

8 November 2018

Interim Report – Nykredit Group 1 January – 30 September 2018

Michael Rasmussen, Group Chief Executive, comments on Nykredit's Q1-Q3 Interim Report 2018

- We continue to record strong business growth. Both Nykredit Bank and Totalkredit deliver lending growth and welcome new customers every single day. Assets under management are growing significantly. Financial results for Q1-Q3 may not quite match last year's record level, but relative to our expectations and on the back of continued business growth they are very satisfactory.

- Thanks to our benefits programme KundeKroner, our customers now enjoy the lowest administration margin payments on the loan types most popular among Danish homeowners. Today our customers' average administration margin payments are the lowest for four years. This clearly demonstrates the benefits of being a customer of a financial provider owned by its customers. It is the Nykredit Group's corporate responsibility to provide secure and attractive loans throughout Denmark at all times and I particularly note that so far this year, we have recorded lending growth in 95 out of 98 municipalities.

Highlights from the Interim Report for 1 January – 30 September 2018:

- In the Annual Report for 2017, our guidance for business profit and profit before tax for 2018 was in the region of DKK 6.5-7.5 billion. In the H1 Interim Report, the full-year guidance was revised to being at the high end of the above range. This level is maintained.
- Profit for Q1-Q3/2018 declined compared with the exceptionally high profit for Q1-Q3/2017, which was driven partly by high investment portfolio income and considerable reversals of value adjustments of legacy derivatives and loan impairments.
- The Group's efficiency and profitability remain competitive at a cost:income ratio of 38.7%, a return on business capital of 11.3% (ROAC) and a return on equity of 8.4%.
- Nykredit Bank's lending* and assets under management grew by 6% and 34%, respectively, from Q3/2017 to Q3/2018.
- Totalkredit's lending at nominal value went up by 7% from Q3/2017 to Q3/2018.

* Including secured homeowner loans transferred to Totalkredit

Nykredit Group	DKK million		
	Q1-Q3/ 2018	Q1-Q3/ 2017	Change
Income	9,356	11,048	-1,691
Costs	3,617	3,590	-27
Impairment charges for loans and advances	213	(550)	-763
Business profit	5,527	8,009	-2,482
Legacy derivatives	384	1,488	-1,104
Profit before tax for the period	5,910	9,497	-3,587
Tax	1,166	1,942	776
Profit for the period	4,745	7,555	-2,811

Contact

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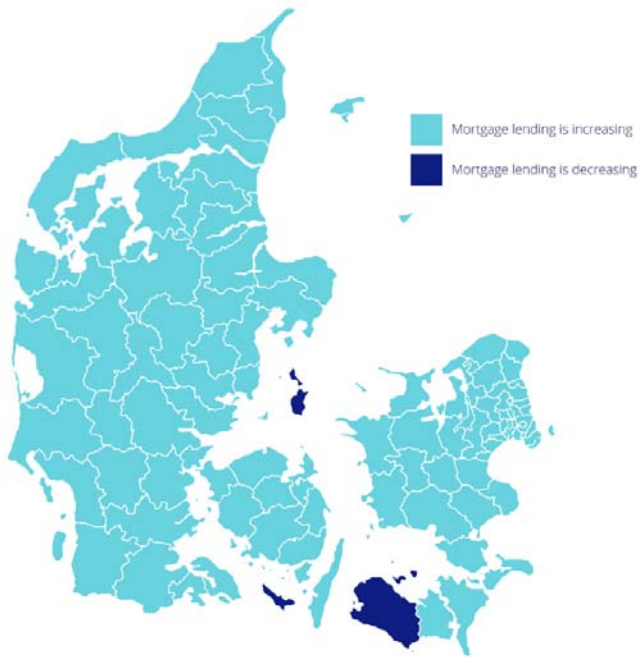
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WE ARE PARTICULARLY PROUD OF ...

Lending growth throughout Denmark



Loans all across the country. Together with its partner banks, Totalkredit has year-to-date increased lending to Danish homeowners in 95 out of 98 municipalities.

Decreasing administration margin payments



KundeKroner has reduced the borrowing costs for Totalkredit customers. Today Totalkredit customers make average monthly administration margin payments of DKK 647 for each DKK 1 million borrowed compared with DKK 692 at the beginning of 2015.

We support businesses throughout Denmark



By the end of the year, Nykredit's business customers throughout Denmark will have received discounts (ErhvervsKroner) of DKK 145 million.

Customers discounts in excess of DKK 1 billion



In 2018 the Nykredit Group's customers will receive KundeKroner and ErhvervsKroner discounts totalling DKK 1.1 billion – feeling the tangible benefits of having a financial provider that is owned by its customers.

Our customers future-proof their financial position



Almost 50% of customers who have taken out or refinanced a loan in 2018 opted for fixed-rate repayment loans. Last year, this was true for almost 38%.

FINANCIAL HIGHLIGHTS

DKK million

Nykredit Group	Q1-Q3/ 2018	Q1-Q3/ 2017	Q3/ 2018	Q2/ 2018	Q1/ 2018	Q3/ 2017	2017
BUSINESS PROFIT AND PROFIT FOR THE PERIOD							
Net interest income	6,727	6,774	2,273	2,241	2,214	2,276	9,006
Net fee income	1,523	1,806	496	503	524	640	2,470
Wealth management income	1,024	1,047	355	357	313	356	1,402
Net interest from capitalisation	(264)	(273)	(88)	(86)	(90)	(70)	(360)
Trading, investment portfolio and other income	347	1,694	(16)	102	261	425	1,492
Income	9,356	11,048	3,019	3,116	3,222	3,628	14,010
Costs	3,617	3,590	1,203	1,218	1,196	1,216	5,067
Business profit before impairment charges	5,739	7,459	1,816	1,898	2,025	2,413	8,944
Impairment charges for loans and advances	213	(550)	110	110	(8)	(102)	379
Business profit	5,527	8,009	1,706	1,788	2,033	2,515	8,564
Legacy derivatives	384	1,488	164	195	24	122	1,517
Profit before tax for the period	5,910	9,497	1,872	1,983	2,057	2,637	10,080
Tax	1,166	1,942	385	386	395	509	2,077
Profit for the period	4,745	7,555	1,485	1,597	1,662	2,128	8,004
Other comprehensive income, value adjustment of strategic equities	-	72	-	-	-	(53)	(6)
Other comprehensive income, remaining items	(18)	(3)	(6)	5	(17)	7	1
Comprehensive income for the period	4,727	7,625	1,479	1,601	1,646	2,082	7,998
Interest on Additional Tier 1 capital charged against equity	174	174	58	58	58	58	233
SUMMARY BALANCE SHEET							
Assets	30.09.2018	30.09.2017	30.09.2018	30.06.2018	31.03.2018	30.09.2017	31.12.2017
Receivables from credit institutions and central banks	29,526	40,064	29,526	29,003	37,589	40,064	48,031
Mortgage loans at fair value	1,183,494	1,155,047	1,183,494	1,178,370	1,168,690	1,155,047	1,163,879
Bank loans excluding reverse repurchase lending	58,749	57,257	58,749	58,344	57,128	57,257	55,744
Bonds and equities	92,412	95,531	92,412	96,434	88,272	95,531	102,125
Remaining assets	61,047	51,635	61,047	60,131	66,386	51,635	56,967
Total assets	1,425,228	1,399,534	1,425,228	1,422,282	1,418,065	1,399,534	1,426,746
Liabilities and equity							
Payables to credit institutions and central banks	18,498	13,233	18,498	17,541	24,630	13,233	13,319
Deposits excluding repo deposits	72,688	69,001	72,688	72,314	69,922	69,001	75,914
Bonds in issue at fair value	1,184,320	1,161,855	1,184,320	1,179,842	1,169,922	1,161,855	1,179,093
Subordinated debt	10,940	10,985	10,940	10,982	10,944	10,985	10,942
Remaining liabilities	59,861	65,976	59,861	64,147	66,673	65,976	68,707
Equity	78,921	78,484	78,921	77,456	75,974	78,484	78,770
Total liabilities and equity	1,425,228	1,399,534	1,425,228	1,422,282	1,418,065	1,399,534	1,426,746
FINANCIAL RATIOS							
Profit for the period as % pa of average business capital (ROAC) ¹	11.3	18.4	10.5	11.3	11.9	15.1	14.4
Profit for the period as % pa of average equity ²	8.4	14.1	8.0	8.5	8.8	11.0	10.9
Costs as % of income	38.7	32.5	39.9	39.1	37.1	33.5	36.2
Total provisions for loan impairment and guarantees	8,025	7,213	8,025	8,058	8,214	7,213	7,915
Impairment charges for the period, %	0.02	(0.05)	0.01	0.02	(0.00)	(0.01)	0.03
Total capital ratio, %	23.5	24.4	23.5	23.0	22.6	24.4	23.9
Common Equity Tier 1 capital ratio, %	21.0	21.4	21.0	20.5	20.1	21.4	20.6
Internal capital adequacy requirement, %	10.1	10.2	10.1	10.1	10.3	10.2	10.2
Average number of staff, full-time equivalent	3,385	3,517	3,403	3,376	3,376	3,477	3,505

¹ "Profit for the period as % pa of average business capital (ROAC)" shows profit for the period relative to business capital. Profit 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 period thereon for accounting purposes are included as interest expenses on subordinated debt in profit for the period. Moreover, value adjustment of strategic equities recognised in "Other comprehensive income" has been added.

EXECUTIVE SUMMARY

Nykredit delivered a satisfactory financial performance in Q1-Q3/2018 with a return of 11.3%, which did not quite match last year's record level but was in line with expectations. 2017 was characterised by several extraordinary conditions – for example very high investment portfolio income and significant reversals of value adjustments of legacy derivatives and impairments for loans and advances. This changed in 2018, and the decline in profit is chiefly attributable to these items.

What is worth noting is our continued business growth. Both Totalkredit and Nykredit Bank deliver lending growth, and also assets under management have increased driven by the fact that more and more customers switch to Nykredit.

At the same time, our costs have stabilised. This is satisfactory, particularly in the context of Nykredit's business growth and investments in development projects and compliance. We expect lower costs in 2018 compared with 2017.

From H2/2022 we will be relocating to new headquarters facilities, reducing costs by almost DKK 50 million compared with current costs.

Lending growth in 95 out of 98 municipalities

Totalkredit's lending grew by DKK 43 billion to DKK 661 billion, corresponding to a 7% increase since 30 September 2017. Year-to-date, lending has increased by 5%. And now more than 770,000 homeowners have Totalkredit loans. The solid progress is mainly attributable to the strong alliance with Totalkredit's partner banks and their great efforts.

We are particularly pleased to note that we are welcoming new customers all across Denmark. Totalkredit has recorded lending growth in 95 out of 98 municipalities this year. It makes us proud to know that, in concert with our business partners, we provide loans all across Denmark – also in regions where other lenders tend to hold back.

Totalkredit and its partner banks have decided to expand their joint efforts by setting up a new shared valuation unit, which is tasked with handling all property valuations for residential mortgage lending. During 2019 a number of employees currently with the partner banks will transfer to Totalkredit and become part of the new shared valuation unit. By end-2019, all valuations will be handled by Totalkredit.

The new Shared Valuation unit is set up in continuation of several expansions of the Totalkredit partnership in recent years. Since 2015 our business partners have been able to fund secured homeowner loans via Totalkredit, and in 2016 they were also given the opportunity to offer Totalkredit loans to their business customers. This demonstrates the dedication of Nykredit and our partner banks to strengthening and expanding our alliance for our mutual benefit. Our partner banks' satisfaction with the Totalkredit partnership is record high.

More satisfied Nykredit Bank customers

A growing number of customers continue to entrust Nykredit Bank with their finances. Bank lending increased by DKK 1.5 billion to DKK 58.7 billion, corresponding to a 3% increase since 30 September 2017. Including secured homeowner loans of DKK 5.7 billion transferred to

Totalkredit, loans and advances have increased by 6% since end-September 2017. Assets under management rose by 34% in the same period, bearing testament to the success of our Wealth Management division.

Nykredit strives every day to enhance the customer experience even further. For the second consecutive year, Prospera, a market research company, and The Banker named Nykredit the best private banking provider in Denmark. Customer satisfaction among homeowner and private banking customers who have entrusted Nykredit with all of their finances is increasing and is currently at a high level. At the same time, a growing number of customers state that they will recommend Nykredit to others, and so will our own staff, as Nykredit is recording rising staff satisfaction levels.

