservable inputs

When it is not possible to measure financial instruments at fair value based on prices in active markets or observable inputs, measurement is based on own assumptions and extrapolations etc. Where possible and appropriate, measurement is based on actual transactions adjusted for differences in eg the liquidity, credit spreads and maturities of the instruments. The Group's unlisted equities are generally classified under this heading, and valuation is based on the IPEV Valuation Guidelines

The positive market values of a number of interest rate swaps with customers in the lowest rating categories have been adjusted for increased credit risk using additional CVA. The adjustment is based on for instance the statistical data applied by the Bank to calculate collective impairment provisions for loans and advances at amortised cost. Interest rate swaps which have been fair value adjusted to DKK 0 (after deduction for collateral) due to the creditworthiness of the counterparty are also included in the category "Unobservable inputs".

The fair value amounted to DKK 1,104m at 31 December 2017 after adjustment. Credit value adjustments came to DKK 3,110m at 31 December 2017 (2016: DKK 3,926m).

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

However, financial assets measured on the basis of unobservable inputs account for a very limited part of total financial assets at fair value. At 31 December 2017, the proportion was thus 1.2% compared with 0.6% at end-2016. The proportion of financial liabilities was 0.0% against 0.0% at end-2016.

Valuation, notably of instruments classified as unobservable inputs, is subject to some uncertainty. Financial assets/liabilities based on unobservable input account for a very limited part of total financial assets/liabilities. Of total assets, DKK 4.0bn (2016: DKK 4.0bn) belong to this category, thus accounting for a limited part of 0.3% (end-2016: 0.3%). Of financial liabilities, DKK 0.0bn (2016: DKK 0.0bn) is attributable to this category, thus accounting for 0.0% (end-2016: 0.0%).

Assuming that an actual market price will deviate by +/- 10% from the calculated fair value, the earnings impact will be DKK 402m in 2017 (0.5% of equity at 31 December 2017). The earnings impact for 2016 was estimated at DKK 399m (0.6% of equity at 31 December 2016).

Transfers between categories

Transfers between the categories Listed prices, Observable inputs and Unobservable inputs are made when an instrument is classified differently on the balance sheet date than at the beginning of the financial year. The value transferred to another category corresponds to the fair value at the beginning of the year. With respect to interest rate swaps that have been fair value adjusted to DKK 0 due to credit risk adjustment, separate calculations are made at the end of each month.

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

Transfers between the categories Listed prices and Observable inputs resulted in all material respects from bonds that were reclassified either due to traded volume or the number of days between last transaction and the time of determination. In 2017, DKK 2.7bn was transferred from Listed prices to Observable inputs. Redeemed bonds (usually comprised by Listed prices) are transferred to Observable inputs on the last day before the coupon date, as there is no access to official prices in active markets. At 31 December 2017, the amount was DKK 2.3bn against DKK 5.7bn at end-2016. No transfers were made between the categories Listed prices and Unobservable inputs.

NOTES

DKK million

Nykredit Realkredit Group

44. FAIR VALUE DISCLOSURES (CONTINUED)

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

Fair value calculated on the basis of

2017	Carrying amount	Fair value	Balance	Listed prices	Observable inputs	Unobservable inputs
Assets						
Loans, advances and other receivables at amortised cost	56,126	56,347	220	-	16	56,330
Total	56,126	56,347	220	-	16	56,330
Liabilities						
Bonds in issue at amortised cost	23,532	23,654	(123)	-	23,644	10
Subordinated debt	10,942	11,834	(892)	-	11,834	-
Total	34,474	35,489	(1,015)	-	35,479	10
Transfer from assets			220			
Total balance			(795)			

2016

Assets

Loans, advances and other receivables at amortised cost	55,361	55,494	133	-	19	55,475
Total	55,361	55,494	133	-	19	55,475

Liabilities

Bonds in issue at amortised cost	21,291	21,253	38	-	21,246	7
Subordinated debt	11,078	11,612	(534)	-	11,612	-
Total	32,369	32,866	(496)	-	32,858	7

Transfer from assets			133			
Total balance			(363)			

NOTES

DKK million

Nykredit Realkredit Group

44. FAIR VALUE DISCLOSURES (CONTINUED)

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

31 December 2017

	Listed prices	Observable inputs	Unobservable inputs	Total fair value
Financial assets:				
- bonds at fair value	47,883	49,243	22	97,149
- equities measured at fair value through profit or loss	918	-	1,608	2,526
- positive fair value of derivative financial instruments	48	18,117	1,104	19,269
- reverse repurchase lending to credit institutions and central banks	-	2,233	-	2,233
- other reverse repurchase lending	-	27,566	-	27,566
- mortgage loans, arrears and outlays	-	1,164,311	-	1,164,311
- equities available for sale	1,435	-	1,015	2,450
- owner-occupied properties	-	-	223	223
- investment properties	-	-	50	50
Total	50,284	1,261,470	4,022	1,315,777
Percentage	3.8	95.9	0.3	100.0

Financial liabilities:

- other non-derivative financial liabilities at fair value including negative securities portfolios	200	2,107	-	2,307
- negative fair value of derivative financial instruments	31	12,874	-	12,905
- repo transactions with credit institutions and central banks	-	3,629	-	3,629
- other repo transactions	-	16,714	-	16,714
- bonds in issue at fair value	1,178,585	4,219	-	1,182,804
Total	1,178,816	39,543	-	1,218,360
Percentage	96.8	3.2	-	100.0

Assets and liabilities measured on the basis of unobservable inputs

	Real estate	Bonds	Equities	Derivatives	Total
Fair value, beginning of year, assets	664	242	2,492	587	3,986
Value adjustment recognised through profit or loss	7	3	197	112	319
Unrealised capital gains and losses recognised in "Other comprehensive income"	-	-	72	-	72
Purchases for the year	-	0	226	(43)	184
Sales for the year	(399)	(149)	(365)	-	(913)
Transferred from Listed prices and Observable inputs ¹	-	-	-	698	698
Transferred to Listed prices and Observable inputs ²	-	(74)	-	(251)	(325)
Fair value, year-end, assets	273	22	2,623	1,104	4,022

Fair value, beginning of year, liabilities

	-	-	-	-	-
--	---	---	---	---	---

Fair value, year-end, liabilities

	-	-	-	-	-
--	---	---	---	---	---

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

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

NOTES

DKK million

Nykredit Realkredit Group

44. FAIR VALUE DISCLOSURES (CONTINUED)

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

31 December 2016

Financial assets:	Listed prices	Observable inputs	Unobservable inputs	Total fair value
- bonds at fair value	40,010	71,729	242	111,981
- equities measured at fair value through profit or loss	580	-	1,549	2,129
- positive fair value of derivative financial instruments	59	28,248	587	28,895
- reverse repurchase lending to credit institutions and central banks	-	1,279	-	1,279
- other reverse repurchase lending	-	30,091	-	30,091
- mortgage loans, arrears and outlays	-	1,125,064	-	1,125,064
- equities available for sale	1,502	-	943	2,445
- owner-occupied properties	-	-	432	432
- investment properties	-	-	232	232
Total	42,151	1,256,411	3,986	1,302,548
Percentage	3.2	96.5	0.3	100

Financial liabilities:

- other non-derivative financial liabilities at fair value including negative securities portfolios	554	2,758	-	3,313
- negative fair value of derivative financial instruments	95	25,332	-	25,427
- repo transactions with credit institutions and central banks	-	7,769	-	7,769
- other repo transactions	-	14,422	-	14,422
- bonds in issue at fair value	1,139,738	12,645	-	1,152,383
Total	1,140,387	62,926	-	1,203,313
Percentage	94.8	5.2	-	100

Assets and liabilities measured on the basis of unobservable inputs

	Real estate	Bonds	Equities	Derivatives	Total
Fair value, beginning of year, assets	1,704	287	2,315	621	4,927
Value adjustment recognised through profit or loss	527	(8)	119	(70)	568
Unrealised capital gains and losses recognised in "Other comprehensive income"	3	-	63	-	66
Purchases for the year	-	6	159	-	165
Sales for the year	(1,570)	(47)	(164)	(33)	(1,814)
Transferred from Listed prices and Observable inputs ¹	-	4	-	239	243
Transferred to Listed prices and Observable inputs ²	-	-	-	(170)	(170)
Fair value, year-end, assets	664	242	2,492	587	3,986
Fair value, beginning of year, liabilities		31	-	-	31
Sales for the year		(31)	-	-	(31)
Fair value, year-end, liabilities		-	-	-	-

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

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

NOTES

DKK million

Nykredit Realkredit Group

45. OFFSETTING

	Gross amounts	Financial instruments offset	Carrying amount after offsetting	Further off-setting, master netting agreements	Collateral	Net amounts
2017						
Financial assets						
Derivatives with a positive fair value	31,615	12,346	19,269	8,467	1,175	9,627
Reverse repo transactions	31,735	1,936	29,799	-	29,572	227
Total	63,350	14,282	49,068	8,467	30,747	9,854
Financial liabilities						
Derivatives with a negative fair value	25,251	12,346	12,905	8,467	4,235	203
Repo transactions	22,278	1,936	20,342	-	20,257	85
Total	47,529	14,282	33,247	8,467	24,492	288
2016						
Financial assets						
Derivatives with a positive fair value	42,044	13,149	28,895	15,489	3,541	9,865
Reverse repo transactions	35,431	4,061	31,370	-	31,253	117
Total	77,475	17,210	60,265	15,489	34,794	9,982
Financial liabilities						
Derivatives with a negative fair value	38,576	13,149	25,427	15,489	4,477	5,461
Repo transactions	26,392	4,061	22,331	-	22,167	164
Total	64,968	17,210	47,758	15,489	26,644	5,625

In the balance sheet, reverse repo transactions are classified as receivables from credit institutions or loans, advances and other receivables at fair value. Repo transactions are classified as payables to credit institutions and other non-derivative financial liabilities at fair value.

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

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

Furthermore, netting is carried out in accordance with enforceable master netting agreements. Master netting agreements and similar entitle parties to offset in the event of default, which further reduces the exposure to a defaulting counterparty who fails to meet the conditions for accounting offsetting in the balance sheet.