Benefits of being owned by customers

All homeowners with a Totalkredit mortgage loan have since 1 July last year received discounts under the customer benefits programme KundeKroner. In 2018 discounts of DKK 711 million have been awarded to our personal customers. Also Nykredit's business customers were awarded discounts under the programme ErhvervsKroner at end-Q3/2018 when discounts of about DKK 72 million were offset against their administration margin payments.

In 2018 total customer discounts awarded by the Nykredit Group exceeded DKK 1 billion. Both of our customer benefits programmes, so far guaranteed up to and including 2019, are funded by the capital which Forenet Kredit resolved to contribute to the Group earlier this year.

Lowest administration margin payments for four years

Customer discounts have a large impact on the costs of a mortgage loan. For instance, today homeowners' average administration margin payments in Totalkredit are the lowest for four years, thanks to for example the KundeKroner programme. The programme also means that Totalkredit currently offers the lowest administration margin payments on most types of mortgage loans, such as fixed-rate mortgages and ARMs with 5-year interest reset, which have the largest uptake among Danish homeowners.

Nykredit is proud that mortgage customers – homeowners and businesses alike – are now feeling the cash benefits of having a financial provider that is owned by its customers. These benefits should also be felt by the customers of Nykredit Bank, and they will before long. Customers across the Group should get the perception that Nykredit is just as qualified as our largest competitors but also offers something more and something different – because Nykredit is owned by its customers.

FINANCIAL REVIEW

PERFORMANCE HIGHLIGHTS OF Q1-Q3/2018

Profit after tax was DKK 4,745 million compared with DKK 7,555 million in Q1-Q3/2017, which is satisfactory and in line with our expectations for 2018. The decline in profit was primarily attributable to reduced income from the investment portfolio and legacy derivatives and the fact that significant reversals of loan impairment provisions were made in 2017.

Income

Total income came to DKK 9,356 million in Q1-Q3/2018 against DKK 11,048 million in the same period last year.

Net interest income was DKK 6,727 million against DKK 6,774 million in Q1-Q3/2017. Net interest income in the period under review was affected by KundeKroner, Nykredit's personal customer benefits programme, and the launch of the business customer benefits programme ErhvervsKroner – which combined came to DKK 782 million. Excluding these discounts, net interest income would have risen to DKK 6,881 million.

Net fee income, chiefly from lending, including mortgage loan refinancing and other services, saw a total decrease of DKK 283 million to DKK 1,523 million. The decline should be seen in light of a high activity level in 2017, but also lower income from the refinancing flow.

Wealth management income was DKK 1,024 million against DKK 1,047 million in Q1-Q3/2017, which reflected slightly lower client activity in Nykredit Markets compared with 2017.

Net interest expenses from capitalisation, which includes interest on subordinated debt, totalled DKK 264 million against DKK 273 million in Q1-Q3/2017.

Trading, investment portfolio and other income, including value adjustments of investment portfolios, reflected falling equity prices and widening yield spreads in Q1-Q3/2018. Compared with a very high level in 2017, income dropped to DKK 347 million.

Costs

The Group still maintains a strong focus on strengthening organisational efficiency, while investing significant resources in compliance and observance of new regulatory requirements, as well as in the development of a new future-proof mortgage lending platform and a broader partnership with BEC.

Costs totalled DKK 3,617 million and will exceed the level in the same period last year. However, we still expect a decline in costs for the full year. Costs as a percentage of income totalled 38.7% in Q1-Q3/2018.

The average headcount declined by 132 persons, or 4%, to 3,385 compared with Q1-Q3/2017.

Impairment charges for loans and advances

Impairment charges for loans and advances remained low at DKK 213 million compared with a net reversal of DKK 550 million in Q1-Q3/2017.

The continued low impairment level resulted from favourable economic trends, benefitting most of Nykredit's customer segments. Provisions were made for the agricultural segment on the back of the development in terms of trade and the summer drought.

Impairment charges for mortgage lending changed from a net reversal of DKK 282 million in Q1-Q3/2017 to a charge of DKK 101 million.

Provisions for bank loan impairment and guarantees changed from a net reversal of DKK 267 million in Q1-Q3/2017 to provisions of DKK 111 million in Q1-Q3/2018.

Impairment provisions for potential future losses totalled DKK 8.1 billion at 30 September 2018 compared with DKK 7.9 billion at end-2017.

Write-offs on mortgage and bank lending for the period were DKK 887 million against DKK 853 million in Q1-Q3/2017, corresponding to 0.07% of loans and advances.

IFRS 9 was implemented with effect from 1 January 2018. For more information, please refer to note 1.

Legacy derivatives

Legacy derivatives, which are not included in business profit, were DKK 384 million against DKK 1,488 million in Q1-Q3/2017, partly driven by significant income from two large exposures in 2017. Legacy derivatives are derivatives Nykredit no longer offers to customers.

The portfolio of legacy derivatives had a total market value of DKK 5.4 billion against DKK 5.9 billion at end-2017. The portfolio was written down to DKK 3.4 billion at end-September 2018.

Tax

Tax calculated on profit for the period was DKK 1,166 million, corresponding to 20% of profit before tax.

Balance sheet

Nominal mortgage lending was DKK 1,160 billion at end-September 2018, equal to an increase of DKK 22 billion on end-2017 and DKK 32 billion on end-September 2017. Totalkredit Partners and the Wholesale and Wealth Management divisions recorded lending growth, whereas Retail lending saw a minor downturn of DKK 9 billion compared with end-2017 following run-off of customers exclusively having mortgage products with Nykredit.

The Group's market share of total Danish mortgage lending was 41.3% at end-September 2018, a rise of 0.2 percentage points on end-2017.

Bank lending (including secured homeowner loans transferred to Totalkredit) rose to DKK 64.5 billion from DKK 60.0 billion at end-2017. At 30 September 2018 secured homeowner loans transferred to Totalkredit amounted to DKK 5.7 billion against DKK 4.2 billion at end-2017.

Guarantees provided by Nykredit amounted to DKK 6.4 billion at end-September 2018 against DKK 7.1 billion at end-2017.

Deposits, excluding repo deposits, reduced by DKK 3.2 billion to DKK 72.7 billion from DKK 75.9 billion at end-2017. This resulted from a reduction in demand and fixed-term deposits, particularly driven by Wholesale and Wealth Management. Compared with end-September 2017 deposits rose by DKK 3.7 billion.

Nykredit Bank's deposits exceeded lending by DKK 14.0 billion at end-September 2018 compared with DKK 20.1 billion at end-2017.

Equity

The Nykredit Group's equity stood at DKK 78.9 billion at end-September 2018 against DKK 78.8 billion at end-2017.

RESULTS FOR Q3/2018 RELATIVE TO Q2/2018

The Group recorded a profit before tax of DKK 1,872 million in Q3/2018 against DKK 1,983 million in Q2/2018.

Business profit fell to DKK 1,706 million from DKK 1,788 million in Q2, driven by lower investment portfolio income.

Income amounted to DKK 3,019 million in Q3 against DKK 3,116 million in the preceding quarter. The period under review saw underlying business growth with increasing net interest income in Q3. Net fee income was adversely affected by lower income from the refinancing flow, however. Investment portfolio income dropped as a result of negative value adjustment of the Group's asset items.

Costs declined to DKK 1,203 million in Q3 from DKK 1,218 million in Q2.

Impairment charges for loans and advances were DKK 110 million in Q3 – the same level as in Q2. There are still challenges in the agricultural segment, which have caused a rise in provisions.

Legacy derivatives resulted in a gain of DKK 164 million, down DKK 31 million on Q2/2018.

OUTLOOK FOR 2018

At the presentation of the Annual Report for 2017, our guidance for business profit and profit before tax for 2018 was between DKK 6.5 billion and DKK 7.5 billion. In the H1 Interim Report, the same full-year guidance was revised to being at the high end of the above range. This level is maintained. The most significant risk relates to impairments and to investment portfolio income and derivatives as a result of eg interest rate movements.

Income is still expected to be lower in 2018 than in 2017 as a result of lower gains on derivatives and investment portfolio income.

We still expect a minor reduction in costs as a result of our efficiency and restructuring drive.

Impairment charges for loans and advances are still expected to have an adverse earnings impact. The reason is expectations of generally rising impairment levels compared with 2017, which was affected by reversals of impairment provisions made in previous years.

SPECIAL ACCOUNTING CIRCUMSTANCES

IFRS 9 was implemented with effect from 1 January 2018. The standard includes new provisions governing classification and measurement of financial assets, impairment of financial assets and hedge accounting.

An important feature of IFRS 9 is the new principles for calculation of impairment of loans, advances and provisions, which have prompted a DKK 566 million rise in total impairment provisions for bank lending at 1 January 2018. To this should be added the impact of a changed estimate of DKK 1,039 million relating to impairment of mortgage lending that was recognised in the Annual Report for 2017.

Reference is made to note 1 in the Financial Statements.

OTHER

Changes to the Executive Board and the Board of Directors

Kim Duus has given notice of resignation and will leave his position as member of the Executive Board and Group Managing Director for Wholesale. Kim Duus joined Nykredit in 1997 and has been a member of the Group Executive Board since 2009.

Kim Duus will remain in his position until his resignation at some point during the first half of 2019.

Lars Peter Skaarup has left his position with Nykredit in October 2018 and consequently also his position as staff-elected member of the Board of Directors of Nykredit A/S.

For information on the composition of the Executive Board and the Board of Directors, see nykredit.com.

Customer benefits programmes

The Committee of Representatives of Forenet Kredit decided on 22 March to make a total capital contribution of DKK 2.4 billion to the companies of the Nykredit Group to be awarded in 2018 and 2019. Totalkredit A/S will receive DKK 1.7 billion and Nykredit Realkredit A/S DKK 0.7 billion.

In Totalkredit A/S, the contribution of DKK 1.7 billion will go towards the customer benefits programme, KundeKroner. The contribution will secure the funding of discounts to personal customers having a mortgage loan with Totalkredit, corresponding to an annual discount of DKK 1,500 on their administration margin payments for each million kroner borrowed in 2018 and 2019. From 1 July 2018 business customers were awarded annual discounts of DKK 1,500 for each million kroner borrowed up to a maximum of DKK 20 million of the debt outstanding.

The DKK 0.7 billion contribution to Nykredit Realkredit A/S is expected to be used to expand Nykredit's customer programmes, offering primarily business customers and homeowner customers even more benefits. This amount will secure the funding of discounts to business customers with mortgage loans in Nykredit Realkredit A/S, corresponding to an annual discount of DKK 1,500 on their administration margin payments for each million kroner borrowed up to a maximum of DKK 20 million of the debt outstanding. Business customer discounts were introduced as at 1 July 2018, and the first discounts were awarded on the business customers' administration margin payments at end-September. For homeowner customers, part of the contribution will be used to extend the customer programme to include banking products.

This means that after deduction of the KundeKroner discount, Totalkredit homeowners with fully mortgaged homes are currently enjoying the lowest administration margins in the market on our main products, including fixed-rate repayment loans, which is Totalkredit's most popular loan.

The idea behind the customer discounts is to ensure that the Group's customers feel the benefits of having a financial provider that is owned by its customers. Together with our majority shareholder, Forenet Kredit, we want to share our progress with customers, so when Nykredit performs well, our customers share in the success.

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), to which reference is made.

MATERIAL RISKS

The Group's most material risks are described in detail in note 48 to the Annual Report for 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 Q1-Q3 Interim Report 2018 which materially affect the Group's financial position.

BUSINESS AREAS

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



Percentages show the business divisions' share of business profit for Q1-Q3/2018 excluding Group Items.

To this should be added 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.

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

The Group's profit before tax by business area is described in more detail on the following pages.

RETAIL

DKK million

Results –	Q1-Q3/ 2018	Q1-Q3/ 2017	Q3/ 2018	Q2/ 2018	Q1/ 2018	Q3/ 2017	2017
Retail							
Net interest income	3,580	3,605	1,195	1,202	1,184	1,206	4,791
Net fee income	810	988	258	271	280	335	1,389
Wealth management income	383	408	135	127	122	124	535
Net interest from capitalisation	(184)	(190)	(61)	(61)	(63)	(53)	(256)
Trading, investment portfolio and other income	345	319	111	113	120	(12)	100
Income	4,934	5,130	1,638	1,652	1,643	1,600	6,559
Costs	2,261	2,287	745	756	760	767	3,181
Business profit before impairment charges	2,673	2,844	894	896	883	834	3,378
Impairment charges for mortgage lending	98	(203)	92	105	(99)	(28)	(393)
Impairment charges for bank lending	94	(4)	(5)	14	85	21	72
Business profit	2,481	3,051	807	776	898	839	3,699
Legacy derivatives	238	358	81	148	9	52	357
Profit before tax	2,719	3,409	888	924	907	891	4,056

Q1-Q3 in summary

Retail continued efforts to optimise customer experience by, for example

- introducing ErhvervsKroner, a unique discount, to business customers from Q3/2018
- improving accessibility through a new service concept
- enhancing services for corporate clients by concentrating specialist skills in five new corporate banking centres.

Retail has implemented a new service concept aimed at improving accessibility for customers whether by telephone or in person.

The improved customer experience resulted in satisfactory growth in Private Banking customers and full-service customers under Nykredit's homeowner banking programme BoligBanken. And in Q3, the Danish Consumer Council named Nykredit Denmark's best banking choice in terms of cooperative housing loans.

Retail Business Banking has moreover launched a new self-service solution for all types of business customers in Nykredit, which, in addition to improving customer experience, provides for faster assessments and onboarding of new customers. Five new corporate banking centres have also been established, which has strengthened our advisory services to our largest retail business customers.

To solidify Nykredit's market position, Retail Personal Banking lowered selected housing loan rates at the beginning of the year, and the annual customer discount, KundeKroner, was raised to 0.15% from 2018 compared with 0.10% in 2017. The discount is awarded to retail customers having Totalkredit loans.

As from Q3/2018, corporate and agricultural customers with mortgage loans in Nykredit are also offered a unique discount, ErhvervsKroner, equivalent to 0.15% of their debt outstanding up to DKK 20 million.

We are expanding our focus on large business customers, and a number of specialists will thus be available at Nykredit's five corporate banking centres, enhancing business banking services. Retail has also intensified efforts to ensure that Nykredit complies with the tightened regulatory requirements concerning the treatment of personal

data and prevention of money laundering. This year, investments have been made to improve systems and controls, and Nykredit's staff have participated in a number of training activities.

Results etc

Retail's business profit came to DKK 2,481 million in Q1-Q3/2018.

Income amounted to DKK 4,934 million, down DKK 196 million on the same period last year. The decline was primarily driven by reduced net fee income and wealth management income due to decreasing income from the mortgage lending flow and lower fees from mortgage lending than in the previous year. Wealth management income was adversely affected by lower income from Markets.

Despite investments in compliance and new systems, costs remained stable.

Impairment charges for loans and advances came to DKK 192 million (0.04% of gross lending) against a net reversal of DKK 207 million in the same period last year. This trend resonates with a continued stable and robust real estate market.

Legacy derivatives resulted in a gain of DKK 238 million against DKK 358 million in Q1-Q3/2017.

Results for Q3 relative to Q2

Retail's business profit was DKK 807 million in Q3 against DKK 776 million in Q2/2018.

Income stood at DKK 1,638 million against DKK 1,652 million in Q2/2018. The decline was primarily due to reduced net fee income and trading, investment portfolio and other income.

Impairment charges for loans and advances continued to reflect the positive property market trends, accounting for DKK 87 million against DKK 119 million in Q2/2018.

Legacy derivatives generated a gain of DKK 81 million against DKK 148 million in Q2/2018.

DKK million

Selected balance sheet items	30.09.2018	30.06.2018	31.03.2018	31.12.2017	30.09.2017
Retail					
Personal Banking					
Loans and advances	184,728	185,620	186,885	188,566	190,320
- of which mortgage lending, nominal value	167,824	169,348	170,893	172,902	175,248
- of which secured homeowner loans	6,817	6,568	6,127	5,548	4,862
- of which bank lending	10,086	9,704	9,865	10,117	10,210
Deposits	29,055	29,404	27,719	27,214	26,843
Business Banking					
Loans and advances	252,333	253,380	253,734	255,672	256,950
- of which mortgage lending, nominal value	231,477	232,948	233,423	235,548	237,031
- of which bank lending	20,856	20,433	20,311	20,124	19,918
Deposits	17,927	17,797	17,498	19,432	18,119

Activities

Retail Personal Banking continued to grow its portfolio of secured homeowner loans to a total portfolio of DKK 6.8 billion at 30 September 2018 against DKK 5.5 billion at end-2017.

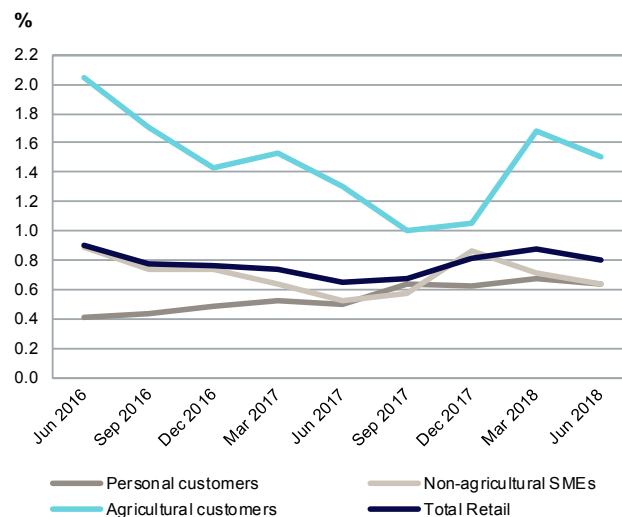
Bank loans and advances, other than secured homeowner loans, provided by Retail Personal Banking declined slightly in Q1-Q3/2018 compared with 2017 in part due to growth in secured homeowner loans. Bank loans and advances were unchanged at DKK 10.1 billion compared with end-2017. Bank deposits rose by DKK 1.8 billion in the same period to DKK 29.1 billion.

Bank loans and advances in Retail Business Banking increased by DKK 0.8 billion to DKK 20.9 billion, whereas deposits fell by DKK 1.5 billion to DKK 17.9 billion.

Arrears

At the June due date, Retail's 75-day mortgage loan arrears were 0.80% of total mortgage payments due against 0.65% at the same date in 2017.

Arrears ratio, mortgage lending – Retail
75 days past due



TOTALKREDIT PARTNERS

DKK million

Results –	Q1-Q3/ 2018	Q1-Q3/ 2017	Q3/ 2018	Q2/ 2018	Q1/ 2018	Q3/ 2017	2017
Totalkredit Partners							
Net interest income	1,907	2,005	639	636	632	673	2,657
Net fee income	380	374	120	126	134	129	498
Net interest from capitalisation	(115)	(135)	(37)	(37)	(41)	(38)	(178)
Trading, investment portfolio and other income	0	(10)	(0)	0	1	5	4
Income	2,172	2,233	721	725	726	769	2,981
Costs	410	452	134	143	133	159	631
Business profit before impairment charges	1,762	1,780	587	582	593	609	2,350
Impairment charges for mortgage lending	(22)	111	22	41	(86)	42	91
Business profit	1,784	1,670	565	541	678	568	2,259

Q1-Q3 in summary

Totalkredit Partners focuses on further strengthening the alliance with its partner banks, and in Q1-Q3/2018, this resulted in

- continued growth in lending across the country
- an expansion of the customer benefits programme to the effect that from Q3 business customers will receive discounts on their administration margin payments for each million kroner borrowed up to a maximum of DKK 20 million. In the first nine months of 2018, the KundeKroner programme awarded discounts of DKK 711 million
- joint IT solutions and the launch of a shared valuation unit as from Q1/2019.

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

In October 2018, Totalkredit announced plans to strengthen the collaboration with partner banks through a new shared valuation unit, named Shared Valuation, from the beginning of 2019. As a result, Totalkredit expects to take over a number of staff members from the partner banks and going forward, Totalkredit will handle all property valuations through either the shared valuation unit or the estate agency chains Nybolig and Estate.

The shared valuation unit will ensure uniform valuations, fast response times and focus on customer experience.

Totalkredit's partnership with local and regional partner banks also includes distribution of 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. 38 banks, representing the majority of partner banks having business customers with mortgage needs, have started offering business mortgages.

Results etc

Totalkredit Partners's business profit rose to DKK 1,784 million against DKK 1,670 million in Q1-Q3/2017.

Income amounting to DKK 2,172 million was satisfactory, considering the discounts of DKK 130 million awarded under the KundeKroner benefits programme compared with Q1-Q3/2017.

Net interest income came to DKK 1,907 million against DKK 2,005 million in the same period last year. Excluding discounts awarded under the KundeKroner benefits programme, net interest income would have risen to DKK 2,037 million.

Impairment charges for loans and advances were impacted by the positive property market trends and went down from DKK 111 million to a net reversal of DKK 22 million.

Results for Q3 relative to Q2

Totalkredit Partners's business profit was DKK 565 million in Q3/2018 against DKK 541 million in Q2/2018.

Income dropped by DKK 4 million to DKK 721 million relative to Q2/2018.

Impairment charges for loans and advances continued to reflect the positive property market trends, accounting for DKK 22 million against DKK 41 million in Q2/2018.

DKK million

Selected balance sheet items	30.09.2018	30.06.2018	31.03.2018	31.12.2017	30.09.2017
Totalkredit Partners					
Personal Banking					
Loans and advances	553,981	546,360	537,734	530,741	523,031
- of which mortgage lending, nominal value	542,802	535,022	526,263	519,818	513,774
- of which secured homeowner loans	11,180	11,338	11,471	10,923	9,259
Business Banking					
Loans and advances	3,612	3,114	2,668	2,056	1,691
- of which mortgage lending, nominal value	3,612	3,114	2,668	2,056	1,691

Activities

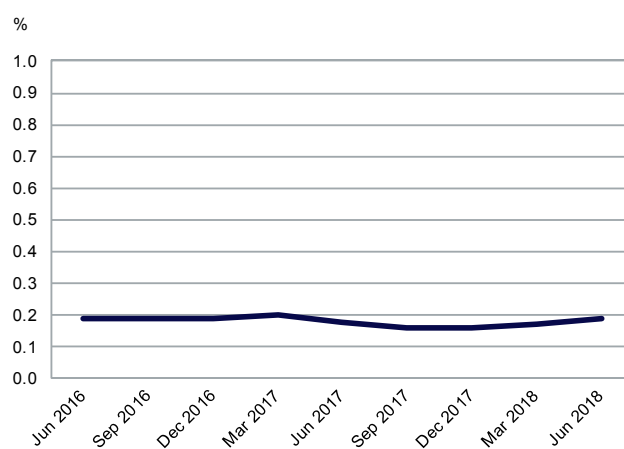
Lending to personal customers came to DKK 554.0 billion at end-September 2018 against DKK 530.7 billion at end-2017, up 4%. The business loan portfolio was DKK 3.6 billion compared with DKK 2.1 billion at end-2017.

Loans distributed through former partner banks, which are now managed directly by Totalkredit, amounted to DKK 22 billion at end-September 2018 against DKK 26 billion at end-2017.

Arrears

At the June due date, Totalkredit Partners's 75-day mortgage loan arrears were 0.19% of the total mortgage payments due against 0.18% at the same date in 2017.

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



WHOLESALE

DKK million

Results – Wholesale	Q1-Q3/ 2018	Q1-Q3/ 2017	Q3/ 2018	Q2/ 2018	Q1/ 2018	Q3/ 2017	2017
Net interest income	1,156	1,089	407	377	372	369	1,456
Net fee income	326	440	115	99	113	167	571
Wealth management income	82	69	19	50	14	41	106
Net interest from capitalisation	(75)	(66)	(25)	(25)	(25)	(21)	(92)
Trading, investment portfolio and other income	283	405	60	84	139	81	493
Income	1,773	1,937	575	585	613	637	2,534
Costs	452	460	148	151	154	163	632
Business profit before impairment charges	1,321	1,477	428	434	459	474	1,902
Impairment charges for mortgage lending	28	(175)	15	(29)	42	(41)	(244)
Impairment charges for bank lending	(3)	(246)	(2)	(57)	56	(64)	(159)
Business profit	1,295	1,899	415	519	361	578	2,305
Legacy derivatives	146	1,130	83	47	16	71	1,160
Profit before tax	1,441	3,028	498	567	377	649	3,465

Q1-Q3 in summary

In Q1-Q3/2018 Wholesale continued delivering good customer experience, resulting in:

- increased bank and mortgage lending
- a satisfactory financial performance despite fierce competition on prices and credit terms across the market
- growing demand for strategic financial advisory services and capital markets transactions.

Nykredit Markets saw high customer activity across products and customer segments in January, including increased demand for management services from the Group's wealth clients. As the following months were marked by financial market turmoil, naturally our customers adopted a more cautious and reluctant investment approach.

Results etc

Wholesale's business profit fell to DKK 1,295 million from DKK 1,899 million in the same period last year.