NOTES

DKK million

Nykredit Realkredit Group

46. DERIVATIVE FINANCIAL INSTRUMENTS

By time-to-maturity	Net market value				Positive market value	Gross market value		Nominal value
	Up to 3 months	3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years		Negative market value	Net market value	
2017								
Foreign exchange contracts								
Forward contracts/futures, purchased	(171)	(17)	(1)	-	87	276	(189)	31,867
Forward contracts/futures, sold	81	16	1	-	221	123	98	29,714
Swaps	(23)	(47)	88	65	197	113	83	6,964
Options, purchased	3	1	-	-	4	-	4	361
Options, written	(3)	(1)	-	-	-	4	(4)	361
Interest rate contracts								
Forward contracts/futures, purchased	32	0	-	-	61	28	32	27,415
Forward contracts/futures, sold	(26)	(0)	-	-	50	76	(27)	72,022
Forward rate agreements, purchased	(2)	0	-	-	1	3	(2)	72,471
Forward rate agreements, sold	2	(0)	-	-	3	2	2	73,487
Swaps	(38)	(109)	1,306	5,219	17,947	11,569	6,378	763,353
Options, purchased	1	-	521	123	663	19	645	35,308
Options, written	(0)	(0)	(589)	(45)	-	634	(634)	20,484
Equity contracts								
Forward contracts/futures, purchased	(8)	-	-	-	0	8	(8)	122
Forward contracts/futures, sold	(5)	-	-	-	0	5	(5)	45
Swaps	(1)	17	(18)	-	17	19	(2)	543
Options, purchased	-	-	-	-	-	-	-	-
Credit contracts								
Credit default swaps, purchased	-	-	-	-	-	-	-	-
Credit default swaps, sold	-	-	-	-	-	-	-	-
Swaps	-	-	0	-	0	-	0	27
Unsettled spot transactions								
	(6)	-	-	-	17	23	(6)	32,215
Total	(164)	(140)	1,309	5,362	19,269	12,903	6,366	1,166,758

NOTES

DKK million

Nykredit Realkredit Group

46. 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	
2016								
Foreign exchange contracts								
Forward contracts/futures, purchased	227	29	5	-	397	136	261	26,220
Forward contracts/futures, sold	(146)	(80)	(5)	-	74	306	(232)	20,408
Swaps	(2)	82	188	81	627	279	348	9,907
Options, purchased	0	-	0	-	0	-	0	20
Options, written	(0)	-	(0)	-	-	0	(0)	20
Interest rate contracts								
Forward contracts/futures, purchased	55	3	-	-	64	5	59	22,472
Forward contracts/futures, sold	(82)	(0)	-	-	7	89	(82)	62,792
Forward rate agreements, purchased	2	(10)	-	-	5	14	(9)	50,168
Forward rate agreements, sold	(3)	14	-	-	16	5	11	52,537
Swaps	(21)	56	990	2,175	26,346	23,146	3,200	950,803
Options, purchased	412	59	523	130	1,143	18	1,125	35,369
Options, written	(412)	(59)	(641)	(54)	-	1,167	(1,167)	25,054
Equity contracts								
Forward contracts/futures, sold	(0)	-	-	-	0	0	(0)	15
Swaps	-	(5)	(13)	-	146	163	(17)	1,120
Options, purchased	-	-	-	-	21	21	-	-
Credit contracts								
Credit default swaps, purchased	-	-	(0)	-	-	0	(0)	37
Credit default swaps, sold	-	-	0	-	0	-	0	37
Swaps	-	-	4	-	4	-	4	108
Unsettled spot transactions	(31)	-	-	-	44	76	(31)	46,351
Total	(2)	88	1,050	2,333	28,894	25,426	3,469	1,303,438

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group	
2016	2017	2017	2016
47. REPO TRANSACTIONS AND REVERSE REPURCHASE LENDING			
The Nykredit Group applies repo transactions and reverse repurchase lending in its day-to-day business operations. All transactions were entered into using bonds as the underlying asset.			
Of the asset items below, reverse repurchase lending represents:			
2,495	4,950	2,233	1,279
-	-	(2,218)	(1,277)
2,495	4,950	15	2
Total less collateral			
-	-	29,502	34,152
-	-	(1,936)	(4,061)
Loans, advances and other receivables at fair value, net			
27,566			
30,091			
-	-	(27,351)	(29,976)
Total less collateral			
215			
115			
-	-	8,440	11,593
¹ Of which self-issued bonds			
Of the liability items below, repo transactions represent:			
16,847	4,861	3,629	7,769
-	-	(3,613)	(7,770)
-	-	18,650	18,623
-	-	(1,936)	(4,061)
Other non-derivative financial liabilities at fair value, net			
16,714			
14,562			
-	-	16,641	14,398
Total less collateral			
73			
163			
-	-	2,602	5,126
¹ Of which self-issued bonds			
Assets sold as part of repo transactions:			
16,775	-	26,275	29,986
- Bonds at fair value			

48. RISK MANAGEMENT

Nykredit's characteristics

The Nykredit Realkredit Group is a financial services group with business activities within banking and mortgage lending. The Group's activities further include estate agency services, administration and management of investment funds, leasing and insurance mediation.

Nykredit's main activity is match-funded mortgage lending secured by mortgages on real estate. Mortgage lending is carried on both under the Nykredit brand and through the subsidiary Totalkredit, which is wholly owned by Nykredit Realkredit. Lending to personal customers is provided only through Totalkredit, while lending to business customers is provided through both Totalkredit and Nykredit Realkredit.

Mortgage lending in Totalkredit is based on a strategic alliance with 57 local and regional banks in Denmark. According to this business concept, the partner banks are responsible for serving customers, and Totalkredit undertakes the funding of the mortgage loans. Totalkredit and the individual partner bank share the risk relating to the loans according to the principles set out in the agreement with the partner banks. The partner banks receive fees for customer services and risk hedging. At end-2017 mortgage lending to personal customers in Totalkredit made up around half of Nykredit's total mortgage lending.

Risk profile

As Nykredit mainly provides match-funded mortgage loans against mortgages on real estate, Nykredit's primary risk is credit risk. Mortgage lending and the underlying funding are regulated by the balance principle, which means that Nykredit incurs limited market and liquidity risks on mortgage lending and the underlying funding. Liquidity and market risks are further reduced by the Danish act regulating refinancing risk, which provides for the refinancing of mortgage loans in special situations.

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

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

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

Credit risk

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

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

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

Totalkredit's business concept is based on a strategic alliance with 58 Danish local and regional banks undertaking the distribution of Totalkredit loans, customer advisory services, customer assessment, case processing and customer services.

The credit policy ensures that credit is granted in accordance with the objectives of the credit policy and the Totalkredit concept and generally in compliance with Danish mortgage legislation, the Financial Business Act, good business practice and other relevant rules and regulations.

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

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

Nykredit has five regional credit units which process credit applications from business customers exceeding the authority assigned to the customer centres. Larger applications are processed centrally by Group Credits, unless they involve exposures requiring escalation to the Credits Committee, the Bank's Executive Board, the Group Executive Board or the Boards of Directors. Which level of the loan approval hierarchy determines a mortgage loan application in Totalkredit depends on the value of the property serving as security for the loan. As regards its business credit applications, the level is determined by the size of the exposure, in the same way as for customers of Nykredit Realkredit and Nykredit Bank.

As regards Totalkredit loans, assessments of personal customers are mostly carried out by the regional and local banks, while the final approval of credit applications is undertaken by Totalkredit. Assessments of business customers, however, are carried out centrally by Totalkredit on the basis of an initial credit assessment by the partner bank.

The Boards of Directors of the Group companies are presented with the Group's largest credit applications for approval/granting or briefing on a current basis. The Boards of Directors are also presented with the largest exposures as part of the annual asset review, and they are briefed quarterly on the levels of losses and impairment charges.

NOTES

Credit models

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

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

Modelling principles

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

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

Elements of credit risk determination

PD	Probability of Default (PD) is the probability of a customer defaulting on an obligation to Nykredit.
LGD	Loss Given Default (LGD) is the loss rate of an exposure in case of a customer's default.
EAD	Exposure At Default (EAD) is the total estimated exposure to a customer in DKK at the time of default, including any drawn part of a credit commitment.
REA	Risk Exposure Amount (REA) is credit exposures factoring in the risk relating to the individual customer. REA is calculated by risk-weighting credit exposures. The risk weighting is calculated on the basis of PD and LGD levels.
Default	Nykredit considers an exposure to be in default at the time of sending the third reminder (typically 25 days past due). Exposures for which individual impairment provisions have been made or a direct loss has been incurred are also considered in default.

Rating scale and marginal Probabilities of Default (PD)

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

Credit ratings

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

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

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

Loss Given Default (LGD)

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

The LGD calculations factor in any security provided, including the type of security (typically mortgages on real estate), geography, the quality of the security and its ranking in the order of priority.

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

Exposure at Default (EAD)

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

NOTES

Risk exposure amount for credit risk

Nykredit's total REA for credit risk decreased from DKK 304bn in 2016 to DKK 291bn in 2017. The decrease was mainly attributable to increasing property prices and thereby a reduced risk exposure.

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

77% of Nykredit's customers make timely payments, while possessing solid financial strength. Exposures to these customers are denoted as "ordinary exposures" (ratings 6-10).

Overall, 16% of Nykredit's exposures are considered "ordinary exposures with minor signs of weakness" (ratings 3-5). These customers also make timely payments, but their financial strength is lower than that of "ordinary exposures".

The rest of Nykredit's exposures were weak exposures (ratings 0-2) and exposures in default, making up 8% of exposures.

Weak exposures are exposures where customers:

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

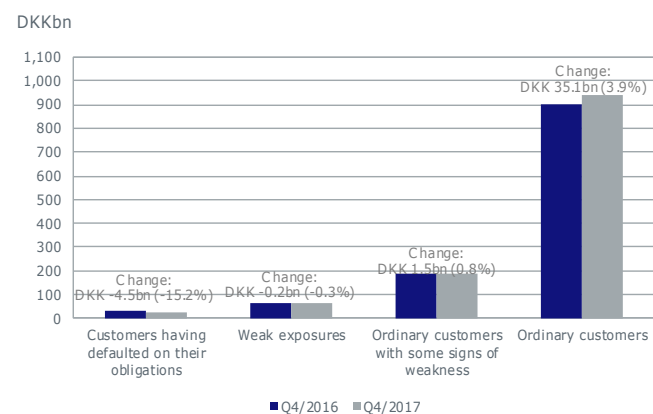
Nykredit Realkredit Group

Risk exposure amount – credit risk

DKK million	2017	2016
Standardised approach	12,762	13,507
IRB approach	277,274	289,572
Credit Valuation Adjustment (CVA)	530	1,104
Default fund contribution (CCP)	78	183
Total credit risk	290,643	304,275

Nykredit Realkredit Group

Credit exposure by customer credit quality



Concentration risk

Concentration risk is a natural element of Nykredit's risk management.

Nykredit had no large exposures to non-financial counterparties that exceeded 10% of eligible capital. Nykredit's largest exposure to non-financial counterparties amounted to DKK 6.0bn at end-2017, equivalent to 7% of eligible capital.

Nykredit's 20 largest exposures to non-financial counterparties amounted to an aggregate DKK 62.4bn before deductions according to the rules on large exposures, equivalent to 73% of eligible capital at end-2017 (determined according to the CRR). At end-2016, the 20 largest exposures to non-financial counterparties represented 70% of eligible capital. The vast majority of these exposures are mortgage loans with underlying security.

Nykredit had 20 non-financial counterparties to which the exposure represented over 2% of eligible capital (large exposures). The majority of these have good ratings.

The geographical breakdown of lending was 58% in Jutland and Funen, 25% in the Capital Region and 12% in the rest of Sealand. International lending was unchanged at 5% at end-2017.

NOTES

Security

The main type of security provided for loans is mortgages on real estate. The security provided is assessed regularly relative to the current market value of a property, reflected by the LTV ratios.

In addition to mortgages on real estate, Nykredit accepts guarantees issued by public authorities or banks. Guarantees issued by public authorities mitigate credit risk – mainly relating to mortgage lending for public housing. In late 2017, the Danish government, in collaboration with the financial sector, proposed a new model for the financing of public housing under which the government assumes the credit risk of mortgage banks by way of guarantees. The incentive to ensure high-quality credit assessments is the service commission payable to the government in addition to the guarantee commission. The service commission will cover any losses suffered by the government and will be refunded to the mortgage bank if there are no losses. The mortgage banks will issue government-guaranteed public housing bonds from a separate capital centre.