Income remained high at DKK 1,773 million, albeit lower than the high level recorded in the same period last year, particularly in Q1. At the same time, investment portfolio income was somewhat lower in the first nine months of 2018. During this period the market was impacted by falling equity prices and widening yield spreads.

Impairment charges for loans and advances landed at DKK 25 million compared with a net reversal of DKK 421 million in Q1-Q3/2017. The net reversal in 2017 was the result of the winding up of two large housing cooperatives in bankruptcy.

Legacy derivatives resulted a gain of DKK 146 million against DKK 1,130 million in Q1-Q3/2017. A high level of income was recorded in the same period last year.

Results for Q3 relative to Q2

Wholesale's business profit was DKK 415 million in Q3.

Income fell by 2% to DKK 575 million compared with Q2/2018, primarily driven by reduced trading, investment portfolio and other income, which was offset by increased net interest income and net fee income.

Impairment charges for loans and advances totalled DKK 13 million against a net reversal of DKK 86 million in Q2/2018.

Legacy derivatives generated a gain of DKK 83 million against DKK 47 million in Q2/2018.

DKK million

Selected balance sheet items	30.09.2018	30.06.2018	31.03.2018	31.12.2017	30.09.2017
Wholesale					
Lending/deposits					
Loans and advances	212,361	211,000	207,618	205,407	203,123
- of which mortgage lending, nominal value	190,064	188,794	187,275	185,734	181,076
- of which bank lending	22,298	22,206	20,343	19,672	22,047
Deposits	8,908	10,167	9,422	14,164	10,797

Activities

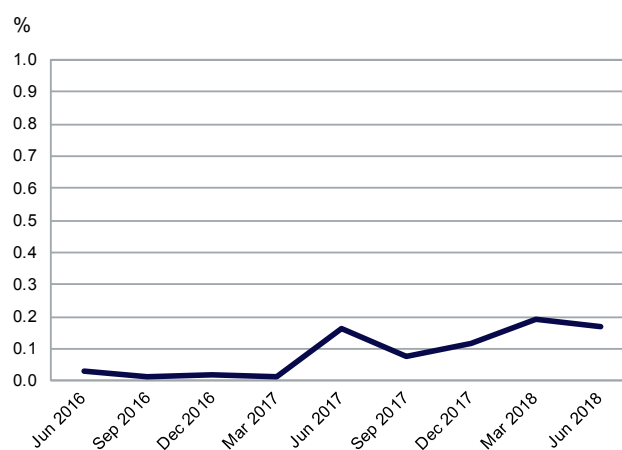
Mortgage lending amounted to DKK 190.1 billion at end-September 2018, an increase of DKK 4.4 billion on end-2017.

Bank lending was up DKK 2.6 billion on end-2017 to DKK 22.3 billion. Bank deposits dropped to DKK 8.9 billion.

Arrears

At the June due date, Wholesale's 75-day mortgage loan arrears were 0.17% of mortgage payments due. The arrears ratio was 0.16% at the same date in 2017.

Arrears ratio, mortgage lending – Wholesale
75 days past due



WEALTH MANAGEMENT

DKK million

Results – Wealth Management	Q1-Q3/ 2018	Q1-Q3/ 2017	Q3/ 2018	Q2/ 2018	Q1/ 2018	Q3/ 2017	2017
Net interest income	87	73	30	29	28	26	99
Net fee income	19	15	7	7	5	6	23
Wealth management income	548	554	199	178	172	184	739
Net interest from capitalisation	(5)	(4)	(2)	(2)	(2)	(1)	(6)
Trading, investment portfolio and other income	8	11	1	3	3	4	14
Income	657	648	236	214	207	219	869
Costs	328	323	108	110	110	113	453
Business profit before impairment charges	329	326	128	105	97	106	416
Impairment charges for mortgage lending	(3)	6	(2)	2	(3)	6	8
Impairment charges for bank lending	27	5	5	24	(3)	5	8
Business profit	305	315	125	79	102	95	400
Legacy derivatives	(0)	0	0	(0)	(0)	(0)	0
Profit before tax	305	315	125	78	102	95	400

Q1-Q3 in summary

Wealth Management delivered a solid performance in Q1-Q3, which resulted in

- satisfactory financial results as well as strong client growth in Private Banking Elite
- Nykredit Asset Management is considered the investment fund manager providing the best performance and services in Denmark
- strong customer growth and increasing assets under management
- the launch of a new infrastructure investment fund.

In Q1-Q3 Private Banking Elite continued increasing its market share, both by landing new clients and by cultivating existing Nykredit client relationships with Private Banking Elite potential. Lending thus grew by 11% to DKK 12.0 billion, and interest income rose as well.

For the second consecutive year, Prospera, a market research company, named Nykredit the best private banking provider in Denmark.

Prospera also named Nykredit Asset Management as the asset manager providing the best service overall and the best at turning investments into solid returns. Nykredit Asset Management was thus ranked no 1 by Prospera, achieving top marks for investment performance.

Together with Sampension, Nykredit Asset Management launched a global infrastructure investment fund. The fund is the first of its kind and is aimed at professional investors outside the insurance and pension sector. Nykredit has now made a total investment commitment of DKK 3.5 billion for infrastructure projects on behalf of clients.

46% of Nykredit Asset Management's investment strategies (GIPS composites) generated above-benchmark returns in Q1-Q3/2018, and 77% generated above-benchmark returns over the past three years. Both are considered satisfactory. In Q1-Q3/2018, especially investments in Danish government and covered bonds, including the hedge funds of Nykredit Alpha, performed well.

Results etc

Wealth Management's business profit remained high at DKK 305 million in Q1-Q3/2018.

Income amounted to DKK 657 million and was stable compared with the same period last year.

Results for Q3 relative to Q2

Wealth Management's business profit totalled DKK 125 million in Q3 against DKK 79 million in Q2.

Income rose from DKK 214 million in Q2/2018 to DKK 236 million in Q3/2018.

Impairment charges for loans and advances came to DKK 3 million against DKK 26 million in Q2/2018. In Q2 Private Banking Elite made additional impairment charges for loans and advances.

DKK million

Selected balance sheet items	30.09.2018	30.06.2018	31.03.2018	31.12.2017	30.09.2017
Wealth Management					
Lending/deposits					
Loans and advances	12,003	11,679	11,320	10,780	10,138
- of which mortgage lending, nominal value	7,777	7,537	7,313	6,957	6,772
- of which secured homeowner loans	1,061	1,018	954	839	706
- of which bank lending	3,165	3,124	3,053	2,984	2,661
Deposits	12,124	12,060	12,663	13,464	11,482
Assets under management	210,122	202,425	194,365	178,906	157,391
- of which Nykredit Group investment funds	70,247	67,756	63,867	61,472	59,878
Assets under administration ¹	696,889	688,620	734,761	792,710	796,721

¹ The method of determining assets under administration has been changed on the basis of MiFID II. Comparative figures for 2017 have also been restated.

Activities

Total assets under management went up by DKK 31.2 billion compared with end-2017, representing DKK 210.1 billion at end-September 2018. The increase was attributable to positive net sales of DKK 26.6 billion as well as positive value adjustments of DKK 4.6 billion.

Private Banking Elite, which is responsible for part of total assets under management, recorded satisfactory net growth in assets under management in Q1-Q3.

Total assets under administration went down by DKK 95.8 billion compared with end-2017 to DKK 696.9 billion at end-September 2018. The decrease comprised net outflows of DKK 116.1 billion primarily from one large client and positive value adjustments as well as other returns of DKK 20.2 billion.

GROUP ITEMS

DKK million							
Results – Group Items	Q1-Q3/ 2018	Q1-Q3/ 2017	Q3/ 2018	Q2/ 2018	Q1/ 2018	Q3/ 2017	2017
Net interest income	(3)	2	2	(3)	(2)	3	3
Net fee income	(13)	(11)	(5)	(0)	(7)	3	(11)
Wealth management income	10	16	3	3	5	7	22
Net interest from capitalisation	115	122	37	39	39	43	172
Trading, investment portfolio and other income	(289)	970	(189)	(99)	(2)	348	882
Income	(179)	1,100	(152)	(60)	32	404	1,068
Costs	166	68	69	58	39	14	169
Business profit (loss) before impairment charges	(345)	1,032	(221)	(118)	(7)	390	899
Impairment charges for mortgage lending	0	(21)	-	(0)	0	(21)	1,018
Impairment charges for bank lending	(7)	(22)	(15)	9	(0)	(22)	(22)
Business profit (loss)	(339)	1,075	(206)	(127)	(6)	434	(97)

DKK million					
Selected balance sheet items Group Items	30.09.2018	30.06.2018	31.03.2018	31.12.2017	30.09.2017
Lending/deposits					
Loans and advances	479	501	1,228	670	465
- of which bank lending	479	501	1,228	670	465
Deposits	4,675	2,886	2,791	1,640	1,761

A few 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 etc

The business profit of Group Items decreased by DKK 1,414 million relative to Q1-Q3/2017 to a loss of DKK 339 million.

This development was chiefly due to lower investment portfolio income compared with the high level in Q1-Q3/2017. 2018 has been characterised by falling equity prices and widening yield spreads.

CAPITAL, LIQUIDITY AND FUNDING

EQUITY AND OWN FUNDS

Equity

Nykredit's equity was DKK 78.9 billion at end-September 2018, equaling an increase of DKK 0.2 billion on end-2017. In March 2018 dividend of DKK 4.0 billion was distributed to the Company's shareholders.

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

	DKK million	
Nykredit Group	30.09.2018	31.12.2017
Equity (including AT1 capital)		
Equity, beginning of period	78,770	70,955
Profit for the period	4,745	8,004
Fair value adjustment of equities available for sale	-	(6)
Other adjustments	(4,595)	(183)
Equity, end of period	78,921	78,770

	DKK million	
Nykredit Group	30.09.2018	31.12.2017
Capital and capital adequacy		
Credit risk	287,659	289,684
Market risk	26,634	24,724
Operational risk	25,709	21,246
Total risk exposure amount	340,002	335,655
Equity (including AT1 capital)	78,921	78,770
AT1 capital etc	(3,780)	(5,411)
Deduction, profit for Q3 (excluding AT1 interest) ¹	(1,427)	-
Proposed dividend	-	(4,000)
CET1 capital additions/deductions	(2,250)	44
CET1 capital	71,464	69,404
AT1 capital	1,865	2,240
AT1 capital deductions	(18)	(127)
Tier 1 capital	73,311	71,518
Tier 2 capital	6,199	8,300
Tier 2 capital additions/deductions	578	477
Own funds	80,088	80,295
CET1 capital ratio, % ²	21.0	20.6
Tier 1 capital ratio, %	21.5	21.3
Total capital ratio, %	23.5	23.9
Internal capital adequacy requirement (Pillar I and Pillar II), %	10.1	10.2

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

¹ Capital was determined at end-September 2018 exclusive of profit for Q3/2018. Capital and capital adequacy are specified further in note 2.

² At 1 January 2018, the Nykredit 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) of Regulation (EU) No 575/2013.

Capital

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

The risk exposure amount (REA) totalled DKK 340.0 billion at 30 September 2018 compared with DKK 335.7 billion at end-2017. With own funds at DKK 80.1 billion, this corresponds to a total capital ratio of 23.5% against 23.9% at end-2017. The CET1 capital ratio was 21.0% against 20.6% at end-2017.

Nykredit's Tier 1 capital consists mainly of CET1 capital. Tier 1 capital totalled DKK 73.3 billion at 30 September 2018. CET1 capital came to DKK 71.5 billion and AT1 capital to DKK 3.8 billion at end-September 2018.

The results of the EU-wide stress test for 2018 were published in November. The stress scenarios for Denmark were quite severe, and Nykredit's CET1 capital ratio therefore dropped by 4.8 percentage points. However, the decrease falls within the scope of Nykredit's capital policy. Despite the severe scenario, Nykredit's CET1 capital ratio was the seventh highest in the stress test. The stress test thus shows that Nykredit would be sufficiently resilient to a severe recession.

Capital target

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 stable 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 significant fluctuations in 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.

The Board of Directors has thus determined a CET1 capital requirement of 15.5-16.5% of REA. Additional capital will be built to meet the upcoming Basel requirements, which may still lead to an increase in REA of around DKK 100 billion. Nykredit has access to new CET1 capital through Forenet Kredit's liquid assets and through investment commitments from a number of Danish pension companies.

Dividend

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

It is Nykredit's long-term intention to return surplus capital to our owners after the relevant capital targets have been met. The capital targets are affected by future capital rules, which are still subject to high uncertainty. Nykredit will regularly assess the Group's capital targets and adjust the dividend payments as the rules become final and are implemented in the EU.