Mortgage lending guaranteed by public authorities amounted to DKK 36bn at end-2017.

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

In addition, Totalkredit and the individual partner bank share the risk relating to the loans according to the principles set out in the agreement with the partner banks. The partner banks provide security by way of a right of set-off and guarantees to Totalkredit for the loans distributed by them. This security provides an incentive for the partner banks to carry out a thorough and comprehensive assessment of customer creditworthiness and the mortgageability of the property. In case of particularly risky loans where the ordinary business procedures are derogated from, the partner bank must provide a guarantee exceeding the security provided for ordinary loans.

Nykredit has the approval of the Danish FSA to apply a statistical model in the valuation of certain owner-occupied dwellings with no physical inspection. The model is also used for the ongoing monitoring of the market values of certain residential properties. The statistical valuations are performed centrally and supplemented with local valuations.

Statutory LTV limits for mortgage lending by property category

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

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

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

NOTES

Loan-to-value ratios (LTVs)

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

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

At end-2017, the LTV level of the Group's total loan portfolio was 63%, down 1.5 percentage point on end-2016. The table "Debt outstanding relative to estimated property values" shows the LTVs of Nykredit's mortgage lending by property type.

At end-2017, 0.4% of the Group's private residential mortgage lending had LTV levels over 100%. The bulk of the Group's loans with LTV levels over 100% were granted to homeowners in South and West Sealand.

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		
Owner-occupied dwellings	446,394	167,844	95,595	9,543	3,344	2,702	725,422	68
Private rental ¹	84,382	28,245	11,353	1,238	641	645	126,504	63
Industry and trades	17,781	3,263	298	46	27	53	21,467	47
Office and retail	91,420	19,617	2,512	394	214	335	114,491	50
Agricultural	66,018	17,169	5,939	856	388	542	90,912	57
Public housing	-	-	-	-	-	-	69,833	-
Other	12,356	2,240	569	33	19	33	15,250	48
Total 2017¹	718,351	238,377	116,266	12,109	4,633	4,310	1,163,879	63
Total 2016	680,121	231,599	116,067	14,400	6,364	6,091	1,124,693	65

¹ Incl cooperative housing

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

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

Nykredit Realkredit Group

Debt outstanding relative to estimated property values

DKK million/%	LTV (loan-to-value)					
	0-40	40-60	60-80	80-90	90-100	>100
Owner-occupied dwellings	61.5	23.1	13.2	1.3	0.5	0.4
Private rental	66.7	22.3	9.0	1.0	0.5	0.5
Industry and trades	82.8	15.2	1.4	0.2	0.1	0.2
Office and retail	79.8	17.1	2.2	0.3	0.2	0.3
Agriculture	72.6	18.9	6.5	0.9	0.4	0.6
Public housing	-	-	-	-	-	-
Other	81.0	14.7	3.7	0.2	0.1	0.2
Total 2017¹	65.7	21.8	10.6	1.1	0.4	0.4
Total 2016	64.5	22.0	11.0	1.4	0.6	0.6

¹ Incl cooperative housing.

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

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

Counterparty risk

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

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

In some cases, a counterparty is unable to meet its payment obligations (default). This gives rise to counterparty risk. Nykredit mitigates its counterparty risk through financial netting agreements as well as agreements on financial collateral. The contractual framework is based on market standards such as ISDA or GMRA agreements. Nykredit uses central counterparties (CCPs) for professional derivatives clearing, including interest rate swaps and FRAs, and for repo transactions.

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

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

REA for counterparty risk after netting and collateral was DKK 15.4bn at end-2017. Of this amount, derivatives represented DKK 14.0bn and repo transactions DKK 0.8bn. The remaining DKK 0.6bn related to credit valuation adjustment (CVA) and default fund contributions (CCP).

Value adjustment of derivatives

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

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

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

Market risk

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

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

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

Nykredit's market risk is determined for two purposes:

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

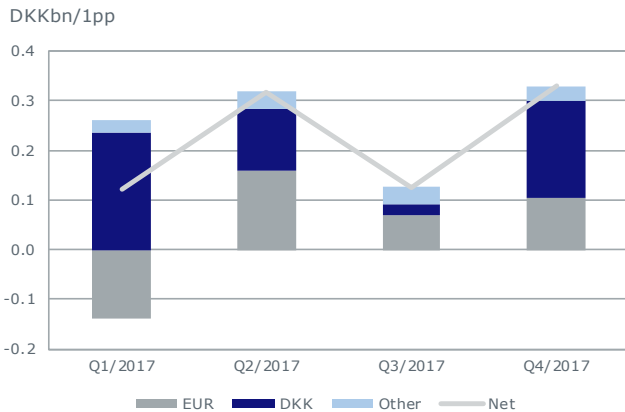
Market risk is generally managed through the Board's market risk policy and the accompanying guidelines, which include specific limits for the different types of risk.

The main principle is that losses on exposures involving market risk must not significantly affect Nykredit's total results. Market risk is managed by means of estimated losses in stress scenarios. Statistical as well as forward-looking stress scenarios are used to calculate estimated losses.

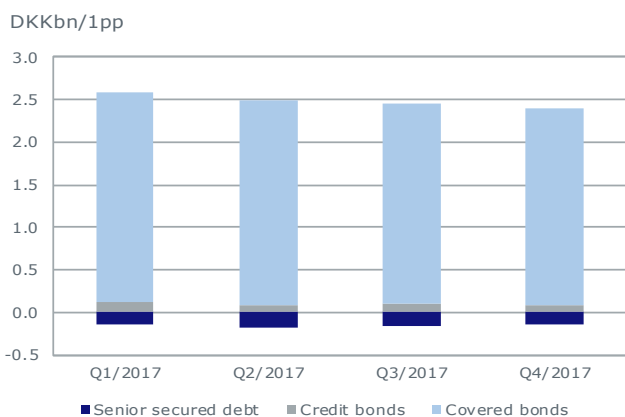
The guidelines restrict the scope for assuming interest rate, equity price, foreign exchange, volatility and commodity risks. The guidelines permit the use of financial instruments, for example, if the risk involved can be measured and managed. The risk limit applying to a specific asset includes any use of financial instruments.

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

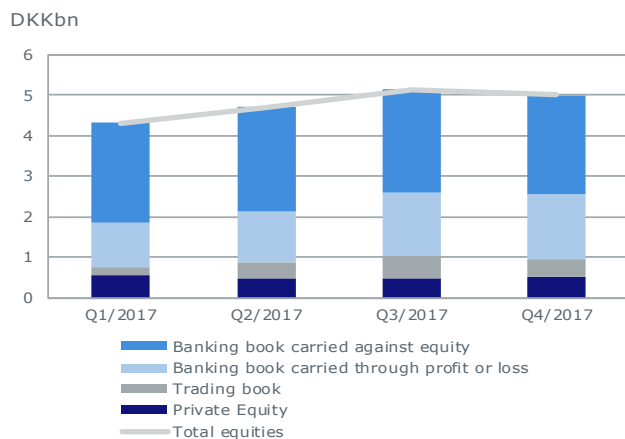
Nykredit Realkredit Group
Interest rate risk



Nykredit Realkredit Group
Yield spread risk



Nykredit Realkredit Group
Market value of equity portfolios



Day-to-day market risk management

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

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

Calculations for the total portfolio are made using a market risk model referred to as Value-at-Risk. The model is applied to calculate the maximum value decrease of a portfolio over a given period and at a given probability. VaR models allow for the effect and probability of several risks occurring at the same time.

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 330m at end-2017. This means that Nykredit would lose DKK 330m at a general interest rate rise of 1 percentage point.

Yield spread risk

Yield spread risk is the risk of spread widening between covered bond yields and swap rates. At end-2017, the yield spread risk was DKK 2.3bn for the Group's portfolio of covered bonds. The yield spread risk amounted to DKK 91m on the portfolio of corporate bonds and a negative DKK 134m on issued senior secured debt and senior unsecured debt at end-2017.

This means that the Group would lose DKK 2.3bn on its investments in covered bonds if the spread between covered bond yields and swap rates widened by 1 percentage point.

Equity price risk

Equity price risk is the risk of loss as a result of changes in equity prices, and it is calculated as the loss in case of a general equity market decrease of 10%. The Group's equity price exposure amounted to DKK 500m at end-2017.

The aggregate equity price risk includes both the trading book and the banking book, the latter containing sizeable strategic equity positions.

Equities in the banking book comprise Nykredit's strategic equities and private equity.

Strategic equities comprise equities in regional banks with which Nykredit has business relationships, equities in certain property companies and equities in VP Securities. They are classified as available for sale in accordance with the accounting rules and are therefore value-adjusted directly against equity.

NOTES

Foreign exchange risk

Foreign exchange risk is measured as the gain/loss in a given currency resulting from a DKK appreciation of 10%. Foreign exchange risk is thus the risk of loss as a result of changes in exchange rates.

Nykredit hedges its foreign exchange risk except for some minor tactical foreign exchange positions held to achieve a gain. Therefore, the Group had only minor foreign exchange positions in currencies other than EUR in 2017.

Volatility risk

Volatility is a measure of the variation in the price of an asset, such as the movement in the price of a bond. The market value of options and financial instruments with embedded options such as callable covered bonds partly depends on the expected market volatility.

Volatility risk is the risk of loss as a result of changes in market expectations for future volatility.

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

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

The risk is limited and stems mainly from the portfolio of Danish callable covered bonds, but also from other interest rate and equity derivatives.

VaR in day-to-day management

In the day-to-day management, Nykredit furthermore uses one overall risk measure for the portfolio called Value-at-Risk (VaR). It is calculated in a VaR model, which applies a confidence level of 99% and a time horizon of 1 day. VaR captures Nykredit's maximum potential losses in one day at a probability of 99%.

Nykredit's daily VaR was DKK 57m at end-2017. This means that Nykredit could, at a 99% probability, lose a maximum of DKK 57m in one day on its current portfolio.

The calculation of VaR for the day-to-day management includes positions in the trading book and in the banking book.

Risk exposure amount for market risk

Nykredit Realkredit A/S and Nykredit Bank A/S have the approval of the Danish FSA to apply a VaR model in determining REA for general market risk. The model is only applied to the trading book, thus excluding positions in the banking book such as strategic equities. However, interest rate and foreign exchange risk in the banking book for Nykredit Bank A/S is included in the determination of VaR.

The confidence level of the VaR model is 99%, and the time horizon for calculating statutory REA is 10 days. 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.

The VaR model is based on historical financial market data. As the current conditions in financial markets do not always correspond to the historical conditions (for instance during a financial crisis), a stressed VaR is added to REA resulting from the current VaR calculation.

Stressed VaR is calculated for the current portfolio by means of the VaR model, but using volatilities and correlations from a period of significant stress.

Total REA is determined as the sum of the individual calculations, which comprise general risk from the VaR model as well as specific risk and general risk under the standardised approach.

Nykredit's total REA from VaR amounted to DKK 15.3bn at end-2017, of which stressed VaR amounted to DKK 12.7bn. Total REA for market risk came to DKK 24.7bn at end-2017.

Nykredit Realkredit Group REA for market risk

DKK million	Specific risk	General risk	2017 Total REA	2016 Total REA
Internal models (VaR):				
Value-at-Risk (99%, 10 days)	-	2,560	2,560	2,780
Stressed Value-at-Risk (99%, 10 days)	-	12,690	12,690	11,851
Standardised approach:				
Debt instruments	5,651	1,414	7,065	7,536
Equities	1,945	178	2,123	2,766
Foreign exchange risk	-	-	-	-
Collective investment schemes	284	-	284	419
Settlement risk	-	-	2	85
Total REA for market risk	7,880	16,842	24,724	25,437

Liquidity risk

Nykredit's liquidity risk is the risk that Nykredit is unable to fulfil its financial obligations and meet regulatory requirements and rating criteria in the short, medium and long term. Liquidity risk is also the risk of a lack of funding preventing Nykredit from pursuing the adopted business model, or the risk that Nykredit's costs of raising liquidity become prohibitive.

Mortgage lending and the matching funding are regulated by the balance principle. This means that Nykredit incurs limited interest rate risk, foreign exchange risk and liquidity risk on mortgage lending and the underlying funding. Liquidity risk is further reduced by the Danish act regulating refinancing risk, under which the maturity of existing funding may be extended if refinancing is not possible.

The composition of liquidity and funding sources is affected by regulatory requirements and rating criteria. Nykredit thus has a focus on existing and future requirements, including ALAC, NSFR, debt buffer and Supervisory Diamond benchmarks.

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 (SDO) issuance, the liquidity requirement of the Danish Financial Business Act and credit rating agencies' criteria for maintaining the current high ratings.

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

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. Nykredit's Asset/Liability Committee oversees the liquidity of Group companies. The individual Group companies manage the day-to-day liquidity risk.

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

The liquidity contingency plan is considered and approved by the Board of Directors at least once a year.

Liquidity management guidelines

Based on Nykredit's liquidity policy and guidelines set out by the Board of Directors, the Executive Board has laid down limits for liquidity management.

Liquidity management can be divided as follows:

- intraday liquidity management ensuring that Nykredit fulfils its payment and settlement obligations in a timely manner in both normal and unexpected circumstances
- short- and medium-term liquidity management ensuring that Nykredit Realkredit and Totalkredit can meet financial obligations and regulatory requirements for a minimum period of six months in various stress scenarios, and that Nykredit Bank has an LCR >100% for at least three weeks and a positive liquidity balance for at least six months in various stress scenarios
- long-term liquidity management ensuring that Nykredit Realkredit and Totalkredit have sufficient liquidity to meet financial obligations and regulatory requirements for a minimum period of 12 months in an expected scenario, and that Nykredit Bank's funding need does not exceed DKK 15bn over the next three years.

Furthermore, limits have been laid down for the application and diversification of funding sources and for leverage, ensuring competitive funding and an appropriate leverage level.

The Boards of Directors of Nykredit Realkredit, Totalkredit and Nykredit Bank annually receive a report on the Internal Liquidity Adequacy Assessment Process (ILAAP), which describes the liquidity positions, liquidity management and funding profiles of the companies.

Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) is applied to assess Nykredit's short-term liquidity requirement. The LCR denotes the ratio between liquid assets and net cash outflows over a 30-day period.

Under the LCR rules, Nykredit must hold a large stock of liquid assets and, as a SIFI, fulfil an LCR of 100%. At end-2017, Nykredit's LCR was 383% and the excess liquidity coverage totalled DKK 72bn. The aggregate LCR for Nykredit's mortgage banks was 1,502%, while Nykredit Bank's LCR was 148%.

In 2016 the Danish FSA introduced a supplementary liquidity requirement stipulating that Danish SIFIs must fulfil the LCR requirement not only in DKK but also in significant currencies except for SEK and NOK. In Nykredit's case, the requirement only concerns EUR. The requirement was phased in by October 2017, and as of the beginning of Q4/2017, Nykredit must fulfil an LCR currency requirement in EUR of 100%. The requirement contributes to ensuring a suitable match between the currencies of liquid assets and cash flows. At end-2017, Nykredit's LCR in EUR was 326%.

S&P Global Ratings key ratios

S&P Global Ratings (S&P) applies short-term and long-term liquidity metrics. The short-term metric, BLAST, denotes the ratio between broad liquid assets and short-term wholesale funding with maturities below 1 year. The long-term metric, the Stable Funding Ratio (SFR), denotes the ratio between lending and stable funding with maturities over 1 year. The BLAST and SFR metrics both form part of S&P's overall credit rating of an institution. The higher the ratios, the better the credit quality assessment.

At end-2017 Nykredit's BLAST was 0.58, and the SFR was 90%. A BLAST of 1 and a SFR of 100% will have a neutral impact on S&P's analysis of the funding and liquidity of an institution. Where Nykredit is concerned the neutral level is lower due to the special funding structure that characterises the Danish mortgage lending model. S&P considers the current levels of BLAST and SFR as neutral in relation to Nykredit Realkredit's credit rating.

NOTES

Operational risk

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

Nykredit is continuously working to create a risk culture where the awareness of operational risk is a natural part of everyday work. The objective is to support and develop an organisation where mitigation and management of operational risks are an integral part of both the day-to-day operations and the long-term planning. Operational risk must be limited continually taking into consideration the costs involved.

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

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

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

In addition to the recording of operational risk events, Nykredit is continuously working on identifying significant operational risks. Operational risk mapping provides a valuable overview of particularly risky processes and systems at Nykredit and therefore constitutes a good management tool. The operational risks identified also form the basis of the Nykredit Realkredit Group's overall operational risk appetite.

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

Capital requirement for operational risk

Nykredit determines the capital requirement for operational risk using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings of the past three years. REA for operational risk was DKK 21.2bn throughout 2017.

NOTES

DKK million

Nykredit Realkredit Group

2017 2016

48. RISK MANAGEMENT (CONTINUED)

Credit risk

The Group's maximum credit exposure comprises selected balance sheet and off-balance sheet items.

Total credit exposure

Balance sheet items

	Net	Net
Demand deposits with central banks	1,877	1,974
Receivables from credit institutions and central banks	45,961	32,742
Loans, advances and other receivables at fair value	1,191,877	1,155,155
Loans, advances and other receivables at amortised cost	56,126	55,361
Bonds at fair value	97,149	111,981
Other assets	26,681	36,664

Off-balance sheet items

Contingent liabilities	7,055	6,694
Irrevocable credit commitments	6,617	5,130

Total	1,433,343	1,405,701
--------------	------------------	------------------

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 128. 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.

	2017				2016			
	Public sector	Personal customers	Business customers	Total	Public sector	Personal customers	Business customers	Total
Bank lending								
Unsecured lending	22	6,071	29,587	35,680	10	6,013	27,325	33,348
Lending secured by way of legal charge or other collateral security:								
Fully secured	541	2,496	33,702	36,739	411	2,697	35,778	38,886
Partially secured	153	4,331	8,736	13,220	25	4,108	11,264	15,397
Total lending before impairment	716	12,898	72,025	85,639	446	12,818	74,367	87,631

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 2017, Nykredit Bank operated below the limit values of the Danish FSA.

Supervisory Diamond benchmarks	Limit values	Nykredit Bank
Lending growth	< 20%	1.7%
Large exposures	< 125%	-
Property exposure	< 25%	11.6%
Funding ratio	< 1.00	0.5
Excess liquidity coverage	> 50%	275.2%

The Supervisory Diamond for mortgage lenders is described in the Management Commentary.

NOTES

DKK million

Nykredit Realkredit Group

48. 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.

Rating category	Owner-occupied dwellings	Private rental	Industry and trades	Office and retail	Agriculture	Public housing	Other	Total
10	58,457	14,010	4,498	10,161	2,170	3,440	140	92,877
9	92,978	7,576	7,627	12,231	6,058	4,347	1,261	132,079
8	171,511	12,907	2,562	22,684	9,034	26,281	6,620	251,598
7	141,449	28,680	2,728	32,708	11,713	25,224	4,233	246,735
6	91,072	28,310	1,129	15,819	14,365	3,622	1,456	155,773
5	43,467	12,172	464	5,479	11,623	425	568	74,197
4	33,543	8,870	672	3,179	11,046	196	171	57,677
3	20,547	5,420	266	6,095	6,520	196	291	39,335
2	23,952	946	147	606	8,610	21	25	34,307
1	18,474	658	89	432	1,673	19	87	21,433
0	3,946	1,031	226	1,819	3,484	168	88	10,763
Exposures in default	7,710	4,769	353	3,415	4,739	185	163	21,335
Total	707,107	125,350	20,762	114,628	91,037	64,124	15,102	1,138,109

Rating category	Owner-occupied dwellings	Private rental	Industry and trades	Office and retail	Agriculture	Public housing	Other	Total
10	51,959	10,420	1,667	9,512	2,071	3,345	118	79,092
9	83,365	7,971	9,973	13,152	6,211	5,406	3,078	129,155
8	162,561	12,986	2,927	23,078	8,804	29,159	5,820	245,335
7	143,328	24,027	3,284	22,901	11,078	22,898	4,981	232,497
6	95,422	24,283	1,031	18,870	14,602	3,219	1,219	158,645
5	42,746	12,456	475	6,743	11,308	373	475	74,576
4	32,238	9,579	215	3,146	11,765	268	268	57,481
3	18,115	6,079	492	5,140	6,707	251	104	36,888
2	23,020	835	258	755	8,281	27	43	33,220
1	18,661	802	77	602	1,752	26	38	21,959
0	4,055	1,299	152	2,329	5,112	188	78	13,213
Exposures in default	8,288	7,153	531	3,398	5,285	254	164	25,074
Total	683,759	117,892	21,082	109,625	92,976	65,415	16,386	1,107,135

The Group's mortgage lending is determined at nominal value. Mortgage lending is disclosed by rating category, reflecting the rating of individual customers defined as the probability of default. The rating categories range from 0 to 10, 10 being the highest rating.

Exposures in default: Comprises exposures subject to individual impairment provisioning and exposures in arrears 75 days past due for which individual impairment provisioning has not been deemed necessary.

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

NOTES

DKK million

Nykredit Realkredit Group

2017

48. 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.

Rating category	Manufacturing and construction	Credit and finance	Property management and trade	Transport, trade and accommodation	Other trade and public	Personal customers	Total
10	1,950	582	435	141	1,094	1,638	5,839
9	594	1,600	798	842	1,133	1,239	6,206
8	1,375	1,329	1,652	583	1,364	1,325	7,628
7	2,023	1,270	2,211	1,770	2,951	1,204	11,429
6	1,638	1,102	1,633	1,037	4,517	1,812	11,739
5	479	419	702	767	885	1,802	5,055
4	100	424	466	146	499	1,674	3,309
3	124	104	308	124	527	866	2,054
2	138	9	64	235	412	351	1,209
1	15	11	42	28	84	220	400
0	63	74	22	15	40	39	254
Exposures in default	529	105	912	308	458	639	2,951
Total	9,028	7,030	9,245	5,996	13,964	12,810	58,073

Bank lending by sector and rating category

Rating category	Manufacturing and construction	Credit and finance	Property management and trade	Transport, trade and accommodation	Other trade and public	Personal customers	Total
10	1,498	552	570	205	1,928	1,428	6,181
9	1,075	944	1,109	168	435	961	4,691
8	561	1,101	1,502	1,552	2,177	1,358	8,251
7	3,149	260	1,921	1,478	2,645	1,489	10,942
6	1,043	814	1,889	491	1,429	1,440	7,106
5	247	173	545	438	621	1,825	3,849
4	293	127	651	139	668	1,950	3,829
3	2,097	172	582	1,217	2,465	846	7,378
2	349	14	32	28	163	407	992
1	14	10	64	50	75	244	457
0	57	34	34	25	50	62	262
Exposures in default	557	180	1,407	306	434	717	3,601
Total	10,938	4,382	10,306	6,096	13,092	12,727	57,541

Rating categories comprise Nykredit Bank A/S's loans, advances and receivables at amortised cost determined before impairments.