FUNDING AND LIQUIDITY

Nykredit coordinates its liquidity and funding at Group level and generally issues bonds, senior debt and capital instruments through Nykredit Realkredit A/S.

Most of Nykredit's balance sheet consists of lending secured by mortgages on real estate funded through the issuance of mortgage covered bonds (SDOs and ROs). Mortgage covered bonds are issued by way of daily tap issuance coupled with refinancing auctions for adjustable-rate mortgages (ARMs) and floating-rate loans, etc. Further, the Group may issue different kinds of senior debt, such as bail-inable senior debt, serving as statutory supplementary collateral etc.

Bank lending is mainly funded by deposits. At end-September 2018 Nykredit Bank's deposits equalled 124% of lending against 137% at end-2017.

Liquidity

Nykredit's liquid assets are mainly placed in 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.

Nykredit Bank's stock of liquid assets was DKK 41.6 billion against DKK 43.5 billion at end-2017 determined under the Liquidity Coverage Ratio (LCR).

The unencumbered part of the liquid assets of the Group's mortgage banks, including proceeds from senior debt in issue, totalled DKK 80 billion at 30 September 2018 against DKK 83 billion at end-2017.

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

	(%)	
Nykredit Group		
LCR	30.09.2018	31.12.2017
Nykredit Realkredit Group	478	383
Nykredit Realkredit Group, EUR	656	326
Nykredit Realkredit and Totalkredit	2,347	1,502
Nykredit Realkredit and Totalkredit, including minimum LCR requirement	172	186
Nykredit Bank	162	148

Nykredit has been granted an exemption to exclude some of the mortgage-related cash flows in the determination of the LCR. The Danish FSA has therefore set a minimum liquidity requirement. In practice, the requirement means that Nykredit must hold a stock of liquid assets, corresponding to at least 2.5% of total mortgage lending, or DKK 29.6 billion at 30 September 2018. The stock of liquid assets eligible to meet the minimum liquidity requirement amounted to DKK 51.0 billion at 30 September 2018.

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 introduction of the LCR, banks prefer bonds with outstanding amounts of more than EUR 500 million and high ratings. 94% of the outstanding amounts of Nykredit's open bond series are today classified in the top LCR category, while 4% is in the second-best category.

Public housing funding

In 2017 the Danish government and the Danish mortgage banks concluded an agreement on public housing funding. The agreement was turned into a bill that was passed by the Danish parliament in June 2018, under which mortgage banks will continue to provide lending to the public housing sector, while the government will provide a full guarantee of both loans and bonds. The mortgage banks will pay a guarantee and service commission to the government for the government guarantee and potential losses. For this purpose, Nykredit has opened a separate capital centre, Capital Centre J, for lending for public housing.

Distribution of the first public housing loans was initiated in Q3/2018. Public housing loans will be gradually transferred from existing capital centres to Capital Centre J.

Issuance schedule for 2018

Nykredit Realkredit will continue to issue mortgage covered bonds on tap and at refinancing auctions. Nykredit expects to refinance bonds worth DKK 32 billion at the auction in November 2018.

	DKK million	
Nykredit Group		
Bonds in issue	30.09.2018	31.12.2017
Covered bonds (ROs), see note 13 a	147,942	183,226
Covered bond (SDOs), see note 13 b	1,112,028	1,078,747
Senior secured debt, see notes 13 c and 14	4,698	8,425
Senior unsecured debt, see notes 13 d and in Nykredit Bank A/S	6,804	8,406
Senior non-preferred (SNP), see note 14	17,072	13,314
Subordinate loan capital, see note 16	10,941	10,942
Additional Tier 1 capital, see note 2	3,728	3,723
ECP issues of Nykredit Bank A/S	1,951	2,513

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.

In May the Danish parliament adopted an Act to enable credit institutions to issue statutory bail-inable senior debt instruments. The Act entered into force on 1 July 2018 and Nykredit expects new issues after that date to be made in the statutory format.

The Act will change the debt buffer requirement to at least 2% of lending and, together with the capital and bail-in (MREL) requirements, at least 8% of the consolidated balance sheet. This requirement must be met by end-2021.

The Act will lead to an increase in the Group's need for liabilities eligible for bail-in from about DKK 100 billion to between DKK 120 billion and DKK 130 billion, depending on the balance sheet development towards end-2021. In this connection, Nykredit expects to refinance maturing junior covered bonds/senior secured bonds with bail-inable senior debt.

In Q1-Q3/2018 Nykredit issued bail-inable debt of DKK 3.7 billion, and at end-Q3/2018 bail-inable senior debt in issue totalled DKK 17.1 billion.

Nykredit expects to issue another DKK 0-5 billion of bail-inable senior debt in 2018.

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 senior unsecured debt in 2018.

The minimum requirement for own funds and eligible liabilities (MREL) is funded by long-term intercompany funding.

Total run-off under Nykredit Bank's EMTN programme in 2018 will be DKK 0.6 billion. Nykredit Bank will continue maintaining the possibility of EMTN and ECP issuance, but the Bank will largely use intercompany funding going forward. The total EMTN and ECP issuance requirement will depend on the development in customer deposits and lending as well as the Bank's other business activities.

Supervisory Diamond

Nykredit complies with all Supervisory Diamond benchmark limits as at 30 September 2018.

The Supervisory Diamond is shown for the Nykredit Realkredit Group and Nykredit Realkredit A/S; the two companies issuing bonds.

Supervisory Diamond for mortgage lenders

Benchmark	Definition	Nykredit Realkredit Group 30 September 2018	Nykredit Realkredit A/S 30 September 2018	Limit value
Lending growth in segment				
Personal customers ¹	Annual lending growth may not exceed 15% in each of the segments personal customers, commercial residential properties, agricultural properties and other commercial.	3.7%	(16.7)%	15.0%
Commercial residential properties		4.2%	3.7%	15.0%
Agricultural properties		(1.7)%	(1.7)%	15.0%
Other commercial		1.7%	0.9%	15.0%
Borrower's interest rate risk				
Private residential and residential rental	The proportion of lending where the LTV ratio exceeds 75% of the statutory LTV limit and where the loan rate is fixed for up to two years only may not exceed 25% of the total loan portfolio.	14.6%	22.7%	25.0%
Interest-only period				
Personal customers	The proportion of IO loans for owner-occupied and holiday housing with an LTV ratio above 75% of the statutory LTV limit may not exceed 10% of total lending.	9.1%	7.6%	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.	15.6%	20.4%	25.0%
Refinancing (quarterly)		3.7%	5.7%	12.5%
Large exposures				
Loans and advances:equity	The sum of the 20 largest exposures must be less than equity.	36.2%	36.1%	100.0%

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

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 long-term and short-term issuer credit ratings of A/A-1 with S&P. From 13 July 2018, S&P changed its rating outlook from stable to positive.

On 29 June 2018 Nykredit Realkredit and Nykredit Bank were assigned long-term and short-term Resolution Counterparty Ratings of A+/A-1.

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

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

Fitch Ratings

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

On 1 August 2018 Fitch upgraded Nykredit Realkredit's and Nykredit Bank's long-term senior unsecured preferred debt ratings by one notch to A+. Fitch also assigned Nykredit Bank long-term and short-term deposit ratings of A+/F1.

Senior unsecured non-preferred debt has an A rating with Fitch Ratings.

Listing of ratings

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

CREDIT RISK

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

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

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

Nykredit 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	
	30.09.2018	31.12.2017	30.09.2018	31.12.2017	Q1-Q3/2018	FY/2017
Mortgage lending, nominal value						
Nykredit Realkredit	499,662	508,606	3,751	4,004	68	(143)
Totalkredit	660,781	629,502	1,462	1,563	10	645
Total	1,160,443	1,138,109	5,213	5,567	78	502
Loans and advances etc						
Nykredit Bank	58,749	55,783	2,697	2,290	107	(85)
Total	58,749	55,783	2,697	2,290	107	(85)
Receivables from credit institutions	-	-	30	-	25	(44)
Total	-	-	30	-	25	(44)
Reverse repurchase lending	36,726	27,566	-	-	-	-
Guarantees	6,074	7,055	115	58	(4)	6
Loan impairment, % ¹						
Nykredit Realkredit	-	-	0.75	0.78	0.01	(0.03)
Totalkredit	-	-	0.22	0.25	0.00	0.11
Total	-	-	0.45	0.49	0.01	0.04
Nykredit Bank	-	-	4.42	3.94	0.11	(0.15)
Total	-	-	4.42	3.94	0.11	(0.15)

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

MORTGAGE LENDING

At end-September 2018, Nykredit's credit exposure in terms of nominal mortgage lending was DKK 1,160 billion, which is an increase of DKK 22.3 billion on end-2017.

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

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

The LTV ratios of the mortgage loan portfolio are shown in the table below with individual loans relative to the estimated values of the individual properties at end-Q3/2018.

Mortgage lending

Nykredit Group

Debt outstanding relative to estimated property values

Total DKK million/%	LTV (loan-to-value)						Total	LTV average, % ¹
	0-40	40-60	60-80	80-90	90-100	>100		
Owner-occupied dwellings	466,695	173,835	93,823	6,921	2,471	2,034	745,780	67
Private rental	86,282	28,344	12,396	1,190	581	586	129,379	64
Industry and trades	18,120	2,803	215	41	32	54	21,265	46
Office and retail	87,230	22,918	2,524	364	190	228	113,455	52
Agricultural property	60,541	20,013	7,419	943	379	434	89,729	63
Public housing	-	-	-	-	-	-	69,325	-
Other	11,813	2,240	424	37	18	31	14,563	49
Total								
30 September 2018	730,680	250,154	116,801	9,496	3,672	3,367	1,183,494	63
Total end-2017	718,351	238,377	116,266	12,109	4,633	4,310	1,163,879	63

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. 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 Group

Provisions for mortgage loan impairment by property type¹

DKK million	Q1-Q3/2018		31.12.2017	
	Total impairment provisions	Earnings impact	Total impairment provisions	Earnings impact
Owner-occupied dwellings	2,376	(13)	2,577	762
Private rental ²	330	1	366	(108)
Industry and trades	64	(12)	88	(56)
Office and retail	486	65	493	21
Agricultural property	1,458	179	1,353	99
Public housing	66	34	39	(0)
Cooperative housing	365	(156)	531	(250)
Other	67	(19)	121	34
Total	5,213	78	5,567	502

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

² Housing cooperatives are included in the property category Private rental.

Total provisions for mortgage loan impairment

Total impairment provisions for mortgage lending equalled 0.45% of total mortgage lending compared with 0.49% at end-2017.

Total impairment provisions were down by DKK 354 million compared with end-2017, representing DKK 5,213 million at end-September 2018, primarily due to write-offs.

Of the reduction in Q1-Q3/2018, DKK 201 million related to owner-occupied dwellings and DKK 153 million to business property.

Earnings impact

Impairment charges for mortgage lending for the period equalled a gain of DKK 78 million against a gain of DKK 262 million in Q1-Q3/2017. Of impairment charges for loans and advances for the period, a net reversal of DKK 13 million was attributable to owner-occupied dwellings, and an impairment charge of DKK 92 million related to the business segment.

The continued low impairment level resulted from favourable economic trends, benefitting most of Nykredit's customer segments. Provisions were made for the agricultural segment on the back of the development in terms of trade and the summer drought.

Nykredit Group**Arrears ratio – 75 days past due**

Payment date	Arrears relative to total mortgage payments	Debt outstanding in arrears relative to total debt outstanding	Debt outstanding affected by arrears
	%	%	DKK billion
2018			
- June	0.40	0.31	3.60
- March	0.42	0.32	3.60
2017			
- December	0.38	0.27	3.10
- September	0.30	0.29	3.30
- June	0.35	0.33	3.80
- March	0.38	0.39	4.40

Arrears

Mortgage loan arrears are determined when they are 15 and 75 days past their due date. Mortgage loan arrears represented 0.40% of total mortgage payments due 75 days past the June due date against 0.35% at the same time the year before.

Correspondingly, bond debt outstanding affected by arrears as a percentage of total bond debt outstanding decreased from 0.33% to 0.31% compared with the same time the year before.

Properties acquired by foreclosure

In Q1-Q3/2018, the Group acquired 29 properties and sold 64. The property portfolio counted 28 properties at 30 September 2018 against 63 at end-2017.

BANK LENDING

Bank lending at amortised cost amounted to DKK 58.7 billion against DKK 55.8 billion at end-2017. Bank lending before impairment charges was DKK 61.4 billion against DKK 58.1 billion at end-2017.