Bank lending is disclosed by rating category, reflecting the rating of individual customers defined as the probability of default. The rating categories range from 0 to 10, 10 being the highest rating.

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

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

NOTES

DKK million

Nykredit Realkredit Group

49. 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 accounting purposes	Nominal/amortised value	Carrying amount	Fair value adjustment for accounting purposes
2017						
Assets						
Loans and advances	-	-	-	702	712	(11)
Liabilities						
Deposits and other payables	-	-	-	1,507	1,550	(43)
Bonds in issue	17,124	17,049	75	19,321	19,307	14
Subordinated debt	10,756	10,942	(187)	10,756	10,942	(187)
Derivative financial instruments						
Interest rate swaps, loans and advances as well as deposits and other payables (net)	-	-	-	2,877	16	16
Interest rate swaps, bonds in issue	17,124	(51)	(51)	19,486	18	18
Interest rate swaps, subordinated debt	10,795	186	186	10,795	186	186
Credit derivatives, deposits and other payables	-	-	-	60	17	17
Equity derivatives, deposits and other payables	-	-	-	442	0	0
Gain/loss for the year on hedging instruments		(5)			(196)	
Gain/loss for the year on hedged items		5			196	
Net gain/loss		-			-	

2016						
Assets						
Loans and advances	-	-	-	912	928	(16)
Liabilities						
Deposits and other payables	-	-	-	2,455	2,646	(191)
Bonds in issue	11,151	11,126	25	13,478	13,562	(84)
Subordinated debt	10,737	11,078	(341)	10,737	11,078	(341)
Derivative financial instruments						
Interest rate swaps, loans and advances as well as deposits and other payables (net)	-	-	-	4,110	16	16
Interest rate swaps, bonds in issue	11,151	1	1	13,635	12	12
Interest rate swaps, subordinated debt	10,780	341	341	10,780	341	341
Credit derivatives, deposits and other payables	-	-	-	153	11	11
Equity derivatives, deposits and other payables	-	-	-	999	146	146
Gain/loss for the year on hedging instruments		(1)			106	
Gain/loss for the year on hedged items		1			(87)	
Net gain/loss		-			19	

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 the expected interest rate development.

Hedging is performed by defining a portfolio of loans, advances, deposits and other payables of a uniform risk level, which is subsequently hedged using derivative financial instruments.

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

NOTES

DKK million

Nykredit Realkredit A/S		Nykredit Realkredit Group		
2016	2017	2017	2016	
50. CURRENCY EXPOSURE				
By main currency, net				
2	197	USD	195	12
1	1	GBP	(0)	1
1	(5)	SEK	6	4
2	0	NOK	2	3
3	0	CHF	1	3
0	0	CAD	(1)	(0)
0	(93)	JPY	(93)	(0)
57	34	EUR	(34)	207
8	8	Other	11	13
73	141	Total	85	242
73	239	Exchange Rate Indicator 1	215	243

Exchange Rate Indicator 1 is determined as the sum of the highest numerical value of assets (long position) or net payables. Exchange Rate Indicator 1 shows the overall foreign exchange risk.

Nykredit Realkredit Group

51. OTHER INFORMATION

Events since the balance sheet date

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

Profit and equity restated to Danish 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 FSA's Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. However, the Executive Order does not include the option to classify financial assets 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" and "Other comprehensive income", cf below:

	Profit		Other comprehensive income		Equity	
	2017	2016	2017	2016	2017	2016
Group reporting pursuant to the IFRS	8,080	5,329	(5)	343	78,847	70,957
Value adjustment of equities available for sale	(6)	331	6	(331)	-	-
Group reporting subject to Danish FSA requirements	8,074	5,660	1	12	78,847	70,957

"Value adjustment of equities available for sale" (strategic equities) comprises fair value adjustment, realised value adjustments reclassified to the income statement as well as the tax effect of the fair value adjustment.

52. TRANSITION TO IFRS 9

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

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

Impairment of mortgage lending measured at fair value is not covered by IFRS 9. Consequently, value adjustment of financial assets measured at fair value is still determined within the framework of the provisions set out in IFRS 13, which remain unchanged, and the Danish Executive Order on Financial Reports.

In accordance with amendments to the Danish Executive Order on Financial Reports issued by the Danish FSA, in future, Nykredit will continue to record impairments of mortgage lending applying the same principles as are used for impairment of loans and advances at amortised cost (cf IFRS 9) and within the framework of IFRS 13. Therefore, in the Financial Statements for 2017, Nykredit has made a new accounting estimate of the impairment impact on mortgage lending and has recognised the impact through profit or loss for the year. As this is an accounting estimate and not a change in accounting policies, the amount has been charged to the income statement. The impact on Nykredit's impairments totals DKK 1.0bn which has been charged to the income statement. The earnings impact after tax totals DKK 0.8bn.

By contrast, changed principles for impairment of loans and advances measured at amortised cost are governed by IFRS 9, and this constitutes a change of policy, which is recognised directly in equity at 1 January 2018.

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

Under the reporting provisions and guidelines issued by the Danish FSA, value adjustment of the credit risk element (impairment) on loans and advances measured at fair value (for instance, mortgage loans) within the framework of IFRS 13 can be made according to the same principles as in IFRS 9 even though value adjustment of loans and advances measured at fair value is not governed by IFRS 9. The impairment principles have thus been harmonised, which is also the case today where the principles of IAS 39, to a large extent, form the basis of the impairment of loans and advances measured at fair value. Accordingly, the Danish FSA has issued new guidelines on impairment for credit losses on loans and advances measured at fair value.

For Nykredit, an important feature of IFRS 9 and the Danish Executive Order on Financial Reports, is the new principles for calculating impairment of financial assets, and guarantees and loan commitments, where a loan facility is measured at amortised cost, including unutilised credit facilities.

The impact of the changed impairment of guarantees, loan commitments as well as loans and advances measured at amortised cost was DKK 0.6bn and approx DKK 0.5bn after tax at 1 January 2018. This impact is recognised directly in equity at 1 January 2018.

Overall, the addition of new impairment charges for loans and advances at amortised cost as well as loans and advances at fair value amounted to approx DKK 1.6bn, and the loan portfolio has been reduced by a corresponding amount.

Some adjustments are still pending, but the final impact, which will be included in the Q1/2018 Financial Statements, is not expected to differ significantly.

The increased impairment provisions can be ascribed to loans and advances of

- Nykredit Realkredit A/S	DKK 478m
- Totalkredit A/S	DKK 561m
- Total mortgage lending	DKK 1,039m
- Nykredit Bank A/S	DKK 600m
- Total	DKK 1,639m

Of which, DKK 1,039m is recognised in the Annual Report for 2017.

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

According to IFRS 9, measurement must be based on a principle of expected credit losses whereas the method of the current IAS 39 is based on objective evidence of impairment (OEI) and losses incurred.

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

Compared with the current standard, IFRS 9 implies earlier recognition of impairment of loans and advances, as impairment must be recognised for 12-month expected credit losses already on initial recognition. For loans and advances measured at fair value, initial impairment is expected to be nil, as the value of the loan at the time of recognition is based on fair value. If there is a non-significant risk increase on stage 1 loans subsequently, impairments will increase.

If the credit risk subsequently increases significantly, expected credit losses on the asset/loan for the entire lifetime of the asset/loan must be recognised. The standard thus implies earlier recognition of impairment than previously and consequently higher total impairments at the time of implementation. Group Credits, which reports to a steering group, is responsible for these processes and calculations. The Group's Capital, Risk and Finance units participate in the determination of expected credit losses as stakeholders coordinating and performing the determination and presentation of impairment provisions for accounting purposes. The procedures and calculations are widely based on the Group's current risk models.

The size of both the 12-month expected credit losses as well as the expected credit losses for the entire lifetime of the asset/loan will be calculated based on models already applied as part of Nykredit's daily risk management. Impairments will thus reflect the Probability of Default (PD) and Loss Given Default (LGD).

Classification and measurement

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

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

52. TRANSITION TO IFRS 9 (CONTINUED)

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

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

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

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

Thus mortgage lending and the underlying bonds in issue are still measured at fair value, while bank loans and deposits are essentially still measured at amortised cost.

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

Repo lending – from fair value to amortised cost:

Nykredit Realkredit A/S: DKK 5.0bn

Nykredit Realkredit Group: DKK 31.7bn

Repo deposits – from fair value to amortised cost:

Nykredit Realkredit A/S: DKK 4.9bn

Nykredit Realkredit Group: DKK 22.3bn

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

Generally, financial liabilities should be measured at amortised cost after initial recognition. However, financial liabilities, which are issued with a view to funding mortgage lending, are measured at fair value through profit or loss, and this aligns with current practice.

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

Changes in value attributable to own credit risk must in some cases be recognised in other comprehensive income. This applies to eg changes in value relating to financial liabilities measured at fair value using the fair value option. Thus, recognition in other comprehensive income does not apply if this leads to or amplifies a mismatch in the income statement, which is the case for issues funding mortgage loans.

Derivative financial instruments (derivatives), which are assets or liabilities, are measured at fair value through profit or loss, and this is unchanged compared with current practice. In Nykredit, hedging interest rate risk (hedge accounting) is still made according to the IAS 39 rules, among other things, due to the fact that IFRS 9 does not yet comprise provisions on macro hedging.

Financial assets attributable to a business model where Nykredit intends to collect their contractual cash flows until maturity are measured at amortised cost. Nykredit's bank lending widely meets these criteria, as the actual sale of loans and advances only takes place in a few cases and only within a few product groups. Future measurement will thus essentially correspond to the current practice and mainly includes the financial assets which today are measured at amortised cost.

Mortgage loans are still measured at fair value. The same applies to the liabilities that are issued for the purpose of funding these loans. Generally, mortgage loans are not transferred during their term, and the business model is based on maintaining the portfolio in order to collect the cash flows. However, both IFRS 9 (B4.1.30.c) and IAS 39 allow measurement at fair value through profit or loss. Mortgage loans granted in accordance with Danish mortgage legislation are funded by issuing listed covered bonds of uniform terms. Such mortgage loans may be prepaid by delivering the underlying bonds, and the Group buys and sells self-issued covered bonds on a continuing basis as they constitute a significant part of the Danish money market.

If mortgage loans and covered bonds in issue are measured at amortised cost, the purchase and sale of self-issued covered bonds would lead to timing differences between the recognition of gains and losses in the Financial Statements. Thus, the purchase price of the portfolio would not equal the amortised cost of the bonds in issue. If the portfolio of self-issued covered bonds is subsequently sold, the new amortised cost of the "new issue" would not correspond to the amortised cost of the matching mortgage loans, and the difference would be amortised over the remaining term-to-maturity.

In order to avoid the consequently inconsistent earnings impact, 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.

52. TRANSITION TO IFRS 9 (CONTINUED)

Other financial assets, including securities in the form of bonds and equities, will be measured at fair value through profit or loss after initial recognition. In relation to the bond portfolio, this should in Nykredit's assessment not be ascribed to the two business models that form the basis for measurement at amortised cost or measurement at fair value with recognition of changes in value in other comprehensive income. The reason for this is that the portfolio is not held to collect cash flows in the form of interest and principal payments, but that the collection of cash flows is merely a secondary function.

So far the Nykredit Group has held a portfolio of strategic equities where value adjustments have been recognised in other comprehensive income. From 1 January 2018, changes in value will be recognised in line with other equities and be included in "Equities measured at fair value through profit or loss". The portfolio came to approx DKK 2.5bn as at 31 December 2017.

Capital

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

Impairment provisions

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

Stage 1 covers loans and advances without significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the expected credit losses over a period of 12 months for lending at amortised cost. For loans and advances measured at fair value, initial impairment is expected to be nil, as the value of the loan at the time of recognition is based on the fair value. Subsequently, the impairments will be increased equal to 12 months' expected credit losses based on analysis of the distribution of credit losses throughout the useful life of the loans.

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

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

Nykredit's impairment calculations are based on further development of existing methods and models for impairment, taking into account forward-looking information and scenarios as well as risk premiums for loans and advances at fair value, of the rules of the Danish FSA.

The classification of customers into stages 1, 2 and 3 follows the standard definitions of the Danish FSA based on short- and long-term Probability of Default (PD). The definition of default has not been changed and will continue being dictated by the customer's circumstances and payment behaviour (90 days past due).

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

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

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

NOTES

53. FINANCIAL RATIOS, DEFINITIONS

Financial ratios

Financial ratios	Definition
Return on equity before tax, %	The sum of profit (loss) before tax 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 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 including Additional Tier 1 capital less deductions at year-end.
Loans and advances:equity (loan gearing)	The sum of loans and advances at fair value and loans and advances at amortised cost divided by equity at year-end.
Growth in loans and advances for the year, %	Loans and advances at nominal value at year-end divided by loans and advances at nominal value at the beginning of the year.
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 charges for the year, %	Provisions for loan impairment and guarantees for the year divided by the sum of loans and advances at fair value, arrears and outlays, loans and advances at amortised cost, guarantees and 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 – capital and capital adequacy

Financial ratios – capital and capital adequacy	Definition
Total capital ratio, %	Own funds divided by the risk exposure amount.
Tier 1 capital ratio, %	Tier 1 capital (including Additional Tier 1 capital) divided by the risk exposure amount.
Common Equity Tier 1 capital ratio, %	Common Equity Tier 1 capital (less Additional Tier 1 capital) divided by the risk exposure amount.

Financial ratios are based on the Danish FSA's definitions and guidelines.

Other financial ratios on page 5 and in note 3

Other financial ratios on page 5 and in note 3	Definition
Profit (loss) for the year as % of business capital (ROAC) (return on allocated capital)	Profit (loss) for the year relative to business capital. Profit (loss) corresponds to net profit or loss less interest expenses for AT1 capital, which is treated as dividend in the Financial Statements. Business capital corresponds to a capital target of 16% of the risk exposure amount.
Profit (loss) for the year as % pa of average equity*	Profit for the year less interest expenses for AT1 capital/average equity excluding AT1 capital.
Costs as % of income	Costs divided by income
Business profit as % pa of average equity*	Business profit divided by average equity

* Equity is calculated as a five-quarter average.

NOTES

DKK million

Nykredit Realkredit Group	2017	2016	2015	2014	2013
54. FIVE-YEAR FINANCIAL HIGHLIGHTS					
SUMMARY INCOME STATEMENT					
Net interest income	11,485	11,470	11,877	11,353	10,325
Net fee income	(99)	(188)	(94)	133	15
Net interest and fee income	11,386	11,281	11,783	11,486	10,340
Value adjustments	3,620	775	652	(3,557)	150
Other operating income	501	589	194	185	210
Staff and administrative expenses	4,533	4,796	4,658	4,715	5,004
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	248	185	2,185	1,087	896
Other operating expenses	196	285	188	154	225
Impairment charges for loans, advances and receivables	379	680	920	2,351	2,764
Profit from investments in associates and Group enterprises	21	8	8	6	103
Profit (loss) before tax	10,170	6,708	4,685	(186)	1,914
Tax	2,091	1,378	1,494	90	240
Profit (loss) for the year	8,080	5,329	3,191	(276)	1,674
Value adjustment and reclassification of strategic equities against equity	(6)	331	7	238	(343)
SUMMARY BALANCE SHEET, YEAR-END					
	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Assets					
Cash balances and receivables from credit institutions and central banks	48,031	34,829	23,253	42,288	35,758
Mortgage loans at fair value	1,163,879	1,124,693	1,119,101	1,137,099	1,136,644
Bank loans excluding reverse repurchase lending	55,783	55,003	46,747	50,494	46,963
Bonds and equities	102,125	116,555	110,294	131,383	92,961
Remaining assets	56,992	69,525	84,394	96,037	105,087
Total assets	1,426,810	1,400,606	1,383,789	1,457,301	1,417,414
Liabilities and equity					
Payables to credit institutions and central banks	13,319	21,681	30,226	44,863	44,393
Deposits and other payables	75,914	65,415	62,599	65,232	65,172
Bonds in issue at fair value	1,179,093	1,152,383	1,137,314	1,167,163	1,130,020
Subordinated debt	10,942	11,078	11,006	11,394	10,964
Remaining liabilities	68,695	79,092	77,184	109,998	108,148
Equity	78,847	70,957	65,460	58,650	58,716
Total liabilities and equity	1,426,810	1,400,606	1,383,789	1,457,301	1,417,414
OFF-BALANCE SHEET ITEMS					
Contingent liabilities	7,055	6,694	6,942	7,546	6,311
Other commitments	8,443	6,934	6,637	5,843	7,925
FINANCIAL RATIOS¹					
Total capital ratio, %	25.3	23.0	23.9	18.2	18.9
Tier 1 capital ratio, %	21.7	19.9	20.5	17.2	18.9
Return on equity before tax, %	13.6	10.3	7.6	0.1	2.8
Return on equity after tax, %	10.8	8.3	5.2	(0.1)	2.3
Income:cost ratio	2.90	2.13	1.59	1.01	1.18
Foreign exchange position, %	0.3	0.3	0.4	0.4	1.6
Loans and advances:equity (loan gearing)	15.8	17.1	18.4	20.9	21.1
Growth in loans and advances for the year, %	2.4	(0.7)	0.2	(2.1)	2.5
Total impairment provisions, %	0.63	0.68	0.71	0.74	0.67
Impairment charges for the year, %	0.03	0.06	0.08	0.19	0.22
Return on capital employed, %	0.57	0.38	0.23	(0.02)	0.12

¹ Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 53.

NOTES

DKK million

Nykredit Realkredit A/S	2017	2016	2015	2014	2013
54. FIVE-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)					
SUMMARY INCOME STATEMENT					
Net interest income	4,209	4,579	5,017	4,449	4,415
Net fee income	626	844	901	780	793
Net interest and fee income	4,835	5,423	5,918	5,229	5,208
Value adjustments	961	919	(235)	359	779
Other operating income	952	1,054	816	747	734
Staff and administrative expenses	2,773	3,155	3,078	3,128	3,296
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	227	163	2,134	1,026	835
Other operating expenses	166	231	122	55	103
Impairment charges for loans, advances and receivables	(164)	770	586	1,723	1,837
Profit (loss) from investments in associates	5,076	3,181	3,165	(225)	738
Profit before tax	8,822	6,257	3,744	177	1,389
Tax	749	597	547	215	58
Profit (loss) for the year	8,074	5,660	3,198	(38)	1,331
SUMMARY BALANCE SHEET, YEAR-END					
	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Assets					
Cash balances and receivables from credit institutions and central banks	55,198	31,833	18,561	29,797	25,498
Mortgage loans at fair value	519,721	524,984	549,618	582,417	597,200
Totalkredit mortgage loan funding	688,444	635,985	593,377	590,579	538,541
Bonds and equities	43,149	48,342	59,786	50,814	29,439
Remaining assets	60,779	64,410	61,116	68,458	77,043
Total assets	1,367,291	1,305,554	1,282,458	1,322,066	1,267,720
Liabilities and equity					
Payables to credit institutions and central banks	5,353	18,054	17,724	22,811	12,668
Bonds in issue	1,235,565	1,181,335	1,169,616	1,204,487	1,160,447
Subordinated debt	10,942	11,078	10,907	11,350	10,734
Remaining liabilities	36,583	24,133	18,750	24,767	25,155
Equity	78,847	70,954	65,460	58,650	58,716
Total liabilities and equity	1,367,291	1,305,554	1,282,458	1,322,066	1,267,720
OFF-BALANCE SHEET ITEMS					
Other commitments	1,596	1,537	1,197	1,121	1,208
FINANCIAL RATIOS¹					
Total capital ratio, %	20.5	20.7	20.1	17.2	17.0
Tier 1 capital ratio, %	17.9	18.0	17.3	16.2	17.0
Return on equity before tax, %	11.8	9.2	6.0	0.3	2.4
Return on equity after tax, %	10.8	8.3	5.2	(0.1)	2.3
Income:cost ratio	3.94	2.45	1.63	1.03	1.23
Foreign exchange position, %	0.3	0.1	0.1	0.2	1.3
Loans and advances:equity (loan gearing)	6.6	7.4	8.4	9.9	10.2
Growth in loans and advances for the year, %	(1.5)	(5.2)	(4.7)	(3.0)	(1.9)
Total impairment provisions, %	0.76	0.87	0.78	0.73	0.53
Impairment charges for the year, %	(0.03)	0.15	0.11	0.29	0.31
Return on capital employed, %	0.59	0.43	0.25	0.00	0.11

¹ Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 53.

NOTES

DKK million

Nykredit Realkredit Group

55. GROUP STRUCTURE

Name and registered office	Ownership interest as % 31 December 2017	Profit (loss) for 2017	Equity, 31 December 2017	Number of staff in 2017	Profit (loss) for 2016	Equity, 31 December 2016	Number of staff in 2016
Nykredit Realkredit A/S (Parent), Copenhagen, a)	-	8,074	78,847	2,526	5,660	70,954	2,674
Totalkredit A/S, Copenhagen, a)	100	1,752	26,300	116	2,058	24,674	132
Nykredit Bank A/S, Copenhagen, b)	100	3,133	19,877	658	627	16,744	641
Nykredit Portefølje Administration A/S, Copenhagen, g)	100	136	725	109	106	588	108
Nykredit Leasing A/S, Gladsaxe, e)	100	78	671	55	71	593	51
Nykredit Mægler A/S, Copenhagen, c)	100	110	137	37	64	138	40
Nykredit Ejendomme A/S, Copenhagen, d)	100	65	512	2	543	1,055	2
Ejendomsselskabet Kalvebod A/S, Copenhagen, h)	100	(3)	231	-	24	234	-
Kalvebod Ejendomme I A/S, Copenhagen, d)	100	(6)	112	-	(0)	118	-
Kalvebod Ejendomme II A/S, Copenhagen, d)	100	3	115	-	24	112	-
Nykredit Adm. V A/S, Copenhagen, f)	100	(0)	1	-	-	1	-

The Group structure only includes significant subsidiaries. Financial information is provided in such order as the subsidiaries are recognised in the Consolidated Financial Statements.