Reverse repurchase lending stood at DKK 36.7 billion compared with DKK 27.6 billion at end-2017. Guarantees provided were DKK 6.1 billion against DKK 7.1 billion at end-2017.

Nykredit Bank recorded lending growth of 2.3%, excluding reverse repurchase lending, determined pursuant to the rules of the Danish FSA, including rules relating to the FSA Supervisory Diamond model. The Danish FSA's lending limit value indicates that growth of 20% or more may imply increased risk-taking.

Total provisions for bank loan impairment

Provisions for bank loan impairment totalled DKK 2,697 million against DKK 2,290 million at end-2017. The increase was primarily due to the implementation of IFRS 9.

Guarantees

Guarantees provided were DKK 6,074 million, down 10.0%, against DKK 7,055 million at end-2017.

At end-Q3/2018, provisions for guarantees amounted to DKK 115 million against DKK 58 million at end-2017.

Earnings impact

Provisions for bank loan impairment and guarantees for the period were DKK 112 million. In comparison, impairment charges for loans and advances and provisions for guarantees were a reversal of DKK 102 million net in 2017.

Nykredit Group

Provisions for bank loan impairment and guarantees by sector¹

DKK million	Q1-Q3/2018		FY/2017	
	Total impairment provisions	Earnings impact	Total impairment provisions	Earnings impact
Public sector	2	(2)	2	2
Agriculture, hunting, forestry and fishing	108	(20)	104	10
Manufacturing, mining and quarrying	207	(22)	195	24
Energy supply	18	(16)	14	12
Construction	171	15	177	(22)
Trade	300	95	176	125
Transport, accommodation and food service activities	120	(9)	100	33
Information and communication	43	15	25	12
Finance and insurance	200	107	72	(42)
Real estate	522	(184)	663	(321)
Other	393	106	239	58
Total business customers	2,082	87	1,765	(111)
Personal customers	728	16	581	30
Total	2,812	101	2,348	(79)
- of which provisions for losses under guarantees	115	(4)	58	6
Impairment provisions for credit institutions	14	11	-	(23)
Total, including impairment provisions for credit institutions	2,826	112	2,348	(102)

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

NYKREDIT BANK GROUP

DKK million

Nykredit Bank Group	Q1-Q3/ 2018	Q1-Q3/ 2017	Q3/ 2018	Q2/ 2018	Q1/ 2018	Q3/ 2017	2017
BUSINESS PROFIT AND PROFIT FOR THE PERIOD							
Net interest income	1,159	1,125	408	385	367	381	1,493
Net fee income	396	387	123	131	142	145	540
Wealth management income	1,024	1,047	355	357	313	356	1,402
Net interest from capitalisation	(22)	(25)	(8)	(7)	(7)	(8)	(32)
Trading, investment portfolio and other income	739	872	216	237	286	96	986
Income	3,297	3,405	1,094	1,103	1,100	972	4,388
Costs	1,468	1,438	480	491	497	484	1,973
Business profit before impairment charges	1,828	1,968	614	611	603	487	2,415
Impairment charges for loans and advances	112	(267)	(17)	(9)	138	(60)	(102)
Business profit	1,717	2,235	631	621	465	548	2,516
Legacy derivatives	384	1,488	164	195	24	122	1,517
Profit before tax for the period	2,101	3,723	795	816	489	670	4,033
Tax	454	829	173	174	107	158	901
Profit for the period	1,647	2,894	623	642	382	511	3,133
	30.09.2018	30.09.2017	30.09.2018	30.06.2018	31.03.2018	30.09.2017	31.12.2017
SUMMARY BALANCE SHEET							
Reverse repurchase lending	32,669	20,168	32,669	31,192	36,726	20,168	27,566
Loans, advances and other receivables at amortised cost	58,749	57,270	58,749	58,344	57,128	57,270	55,783
Bonds and equities etc	42,332	42,846	42,332	49,075	43,455	42,846	47,454
Payables to credit institutions and central banks	43,484	43,922	43,484	42,434	49,482	43,922	40,218
Deposits and other payables	72,780	69,298	72,780	72,442	70,443	69,298	76,501
Equity	21,083	19,638	21,083	20,329	19,818	19,638	20,388
SELECTED FINANCIAL RATIOS							
Profit for the period as % pa of average equity	10.7	21.1	12.3	12.8	7.7	10.6	16.8
Costs as % of income	44.5	42.2	43.9	44.5	45.2	49.8	45.0
Average number of staff, full-time equivalent	837	823	851	830	823	819	819

Q1-Q3 in summary

Nykredit Bank recorded a profit for Q1-Q3/2018 of DKK 1,647 million against DKK 2,894 million in the same period last year. Profit for the period as a percentage pa of average equity came to 10.7% against 21.1% in Q1-Q3/2017.

Income totalled DKK 3,297 million against DKK 3,405 million in Q1-Q3/2017. Income fell due to reduced trading, investment portfolio and other income.

Costs amounted to DKK 1,468 million, a slight increase compared with the same period last year. The Group still maintains a strong focus on building organisational efficiency, while investing significant resources in compliance and implementation of new regulatory requirements, as well as extending the partnership with BEC.

Impairment charges for loans and advances were DKK 112 million against a net reversal of DKK 267 million in Q1-Q3/2017.

Lending at amortised cost went up by DKK 3.0 billion on end-2017 to DKK 58.7 billion at end-September 2018.

The bond and equity portfolio stood at DKK 42.3 billion, equal to a decrease of DKK 5.1 billion on end-2017. The bond portfolio may fluctuate significantly from one reporting period to another, which should be seen in the context of the Bank's repo activities, trading positions and general liquidity management.

Deposits and other payables totalled DKK 72.8 billion, a decrease of DKK 3.7 billion compared with end-2017. This resulted from a reduction in demand and fixed-term deposits.

Deposits exceeded lending at amortised cost by DKK 14.0 billion compared with DKK 20.7 billion at end-2017.

TOTALKREDIT A/S

DKK million

Totalkredit A/S	Q1-Q3/ 2018	Q1-Q3/ 2017	Q3/ 2018	Q2/ 2018	Q1/ 2018	Q3/ 2017	2017
BUSINESS PROFIT AND PROFIT FOR THE PERIOD							
Net interest income	2,261	2,350	752	758	751	793	3,111
Net fee income	392	376	122	137	133	127	510
Net interest from capitalisation	(23)	(51)	(8)	(8)	(8)	(14)	(62)
Trading, investment portfolio and other income	(104)	44	(19)	(46)	(38)	(17)	(15)
Income	2,526	2,720	847	841	838	889	3,544
Costs	494	529	155	182	157	184	726
Business profit before impairment charges	2,032	2,191	692	659	681	705	2,818
Impairment charges for loans and advances	16	95	17	3	(5)	37	637
Profit before tax for the period	2,017	2,095	675	656	686	668	2,181
Tax	321	428	107	104	111	114	428
Profit for the period	1,695	1,667	568	552	575	554	1,752
	30.09.2018	30.09.2017	30.09.2018	30.06.2018	31.03.2018	30.09.2017	31.12.2017
SUMMARY BALANCE SHEET							
Mortgage loans at fair value	673,878	632,922	673,878	664,852	653,595	632,922	644,310
Bonds and equities	66,721	71,168	66,721	79,081	69,161	71,168	80,558
Payables to credit institutions	709,518	673,487	709,518	712,700	695,406	673,487	693,278
Bonds in issue at fair value	7,834	9,549	7,834	8,188	8,600	9,549	9,104
Equity	27,884	26,264	27,884	27,353	26,838	26,264	26,300
SELECTED FINANCIAL RATIOS							
Profit for the period as % pa of average equity	9.0	9.7	9.1	8.8	9.6	9.6	7.5
Costs as % of income	19.5	19.4	18.3	21.6	18.7	20.6	20.5
Average number of staff, full-time equivalent	107	117	109	106	106	117	116

Q1-Q3 in summary

Totalkredit recorded a profit for Q1-Q3/2018 of DKK 1,695 million against DKK 1,667 million in the same period last year. Profit for the period as a percentage pa of average equity came to 9.0% against 9.7% in Q1-Q3/2017.

Mortgage loans at fair value went up by DKK 29.6 billion compared with end-2017 to DKK 673.9 billion at end-September 2018. At nominal value, the loan portfolio totalled DKK 661 billion at 30 September 2018 compared with DKK 630 billion at end-2017.

Income was DKK 2,526 million against DKK 2,720 million in Q1-Q3/2017. Income fell due to reduced net interest income and trading, investment portfolio and other income. The lower net interest income was mainly due to the introduction of KundeKroner, a customer discounts programme. 2018 was characterised by widened yield spreads, which had an adverse impact on trading income.

Costs amounted to DKK 494 million, down DKK 35 million, compared with the same period last year. Costs as a percentage of income thus totalled 19.5% in Q1-Q3/2018.

Impairment charges for loans and advances equalled DKK 16 million against DKK 95 million in Q1-Q3/2017. Property market trends were generally positive, which was reflected in relatively low impairment levels.

ALTERNATIVE PERFORMANCE MEASURES

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

The income statement format of the financial highlights on page 4 and the business areas (pages 9-18 and note 3) reflects the internal management reporting. In certain respects, the presentation of the financial highlights differs from the format of the Financial Statements prepared under the International Financial Reporting Standards (IFRS). No correcting entries have been made, implying that the profit for the period is the same in the financial highlights and in the IFRS-based Financial Statements. The reclassification in note 4 shows the reconciliation between the presentation in the financial highlights table of the Management Commentary and the presentation in the Consolidated Financial Statements prepared according to the IFRS and includes:

"Net interest income" comprising net administration margin income from mortgage lending, including KundeKroner discounts as well as interest income from bank lending and deposits. The corresponding item in the income statement (page 30) includes all interest.

"Net fee income" comprising income from mortgage refinancing and mortgage lending, income from bank lending, service fees, guarantee and leasing business etc.

"Wealth management income" comprising asset management and administration fees etc. This item pertains to business with customers 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 and derivatives transactions currently offered, Nykredit Markets activities, repo deposits and lending, debt capital markets activities as well as other income and expenses not allocated to the business divisions, including income from the sale of real estate.

Supplementary financial ratios

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

Profit for the period as % pa of average business capital (ROAC). The return target appearing from the table in the financial highlights shows profit for the period relative to average business capital. Profit corresponds to net profit or loss less interest expenses for AT1 capital, which is treated as dividend in the Financial Statements. Profit 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 for the period as % pa of average equity. Profit for the period is calculated as stated above. Average equity is calculated on the basis of the value at the beginning of the period and at the end of all quarters of the period.

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

Impairment charges for the period, %. Impairment charges are calculated based on impairment charges for loans and advances relative to loans and advances. The ratio is calculated for each business area.

MANAGEMENT STATEMENT

STATEMENT BY THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD

The Board of Directors and the Executive Board have today reviewed and approved the Interim Report for the period 1 January – 30 September 2018 of Nykredit A/S and the Nykredit Group.

The Consolidated Financial Statements have been presented in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU. The Interim Financial Statements of the Parent have been prepared in accordance with the Danish Financial Business Act and the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

Moreover, the Interim Report has been prepared in accordance with additional Danish disclosure requirements for interim reports of

issuers of listed bonds.

In our opinion, the Interim Financial Statements give a true and fair view of the Group's and the Parent's assets, liabilities, equity and financial position at 30 September 2018 and of the results of the Group's and the Parent's operations and the Group's cash flows for the financial period 1 January – 30 September 2018.

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 Interim Report has not been subject to audit or review.