All banks and mortgage providers subject to national financial supervisory authorities must comply with the statutory capital requirements. The capital requirements may limit intercompany facilities and dividend payments.

	Number of staff	Revenue ²	Profit before tax	Tax	Government aid received
Geographical distribution of activities					
Denmark: Names and activities appear from the Group structure above	3,493	30,450	10,369	2,091	-
Poland: Nykredit Realkredit A/S S.A. Oddział w Polsce, branch, a)	12	10	(199)	-	-
Sweden: Nykredit Bank A/S, branch, b) ¹	-	-	-	-	-

¹ The branch in Sweden ceased its activities in January 2015 and was wound up entirely at end-2017.

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

- a) Mortgage bank
- b) Bank
- c) Estate agency business
- d) Property company
- e) Leasing business
- f) No activity
- g) Investment management company
- h) Holding company, no independent activities

Nykredit Realkredit A/S is wholly owned by and consolidated with Nykredit A/S, which is consolidated with Forenet Kredit. The financial statements of Forenet Kredit (in Danish) and Nykredit A/S are available from:

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

Nykredit Realkredit Group

55. GROUP STRUCTURE (CONTINUED)

Name and registered office	Ownership interest as %, 31 December 2016	Revenue 2016	Profit (loss) for 2016	Assets, 31 December 2016	Liabilities, 31 December 2016	Equity, 31 December 2016	Nykredit's share of, profit (loss) for 2016	Nykredit's share of, equity value, 31 December 2016	Profit for 2015	Equity, 31 December 2015
Associates¹										
Bolighed A/S, a)	50	23	(1)	9	-	6	-	3	1	7
Boligsiden A/S, Copenhagen, a)	23	-	2	15	-	12	-	3	2	10
Komplementarselskabet Core Property Management A/S, Copenhagen, c)	20	69	15	34	1	29	3	6	12	27
Core Property Management P/S, Copenhagen, a)	20	-	-	-	-	-	-	-	-	-
E-nettet A/S, Copenhagen, b)	17	164	5	156	58	83	1	14	7	78
JSNA Holding A/S under frivillig likvidation, Aalborg, c) ³	33	-	-	6	-	6	-	2	3	6
Joint venture										
JN Data A/S, Silkeborg, b) ³	50	1,956	7	846	1,062	214	-	-	6	207

¹ Recognised on the basis of the latest annual reports or interim reports as at 30 September if annual reports are not available.

² Supplementary accounting figures for JN Data A/S appear on the next page (note 55).

³ JSNA Holding A/S was dissolved after liquidation.

Nykredit holds less than 20% of the shares in E-nettet A/S, but still exercises significant influence over the financial and operational conditions of the company as it has a representative on the board of directors. Consequently, for accounting purposes the shareholding is treated as an associate.

a) Property company

b) IT provider

c) Investment company

NOTES

DKK million

Nykredit Realkredit Group

55. GROUP STRUCTURE (CONTINUED)

Joint venture¹

	2016	2015
Dividend received	-	-

Statement of income and comprehensive income

Revenue	1,956	1,944
Costs	1,763	1,745
Depreciation, amortisation and impairment charges	179	190
Financial income	-	-
Financial costs	6	3
Tax on profit (loss) for the year	1	1
Profit for the year	7	5

Balance sheet

Intangible assets	304	277
Property, plant and equipment	45	44
Investments	-	-
Cash and cash equivalents	32	57
Other current assets	465	389
Total assets	846	767

Equity	214	207
Long-term liabilities	355	282
Short-term liabilities	277	278
Total liabilities and equity	846	767

¹ Joint venture comprises only JN DATA A/S.

The Group's strategy covers strategic partnerships in key areas, including IT operations through JN Data. Nykredit Realkredit A/S and Jyske Bank A/S each hold 50% of and jointly operate JN Data A/S, and it is thus considered a jointly controlled entity.

MANAGEMENT COMMENTARY (CONTINUED)

DKK million

Nykredit Realkredit Group	FY/ 2017	FY/ 2016	Q4/ 2017	Q3/ 2017	Q2/ 2017	Q1/ 2017	Q4/ 2016
FIVE-QUARTER FINANCIAL HIGHLIGHTS							
Business profit and profit for the period							
Net interest income	9,006	8,747	2,232	2,276	2,259	2,239	2,272
Net fee income	2,470	2,251	664	640	584	582	618
Wealth management income	1,402	1,184	355	356	349	342	328
Net interest from capitalisation	(360)	(448)	(87)	(70)	(97)	(107)	(85)
Trading, investment portfolio and other income	1,492	1,676	(202)	425	516	752	654
Income	14,010	13,410	2,961	3,628	3,612	3,808	3,788
Operating costs, depreciation and amortisation	4,977	5,260	1,431	1,180	1,188	1,178	1,577
Business profit before impairment charges	9,033	8,151	1,531	2,448	2,424	2,630	2,211
Impairment charges for loans and advances	379	680	930	(102)	(427)	(21)	295
Business profit	8,653	7,471	601	2,551	2,851	2,651	1,916
Legacy derivatives	1,517	(763)	29	122	1,029	337	422
Profit before tax	10,170	6,708	630	2,673	3,880	2,988	2,338
Tax	2,091	1,378	145	509	797	639	471
Profit for the period	8,364	5,329	485	2,164	3,083	2,349	1,866
SUMMARY BALANCE SHEET							
	31.12.2017	31.12.2016	31.12.2017	30.09.2017	30.06.2017	31.03.2017	31.12.2016
Assets							
Cash balances and receivables from credit institutions and central banks	48,031	34,829	48,031	40,064	33,704	40,240	34,829
Mortgage loans at fair value	1,163,879	1,124,693	1,163,879	1,155,047	1,140,548	1,133,497	1,124,693
Bank loans excluding reverse repurchase lending	55,783	55,003	55,783	57,270	57,544	56,256	55,003
Bonds and equities	102,125	116,555	102,125	95,531	95,088	103,043	116,555
Remaining assets	56,992	69,525	56,992	51,638	52,815	57,180	69,525
Total assets	1,426,810	1,400,606	1,426,810	1,399,550	1,379,698	1,390,216	1,400,606
Liabilities and equity							
Payables to credit institutions and central banks	13,319	21,681	13,319	13,233	14,420	17,885	21,681
Deposits and other payables	75,914	65,415	75,914	69,001	69,442	67,733	65,415
Bonds in issue at fair value	1,179,093	1,152,383	1,179,093	1,161,855	1,140,474	1,146,919	1,152,383
Subordinated debt	10,942	11,078	10,942	10,985	10,956	11,010	11,078
Remaining liabilities	68,695	79,092	68,695	65,951	67,998	73,372	79,092
Equity	78,847	70,957	78,847	78,525	76,407	73,297	70,957
Total liabilities and equity	1,426,810	1,400,606	1,426,810	1,399,550	1,379,698	1,390,216	1,400,606

¹ The quarterly financial highlights have not been audited.

MANAGEMENT COMMENTARY (CONTINUED)

SERIES FINANCIAL STATEMENTS

Pursuant to the Danish FSA Executive Order no 872 of 20 November 1995 on series financial statements of mortgage banks, mortgage banks are required to prepare separate series financial statements for series with series reserve funds, cf section 25(1) of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act.

The Series Financial Statements have been prepared on the basis of the Financial Statements 2017 of Nykredit Realkredit A/S.

The distribution of profit for 2017 adopted by Nykredit Realkredit A/S's Board of Directors (cf the Annual Report, page 50) has been included in the Series Financial Statements. The series' calculated share of profit for the year of Nykredit Realkredit A/S determined in accordance with the Executive Order has been taken to the general reserves of Nykredit Realkredit A/S.

The Series Financial Statements have been printed at association level, cf section 30(3) of the Executive Order.

Complete Series Financial Statements may be obtained from Nykredit Realkredit A/S.

MANAGEMENT COMMENTARY (CONTINUED)

DKK million

Nykredit Realkredit A/S

Summary series financial statements at the level of the association and Nykredit Realkredit In General

2017	1	2	3	4	5	6	7
	KØK	FSK	LCR	HUM	BHY	SKRF	VESØ
Income statement							
Income from lending	0.5	0.5	0.1	0.0	0.1	0.1	0.1
Interest, net	1.7	0.6	0.4	1.5	0.2	0.2	0.3
Administrative expenses	(0.5)	(0.2)	(0.1)	(0.4)	0.0	0.0	(0.1)
Impairment charges for loans and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(0.4)	(0.2)	(0.1)	(0.2)	(0.1)	(0.1)	(0.1)
Profit	1.3	0.7	0.3	0.9	0.2	0.2	0.2
Balance sheet							
Assets							
Mortgage loans	135.5	145.2	11.7	10.7	1.4	7.7	8.7
Remaining assets	36.5	11.3	6.4	19.7	3.9	3.7	5.5
Total assets	172.0	156.5	18.1	30.4	5.3	11.4	14.2
Liabilities and equity							
Bonds in issue	146.1	146.0	13.0	12.2	3.7	8.7	10.2
Remaining liabilities	6.0	5.7	0.6	1.1	0.2	0.5	0.5
Equity	19.9	4.8	4.5	17.1	1.4	2.2	3.5
Total liabilities and equity	172.0	156.5	18.1	30.4	5.3	11.4	14.2
Movements in capital, net	(0.5)	(2.2)	(0.1)	-	(0.5)	(0.3)	(0.7)
2017	8	9	10	11	12 Total		
	HUSM	LHYP	KHYP	JLKR	(1-11)		
Income statement							
Income from lending	0.0	0.0	0.0	0.0	1.4		
Interest, net	0.2	0.3	0.1	0.2	5.7		
Administrative expenses	(0.1)	(0.1)	0.0	(0.1)	(1.6)		
Impairment charges for loans and advances	0.0	0.0	0.0	0.0	0.0		
Tax	0.0	0.0	0.0	0.0	(1.2)		
Profit	0.1	0.2	0.1	0.1	4.3		
Balance sheet							
Assets							
Mortgage loans	3.7	0.4	0.7	5.8	331.5		
Remaining assets	3.4	3.5	1.5	3.3	98.7		
Total assets	7.1	3.9	2.2	9.1	430.2		
Liabilities and equity							
Bonds in issue	4.1	0.8	1.5	7.2	353.5		
Remaining liabilities	0.2	0.1	0.1	0.3	15.3		
Equity	2.8	3.0	0.6	1.6	61.4		
Total liabilities and equity	7.1	3.9	2.2	9.1	430.2		
Movements in capital, net	0.0	(0.3)	(0.4)	(0.3)	0.0		

MANAGEMENT COMMENTARY (CONTINUED)

DKK million

Nykredit Realkredit A/S

Summary series financial statements at the level of the association and Nykredit Realkredit In General

2017	13	14	15	16 Total	17	18 Total
	FK	JK	NYK	(13-15)	INST	(12,16,17)
Income statement						
Income from lending	0.0	0.0	4,063	4,063	0	4,064
Interest, net	0.0	0.0	3,599	3,599	2,775	6,380
Administrative expenses	0.0	0.0	(1,008)	(1,008)	(777)	(1,786)
Impairment charges for loans and advances	0.0	0.0	59	59	105	164
Tax	0.0	0.0	(1,477)	(1,477)	729	(749)
Profit	0.0	0.0	5,236	5,236	2,833	8,074
Balance sheet						
Assets						
Mortgage loans	0.1	0.2	520,393	520,394	1	520,726
Remaining assets	0.2	0.1	869,480	869,481	38,385	907,965
Total assets	0.3	0.3	1,389,874	1,389,874	38,386	1,428,690
Liabilities and equity						
Bonds in issue	0.3	0.3	1,303,144	1,303,144	0	1,303,498
Remaining liabilities	0.0	0.0	48,700	48,700	1,345	50,060
Equity	0.0	0.0	38,030	38,030	37,041	75,133
Total liabilities and equity	0.3	0.3	1,389,874	1,389,874	38,386	1,428,690
Movements in capital, net	-	-	2,842	-	5,048	-

1 Københavns Kreditforening
 2 Fyens Stifts Kreditforening
 3 Landkreditkassen
 4 Østifternes Husmandskreditforening
 5 Byernes Hypotekforening
 6 Sønderjyllands Kreditforening

7 Den vest- og sønderjydske Kreditforening
 8 Jydsk Husmandskreditforening
 9 Landhypotekforeningen for Danmark
 10 Købstadshypotekforeningen
 11 Jydsk Landkreditforening
 12 Total (1-11) Associations before 1972

13 Forenede Kreditforeninger
 14 Jyllands Kreditforening
 15 Nykredit (incl Capital Centres C, D, E, G, H and I)
 16 Total (13-15) Associations before 1972
 17 Nykredit Realkredit In General
 18 Total (12, 16, 17) Nykredit Realkredit A/S

Notes

1. Assets, Series Financial Statements

Assets in Nykredit Realkredit A/S's Financial Statements, end-2016

Assets, Series Financial Statements

1,367,291

1,428,690

Difference

(61,400)

Specified as follows:

Set-off of self-issued ROs, self-issued SDOs, self-issued senior secured debt and self-issued other securities

(61,014)

Set-off of interest receivable from self-issued bonds

(386)

Total

(61,400)

2. Equity, Series Financial Statements

Equity in Nykredit Realkredit A/S's Financial Statements, end-2016

Of which holders of Additional Tier 1 capital

Provisions for repayable reserves in pre-1972 series

78,847

(3,765)

51

Equity, Series Financial Statements

75,133

MANAGEMENT COMMENTARY (CONTINUED)

FINANCIAL CALENDAR FOR 2018

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

MANAGEMENT COMMENTARY (CONTINUED)

DIRECTORSHIPS AND EXECUTIVE POSITIONS

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

BOARD OF DIRECTORS

The Board of Directors meets monthly, except in July, and holds a strategy seminar once a year.

The Board members are elected for a term of one year. The latest election took place on 16 March 2017. 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 Nykredit A/S.

Steffen Kragh, Chairman

Chief Executive Officer

Date of birth: 6 April 1964
Joined the Board on 28 March 2006
Independent director

Chief Executive Officer of:
Egmont Fonden
Egmont International Holding A/S

Chairman of:
Nykredit A/S
Cappelen Damm Holding AS
Egmont Administration A/S
Egmont Finansiering A/S
Egmont Holding Limited
Egmont Investering A/S*
Lindhardt og Ringhof Forlag A/S
Nordisk Film A/S

Deputy Chairman of:
Lundbeckfonden
Lundbeckfond Invest A/S

Director of:
Egmont Book Publishing Ltd.
Egmont UK Ltd.
Ejendomsselskabet Gothersgade 55 ApS
Ejendomsselskabet Vognmagergade 11 ApS
MBG Sleeping Egmont A/S

Chief Executive Officer of:
NKB Invest 103 ApS

Merete Eldrup, Deputy Chairman

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

Deputy Chairman of:
Nykredit A/S
Gyldendal A/S

Director of:
Rambøll Gruppen A/S

Member of the committee of representatives of:
Foreningen Realdania

Nina Smith, Deputy Chairman

Professor

Date of birth: 17 October 1955
Joined the Board on 22 September 2004
Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Professor at Institut for Økonomi,
Aarhus Universitet

Chairman of:
Forenet Kredit f.m.b.a.
Nykredits Fond
Creditkassens Jubilæumsfond af 1941 og 1966
Favrskov Gymnasium**
KORA (Det Nationale Institut for Kommuner og Regioners Analyse og Forskning)**
VIVE – Det Nationale Forsknings- og Analysecenter for Velfærd*

Deputy Chairman of:
Nykredit A/S

Director of:
Carlsberg A/S
Carlsbergfondet
Carlsbergfondets Forskerboliger A/S
Faxehus ApS*

Helge Leiro Baastad

Chief Executive Officer
Independent director

Date of birth: 14 September 1960
Joined the Board on 16 March 2016

Chief Executive of Gjensidige Forsikring ASA

Chairman of:
Gjensidige Pensjon og Sparing Holding AS**

Director of:
Nykredit A/S

Finans Norge
Ungt Entreprenørskap

Election committee member of SpareBank 1 SR-Bank

Hans Bang-Hansen

Farmer

Date of birth: 15 August 1955
Joined the Board on 18 April 2001
Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Chairman of:
Horsens Vand A/S
Horsens Vand Holding A/S
Håstrupgård ApS

Deputy Chairman of:
Forenet Kredit f.m.b.a.
Nykredits Fond
Creditkassens Jubilæumsfond af 1941 og 1966
Samn Forsyning ApS*

Director of:
Nykredit A/S
Horsens Folkeblads Fond
Jyske Medier A/S

Municipal posts:
Chairman of Midttrafik
Member of the municipal council of Horsens

Managing Director of:
Arnen Holding ApS
HB-H Holding ApS
HGE Holding ApS
Håstrupgård Ejendomme ApS
LNT Invest ApS
Provstlund ApS

Olav Bredgaard Brusén***

Deputy Chairman of NYKREDS
Date of birth: 8 May 1968
Joined the Board on 16 March 2016

Director of:
Forenet Kredit f.m.b.a.
Nykredit A/S

MANAGEMENT COMMENTARY (CONTINUED)

Michael Demsitz

Chief Executive Officer

Date of birth: 1 February 1955
Joined the Board on 31 March 2004
Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Chief Executive Officer of Boligkontoret Danmark

Chairman of:
Alment Bestyrelsesakademi**
Byggeskadefonden

Director of:
Forenet Kredit f.m.b.a.
Nykredit A/S
Nykredits Fond
AlmenNet
Boligselskabernes Landsforening

Per W. Hallgren

Chief Executive Officer

Date of birth: 8 July 1962
Joined the Board on 16 March 2016
Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Chief Executive Officer of Jeudan A/S

Chairman of:
CEJ Ejendomsadministration A/S
CEJ Aarhus A/S
Jeudan I A/S
Jeudan II A/S
Jeudan III A/S
Jeudan IV A/S
Jeudan Servicepartner A/S*
Jeudan V A/S
Jeudan VI A/S
Jeudan VII A/S
Jeudan VIII A/S
Jeudan IX ApS
Jeudan X ApS
Jeudan XI ApS

Director of:
Forenet Kredit f.m.b.a.
Nykredit A/S
CEPOS
Ejendomsforeningen Danmark

Marlene Holm***

Personal Adviser

Date of birth: 2 December 1964
Joined the Board on 21 March 2012

Director of:
Nykredit A/S

Vibeke Krag*

Former Chief Executive Officer

Date of birth: 3 November 1962
Joined the Board on 16 March 2017
Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Director of:
Forenet Kredit f.m.b.a.
Nykredit A/S*
Eniig City Solutions A/S
Eniig Energi A/S
Eniig Energi Naturgas A/S*
Eniig Energiteknik A/S

Member of Konkurrencerådet
Editor of Erhvervsjuridisk tidsskrift, Karnov
Faculty member, CBS Executive, bestyrelsesuddannelsen

Allan Kristiansen***

Chief Relationship Manager

Date of birth: 6 March 1958
Joined the Board on 12 April 2000

Director of:
Nykredit Bank A/S
Nykredit A/S

Bent Naur

Former Chief Executive Officer

Date of birth: 24 April 1947
Joined the Board on 20 March 2013
Independent director

Deputy Chairman of:
Finansiel Stabilitet

Director of:
Nykredit A/S

Erling Bech Poulsen

Farmer

Date of birth: 14 June 1955
Joined the Board on 25 March 2009
Independent director

Chairman of:
Østifterne f.m.b.a.
Østifterne Administration f.m.b.a.

Director of:
Nykredit A/S
Agrovakia A/S
Axzon A/S
Kølhede Invest A/S
Lidenlund Invest III 2008 A/S
Polen Invest A/S
Vandborg Karosserifabrik A/S

Managing Director:
Kølhede Holding ApS
Kølhede Invest A/S
Majbrit Poulsen Holding ApS
Malene Poulsen Holding ApS
Morten Poulsen Holding ApS

Inge Sand***

Senior Agricultural Adviser

Date of birth: 13 March 1965
Joined the Board on 16 March 2016

Director of:
Forenet Kredit f.m.b.a.
Nykredit A/S

Leif Vinther***

Chairman of Staff Association

Date of birth: 18 April 1959
Joined the Board on 12 April 2000

Director of:
Forenet Kredit f.m.b.a.
Nykredit A/S
Nykredits Fond
Finansforbundets hovedbestyrelse

Resigned on 16 March 2017:

Anders C. Obel**

Chief Executive Officer

MANAGEMENT COMMENTARY (CONTINUED)

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

Managing Director:
Nykredit A/S

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

Director of:
Copenhagen Business School Handelshøjskolen

Kim Duus

Group Managing Director

Date of birth: 8 December 1956
Joined Executive Board on 15 May 2009

Managing Director:
Nykredit A/S

Chairman of:
Nykredit Portefølje Administration A/S

Director of:
Nykredit Bank A/S
Nærpension A/S*
Totalkredit A/S**

David Hellemann

Group Managing Director

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

Managing Director:
Nykredit A/S

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

Deputy Chairman of:
JN Data A/S**

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

Søren Holm

Group Managing Director

Date of birth: 15 November 1956
Joined the Executive Board on 1 March 2006

Managing Director:
Nykredit A/S

Chairman of:
Ejendomsselskabet Kalvebod A/S

Deputy Chairman of:
Nykredit Bank A/S

Director of:
Totalkredit A/S**
Realkreditrådet
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:
Nykredit A/S

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

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

* Joined in 2017
** Resigned in 2017
*** Staff-elected member

This document is an English translation of the original Danish text. In the event of discrepancies between the original Danish text and the English translation, the Danish text shall prevail.