Copenhagen, 8 November 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

Olav Bredgaard Brusén*

Michael Demnitz

Per W. Hallgren

Marlene Holm*

Hans-Ole Jochumsen

Vibeke Krag

Allan Kristiansen*

Lasse Nyby

Claus E. Petersen

Inge Sand*

Leif Vinther*

* Staff-elected member

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

DKK million

Nykredit Group		Q1-Q3/ 2018	Q1-Q3/ 2017	Q3/ 2018	Q3/ 2017
INCOME STATEMENT					
Interest income		19,301	20,553	6,353	6,645
Interest expenses		11,145	11,946	3,641	3,860
Net interest income		8,157	8,607	2,713	2,784
Dividend on equities etc		138	126	37	4
Fee and commission income		1,935	1,940	657	675
Fee and commission expenses		2,267	2,173	773	748
Net interest and fee income		7,963	8,500	2,633	2,714
Value adjustments	6	1,054	3,691	268	831
Other operating income		722	327	282	192
Staff and administrative expenses		3,437	3,299	1,136	1,113
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets		83	183	35	67
Other operating expenses		97	108	32	36
Impairment charges for loans, advances and receivables etc	7	213	(550)	110	(102)
Profit from investments in associates and Group enterprises	8	2	18	1	14
Profit before tax		5,910	9,497	1,871	2,637
Tax		1,166	1,942	385	509
Profit for the period		4,745	7,555	1,485	2,128
Distribution of profit for the period					
Shareholders of Nykredit A/S		4,570	7,381	1,427	2,069
Holders of Additional Tier 1 capital notes		174	174	59	58
Profit for the period		4,745	7,555	1,485	2,128
COMPREHENSIVE INCOME					
Profit for the period		4,745	7,555	1,485	2,128
Other comprehensive income					
Items that cannot be reclassified to profit or loss:					
Actuarial gains/losses on defined benefit plans		(23)	(3)	(7)	7
Tax on actuarial gains/losses on defined benefit plans		5	-	2	-
Total items that cannot be reclassified to profit or loss		(18)	(3)	(6)	7
Items that can be reclassified to profit or loss:					
Fair value adjustment of equities available for sale		-	87	-	(48)
Tax on fair value adjustment of equities available for sale		-	(15)	-	(6)
Total items that can be reclassified to profit or loss		-	72	-	(53)
Other comprehensive income		(18)	69	(6)	(46)
Comprehensive income for the period		4,727	7,624	1,479	2,082
Distribution of comprehensive income					
Shareholders of Nykredit A/S		4,553	7,451	1,421	2,024
Holders of Additional Tier 1 capital notes		174	174	59	58
Comprehensive income for the period		4,727	7,624	1,479	2,082

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

DKK million

Nykredit A/S	Q1-Q3/ 2018	Q1-Q3/ 2017	Q3/ 2018	Q3/ 2017
INCOME STATEMENT				
Staff and administrative expenses	18	44	6	36
Profit from investments in associates and Group enterprises	8	4,600	7,493	1,431
Profit before tax	4,582	7,449	1,425	2,016
Tax	(4)	(4)	(1)	(0)
Profit for the period	4,586	7,453	1,427	2,016
Distribution of profit for the period				
Shareholders of Nykredit A/S	4,586	7,453	1,427	2,016
Profit for the period	4,586	7,453	1,427	2,016
COMPREHENSIVE INCOME				
Profit for the period	4,586	7,453	1,427	2,016
Other comprehensive income				
Items that cannot be reclassified to profit or loss:				
Share of comprehensive income in associates and Group enterprises	(18)	(3)	(6)	7
Total items that cannot be reclassified to profit or loss	(18)	(3)	(6)	7
Other comprehensive income	(18)	(3)	(6)	7
Comprehensive income for the period	4,568	7,451	1,421	2,023
Distribution of comprehensive income				
Shareholders of Nykredit A/S	4,394	7,451	1,247	2,023
Comprehensive income for the period	4,568	7,451	1,421	2,023

BALANCE SHEETS

Nykredit A/S		DKK million		
		Nykredit Group		
31.12.2017	30.09.2018	Note	30.09.2018	31.12.2017
ASSETS				
-	-		4,364	2,070
-	27		25,162	45,961
-	-		1,183,799	1,191,378
-	-		-	499
-	-	9	1,183,799	1,191,877
-	-	10	91,723	56,087
-	-	11	86,654	97,149
Equities				
-	-		5,758	2,526
-	-		-	2,450
-	-		5,758	4,977
-	-		148	150
75,082	75,147		-	-
-	-		252	227
Land and buildings				
-	-		-	50
-	-		212	223
-	-		212	273
-	-		98	117
3	8		899	552
10	8		150	153
-	-		113	184
0	0		25,338	26,437
2	1		559	533
75,096	75,192		1,425,228	1,426,746

BALANCE SHEETS

Nykredit A/S		DKK million		
31.12.2017	30.09.2018		Nykredit Group	
		Note	30.09.2018	31.12.2017
LIABILITIES AND EQUITY				
79	28		18,498	13,319
-	-	12	85,640	75,914
-	-		1,184,320	1,178,372
-	-		-	721
-	-	13	1,184,320	1,179,093
-	-	14	21,652	23,532
-	-	15	1,655	19,021
-	-		110	43
13	8		22,668	25,260
-	-		17	9
91	36		1,334,559	1,336,191
Provisions				
-	-		130	141
-	-		358	439
-	-		49	51
-	-		115	58
-	-		157	153
-	-		808	842
-	-	16	10,940	10,942
Equity				
1,327	1,327		1,327	1,327
Accumulated value adjustments				
-	-		5	19
-	-		-	973
Other reserves				
56,901	56,966		-	-
-	-		38,038	38,038
-	-		1,646	1,646
12,777	16,863		34,124	29,003
4,000	-		-	4,000
75,005	75,156		75,141	75,005
-	-		3,780	3,765
75,005	75,156		78,921	78,770
75,096	75,192		1,425,228	1,426,746
OFF-BALANCE SHEET ITEMS				
-	-		6,074	7,055
-	-		9,351	8,443
-	-		15,425	15,498

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit 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	Shareholders of Nykredit A/S	Minority interests	Additional Tier 1 capital ³	Total equity
2018											
Equity, end-2017, see the Annual Report	1,327	19	973	38,038	1,646	29,003	4,000	75,005	-	3,765	78,770
Transferred to equities measured at fair value through profit or loss	-	-	(973)	-	-	973	-	-	-	-	-
Changes in impairment charges owing to implementation of IFRS 9	-	-	-	-	-	(566)	-	(566)	-	-	(566)
Changes in taxes due owing to implementation of IFRS 9	-	-	-	-	-	125	-	125	-	-	125
Equity, 1 January	1,327	19	-	38,038	1,646	29,534	4,000	74,564	-	3,765	78,329
Profit for the period	-	-	-	-	-	4,570	-	4,570	-	174	4,745
Total other comprehensive income	-	-	-	-	-	(18)	-	(18)	-	-	(18)
Total comprehensive income	-	-	-	-	-	4,553	-	4,553	-	174	4,727
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	-	-	(116)	(116)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	-	(6)	-	(6)	-	6	-
Tax on Additional Tier 1 capital	-	-	-	-	-	30	-	30	-	-	30
Distributed dividend	-	-	-	-	-	-	(4,000)	(4,000)	-	-	(4,000)
Realised from the sale of properties	-	(14)	-	-	-	14	-	-	-	-	-
Portfolio of self-issued bonds	-	-	-	-	-	-	-	-	-	(49)	(49)
Equity, 30 September	1,327	5	-	38,038	1,646	34,124	-	75,141	-	3,780	78,921
2017											
Equity, 1 January	1,327	26	979	35,198	1,646	28,016	-	67,192	3	3,760	70,955
Profit for the period	-	-	-	-	-	7,381	-	7,381	-	174	7,555
Total other comprehensive income	-	-	72	-	-	(3)	-	69	-	-	69
Total comprehensive income	-	-	72	-	-	7,379	-	7,451	-	174	7,624
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	-	-	(116)	(116)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	-	(4)	-	(4)	-	4	-
Tax on Additional Tier 1 capital	-	-	-	-	-	23	-	23	-	-	23
Other adjustments	-	-	-	-	-	-	-	-	(3)	-	(3)
Equity, 30 September	1,327	26	1,051	35,198	1,646	35,414	-	74,662	-	3,821	78,484

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 500 million (nominal) of AT1 capital, which may be redeemed from 26 October 2020. AT1 capital carries an interest rate of 6.25% pa up to 26 October 2020, after which date the interest rate will be fixed every five years. If the Common Equity Tier 1 (CET1) capital ratio of Nykredit Realkredit A/S, the Nykredit Realkredit Group or the Nykredit Group falls below 7.125%, the loan will be written down.

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit A/S

	Share capital ¹	Statutory reserves ²	Retained earnings	Proposed dividend	Total equity
2018					
Equity, end-2017, see the Annual Report	1,327	56,901	12,777	4,000	75,005
Changes in impairment charges owing to implementation of IFRS 9	-	(566)	-	-	(566)
Changes in taxes due owing to implementation of IFRS 9	-	125	-	-	125
Equity, 1 January	1,327	56,460	12,777	4,000	74,564
Profit (loss) for the period	-	4,600	(14)	-	4,586
Total other comprehensive income	-	(18)	-	-	(18)
Total comprehensive income	-	4,582	(14)	-	4,568
Distributed dividend	-	-	-	(4,000)	(4,000)
Dividend received from subsidiaries	-	(4,100)	4,100	-	-
Adjustment relating to subsidiaries	-	24	-	-	24
Equity, 30 September	1,327	56,966	16,863	-	75,156
2017					
Equity, 1 January	1,327	49,013	16,852	-	67,192
Profit (loss) for the period	-	7,493	(40)	-	7,453
Total other comprehensive income	-	(3)	-	-	(3)
Total comprehensive income	-	7,490	(40)	-	7,451
Adjustment relating to subsidiaries	-	19	-	-	19
Equity, 30 September	1,327	56,523	16,812	-	74,662

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

² The item relates to a transfer to reserves for net revaluation according to the equity method. The item includes a non-distributable reserve fund of DKK 1,646 million in Totalkredit.

CASH FLOW STATEMENT

DKK million

Nykredit Group	Q1-Q3/ 2018	Q1-Q3/ 2017
Profit for the period	4,745	7,555
Adjustments		
Interest income, net	(8,157)	(8,607)
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	82	183
Profit from investments in associates	(2)	(18)
Impairment charges for loans, advances and receivables etc	213	(550)
Prepayments/deferred income, net	(18)	(192)
Tax on profit for the period	1,166	1,942
Other adjustments	178	(490)
Total	(1,794)	(177)
Change in operating capital		
Loans, advances and other receivables	(27,771)	(22,142)
Deposits and payables to credit institutions	14,905	(4,861)
Bonds in issue	3,346	12,498
Other operating capital	(18,883)	(8,786)
Total	(30,196)	(23,468)
Interest income received	20,385	22,008
Interest expenses paid	(12,825)	(14,101)
Corporation tax paid, net	(1,341)	(773)
Cash flows from operating activities	(23,977)	(16,334)
Cash flows from investing activities		
Acquisition of associates	-	(5)
Sale of associates	-	4
Dividend received from associates	5	3
Purchase and sale of bonds and equities, net	9,491	21,439
Purchase of intangible assets	(78)	(77)
Sale of intangible assets	-	35
Purchase of property, plant and equipment	(16)	(42)
Sale of property, plant and equipment	51	181
Total	9,453	21,537
Cash flows from financing activities		
Distributed dividend	(4,000)	-
Purchase and sale of self-issued subordinated debt instruments	(1)	-
Total	(4,001)	-
Total cash flows for the period	(18,525)	5,203
Cash and cash equivalents, beginning of period	48,031	34,829
Foreign currency translation adjustment of cash	20	32
Total cash flows for the period	(18,525)	5,203
Cash and cash equivalents, end of period	29,526	40,064
Cash and cash equivalents, end of period:		
Cash balances and demand deposits with central banks	4,364	1,964
Receivables from credit institutions and central banks	25,162	38,100
Total	29,526	40,064

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Nykredit Group

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1. ACCOUNTING POLICIES

General

The Consolidated Financial Statements for Q1-Q3/2018 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and further Danish financial reporting and disclosure requirements for interim reports. Compliance with IAS 34 implies observance of the principles of recognition and measurement of the IFRS but also a less detailed presentation relative to the annual report.

The Parent Interim Financial Statements for Q1-Q3/2018 have been prepared in accordance with the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. (the Danish executive order on financial reports) issued by the Danish Financial Supervisory Authority (FSA).

All figures are rounded to the nearest million Danish kroner (DKK), unless otherwise specified. The totals stated are calculated on the basis of actual figures prior to rounding. Due to the rounding-off to the nearest whole million Danish kroner, the sum of individual figures and the stated totals may differ slightly.

Change in accounting policies following implementation of IFRS 9 and amendments to the Danish Executive Order on Financial Reports

As described in the Annual Report for 2017 (notes 1 and 52), IFRS 9 has been implemented with effect from 1 January 2018. The standard includes new provisions governing "classification and measurement of financial assets", "impairment of financial assets" and "hedge accounting".

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

Under the transitional provisions of IFRS 9, comparative figures for previous periods have not been restated, as it is not possible to apply the impairment rules retrospectively without post-rationalisation. The classification, measurement and impairment as well as presentation of financial assets and liabilities in the comparative figures stated in the Interim Report thus follow the same accounting policies as described in note 1 of the Annual Report for 2017.

For the Group, an important feature of IFRS 9 is the new principles for calculation of impairment charges for loans, advances and other receivables etc as well as provisions, which have prompted a DKK 566 million rise in total impairment provisions at 1 January 2018 in the Nykredit Bank Group and the Nykredit Group.

For mortgage lending in Nykredit Realkredit A/S and in the subsidiary Totalkredit A/S, total impairment provisions and the balance sheet were not adjusted at 1 January 2018 following implementation of IFRS 9.

This is due to the fact that impairment of mortgage lending measured at fair value is not covered by IFRS 9, see "Accounting policies" in the Annual Report for 2017 (notes 1 and 52). 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.

Measurement of the credit risk relating to mortgage lending at fair value was previously based on the same fundamental principles as applied to loans and advances measured at amortised cost.

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 (see IFRS 9) and within the framework of IFRS 13. Therefore, already in the Financial Statements for 2017, Nykredit made a new accounting estimate of the impairment impact on mortgage lending and resolved that it would be appropriate to recognise the earnings impact in 2017. As this is an accounting estimate and not a change in accounting policies, the amount was charged to the income statement. The impact led to increased impairment provisions for mortgage lending of approx DKK 1.0 billion, which was charged to the income statement. The earnings impact after tax totalled about DKK 0.8 billion in 2017.

Calculations of mortgage loan impairment measured at fair value involve some adjustments relative to loans and advances measured at amortised cost. For loans and advances measured at fair value, the probability of increased credit losses will thus be assessed, even if the loans are not credit impaired at the date of measurement. Furthermore, loans are not subject to impairment in stage 1 (12-month expected losses) already at the time of initial recognition, as this would go against the principles of fair value measurement.

Group impairments, including Nykredit Bank's, also comprise expected credit losses on financial assets measured at amortised cost – primarily loans and advances, including leasing loans and balances with credit institutions – loan commitments as well as financial guarantees. The increase has been offset against loans and advances at amortised cost by DKK 501 million and balances with credit institutions by DKK 3 million. In addition, provisions for guarantees and loan commitments increased by DKK 62 million. Reference is also made to note 21.

Classification and measurement

The general principles for measurement of financial assets and liabilities have changed following implementation of IFRS 9. But at Group level, the implementation has not given rise to significant changes in the presentation and classification.

After initial recognition, financial assets must continue to be measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The measurement is based on classification of the individual financial assets in accordance with the Group's business model.

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 business model). Measured at amortised cost.
- The asset is held to collect cash flows from payments of principal and interest and moderate sales activity (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 are measured at fair value through profit or loss. These include assets managed on a fair value basis, held in the trading book or assets, where contractual cash flows do not solely comprise interest and principal of the receivable. It is also still possible to measure financial assets at fair value with value adjustment through profit or loss, when such measurement significantly reduces or eliminates an accounting mismatch that would otherwise have occurred on measurement of assets and liabilities or recognition of losses and gains on different bases.

The principles for financial liabilities follow the accounting policies previously applied.

The Group's financial assets and business models were reviewed in 2017 to ensure correct classification thereof. The review included an assessment of whether collecting cash flows is a significant element, including whether the cash flows only consist of interest and principal.

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

The assessment has not led to significant changes to the measurement and classification of financial assets.

Receivables from credit institutions etc as well as bank loans and advances previously measured at amortised cost are still measured according to this principle.

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 holding the portfolio in order to collect the cash flows. However, both IFRS 9 and IAS 39 allows 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 were measured at amortised cost, the purchase and sale of self-issued covered bonds would lead to a timing difference between the recognition of gains and losses in the Financial Statements. Thus, the purchase price of the portfolio would not equal the amortised cost of the bonds in issue. If the portfolio of self-issued covered bonds was subsequently sold, the new amortised cost of the "new issue" would not equal the amortised cost of the matching mortgage loans, and the difference would be amortised over the remaining term-to-maturity.

In order to avoid the consequently inconsistent earnings impact, mortgage loans are measured at fair value involving an adjustment for the market risk based on the value of the underlying bonds and an adjustment for credit risk based on the impairment need.

In connection with the implementation of IFRS 9, the following reclassifications were made:

- Repo lending, which was previously included in "Loans, advances and other receivables at fair value", is at 1 January 2018 included in "Loans, advances and other receivables at amortised cost", as these are not traded. The reclassification has not given rise to value adjustments, as the difference between fair value and net amortised cost was insignificant at 1 January 2018.
- At 31 December 2017, the Nykredit Group held a portfolio of strategic equities that are value adjusted through other comprehensive income. As at 1 January 2018, the portfolio was reclassified to the effect that value adjustment will be recognised through profit or loss in line with other equities and be included in "Equities measured at fair value through profit or loss". The portfolio totalled approximately DKK 2.5 billion at 31 December 2017.

After this the Group has no financial assets that are measured at fair value and value adjusted through other comprehensive income.

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 subject to the two business models that form the basis for measurement at amortised cost or measurement at fair value and value adjusted through other comprehensive income. 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.

Measurement at fair value is otherwise performed according to unchanged principles pursuant to IFRS 13.

Generally, financial liabilities should continue to be measured at amortised cost after initial recognition and separated from the embedded derivative financial instruments, if these are not closely related to the host contract. However, financial liabilities, which are issued with a view to funding mortgage lending, are measured at fair value through profit or loss, corresponding to previous practice. Repo deposits were previously measured at fair value, but this was changed together with the reclassification of repo lending. From and including 1 January 2018 repo deposits will also be measured at amortised cost to attain a uniform accounting treatment. The reclassification of repo lending and deposits impacted measurement by an insignificant amount in Q1-Q3/2018.

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

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

Equity instruments are not based on cash flows which comprise payment of principal and interest. Therefore, these instruments will still be measured at fair value with value adjustment through profit or loss, as the Group has chosen not to recognise value adjustment through other comprehensive income.

Impairment for expected credit losses

For the Nykredit Group, an important feature of IFRS 9 is the new principles for calculation of impairment of mortgage lending at fair value, loans, advances and receivables as well as provisions for guarantees and loan commitments, including unutilised credit facilities etc measured at amortised cost.

According to IAS 39, loan impairment was based on objective impairment criteria. Implementation of IFRS 9 means that going forward impairment of loans and advances will be based on expected credit losses and that already at the time of granting (stage 1), loans and advances are subject to impairment corresponding to the expected credit losses arising from default within 12 months. This has led to increased impairment provisions. Mortgage lending measured at fair value is not subject to impairment for credit losses already at initial recognition in accordance with the above.

Loans are impaired in three stages depending on whether the credit risk has increased significantly since initial recognition:

- Stage 1 covers loans and advances etc without significant increase in credit risk. These are subject to impairments corresponding to expected credit losses in the event of default within the next 12 months. Loans and advances etc measured at amortised cost are subject to impairment already at the time of granting.
- Stage 2 covers loans and advances etc with significant increase in credit risk. These are subject to impairment corresponding to expected credit losses during the time-to-maturity.
- Stage 3 covers loans and advances etc in default or otherwise impaired. These are subject to impairment according to the same principles as loans and advances in stage 2 based on expected credit losses during the time-to-maturity, but with the difference that interest income attributable to the impaired part of loans and advances etc measured at amortised cost is not recognised through profit or loss.

Impairment calculations are based on further development of existing methods and models for impairment, taking into account forward-looking information and scenarios. The definition of default has not been changed and will continue being dictated by the customer's financial position and payment behaviour (90-day arrears).

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

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

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

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

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

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

Generally, three scenarios are applied:

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

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

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

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

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

Model-based impairment is still subject to management judgement according to the same principles as are applied under the previous rules (IAS 39) and is supplemented with an assessment of an improved/worsened macroeconomic scenario for the long-term Probability of Default (PD).

Impairments are offset against the relevant assets (loans, advances and receivables etc as well as bonds). Impairment provisions for guarantees and loan commitments are recognised as a liability.

Presentation of financial highlights as well as business areas

In the opinion of Management, the Management Commentary should be based on the internal management and business division reporting, which forms part of Nykredit's financial governance. Readers of the financial reports are thus provided with information that is relevant to their assessment of Nykredit's financial performance. Financial highlights and presentation of business areas in the Management Commentary and in note 3 reflect the financial information regularly reported to Management. Note 4 describes the differences between the presentation of these financial highlights and business areas relative to the financial information provided in accordance with the International Financial Reporting Standards (IFRS). The column "Reclassification" shows the reconciliation between the IFRS-based Financial Statements and the financial highlights.

Significant accounting estimates and assessments

The preparation of the Financial Statements involves the use of qualified 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.

The areas involving a higher degree of assumptions and estimates significant to the Financial Statements include provisions for loan and receivable impairment, unlisted financial instruments and provisions, see the Annual Report for 2017.

Other general comments on accounting policies

Apart from the above changes made due to the implementation of IFRS 9 etc, the accounting policies are otherwise unchanged compared with the Annual Report for 2017. For a full description of the Group's and the Parent's accounting policies, please refer to note 1 of the Annual Report 2017, which is available at nykredit.com/reports.

NOTES

Nykredit A/S		DKK million		
		Nykredit Group		
31.12.2017	30.09.2018			
2. CAPITAL AND CAPITAL ADEQUACY				
75,005	75,156	Equity for accounting purposes	78,921	78,770
-	-	Minority interests not included	-	(1,646)
-	-	Carrying amount of Additional Tier 1 capital recognised in equity	(3,780)	(3,765)
-	(1,564)	Statutory deduction for estimated dividend	(1,564)	-
-	(15)	Other adjustments	151	-
-	(1,427)	Profit for Q3/2018 not included	(1,427)	-
75,005	72,150	Equity excluding Additional Tier 1 capital	72,301	73,359
(4,000)	-	Proposed dividend	-	(4,000)
-	-	Prudent valuation adjustment	(60)	(65)
-	-	Minority interests	-	815
-	-	Intangible assets excluding deferred tax liabilities	(204)	(184)
-	-	Provisions for expected credit losses in accordance with IRB approach	-	-
-	-	Other additions/deductions	(313)	(327)
-	-	Deduction for treasury shares	(260)	(260)
-	-	Transitional adjustment of deductions	-	65
(4,000)	-	Common Equity Tier 1 capital deductions	(836)	(3,955)
71,005	72,150	Common Equity Tier 1 capital	71,464	69,404
-	-	Additional Tier 1 capital	1,865	2,240
-	-	Additional Tier 1 capital deductions	(18)	(159)
-	-	Transitional adjustment of deductions	-	32
-	-	Total Additional Tier 1 capital after deductions	1,846	2,113
71,005	72,150	Tier 1 capital	73,311	71,518
-	-	Tier 2 capital	6,199	8,300
-	-	Tier 2 capital additions/deductions	578	461
-	-	Transitional adjustment of deductions	-	16
71,005	72,150	Own funds	80,088	80,295
277,805	278,046	Credit risk	287,659	289,684
-	-	Market risk	26,634	24,724
0	0	Operational risk	25,709	21,246
277,806	278,046	Total risk exposure amount	340,002	335,655
Financial ratios				
25.5	25.9	Common Equity Tier 1 capital ratio, %	21.0	20.6
25.5	25.9	Tier 1 capital ratio, %	21.5	21.3
25.5	25.9	Total capital ratio, %	23.5	23.9

Capital and capital adequacy have been determined in accordance with Capital Requirements Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013.

Nykredit has been designated as a systemically important financial institution (SIFI) by the Danish authorities. As a result, a special SIFI CET1 capital buffer requirement will apply to the Nykredit Realkredit Group. The requirement of 2% is being phased in and currently constitutes 1.6%. To this should be added the phase-in of the permanent buffer requirement, currently 1.9%, applicable to all financial institutions.

A deduction has previously been made for parts of Totalkredit's non-distributable reserve fund. The deduction was based on the preliminary assessment of the Danish FSA that the non-distributable reserve fund cannot be fully recognised. Nykredit has discussed the issue with the Danish FSA in the course of 2018. The Danish FSA has most recently notified Nykredit that it is not to make the mentioned deduction going forward. This is reflected in the calculations as at 30 September 2018.

Nykredit 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 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	Wealth Management	Group Items	Total
Results										
Q1-Q3/2018										
RESULTS BY BUSINESS AREA										
Net interest income	1,417	2,163	3,580	1,907	1,156	-	1,156	87	(3)	6,727
Net fee income	445	365	810	380	326	-	326	19	(13)	1,523
Wealth management income	273	111	383	-	82	-	82	548	10	1,024
Net interest from capitalisation	(53)	(131)	(184)	(115)	(68)	(7)	(75)	(5)	115	(264)
Trading, investment portfolio and other income	18	326	345	0	58	226	283	8	(289)	347
Income	2,100	2,834	4,934	2,172	1,554	219	1,773	657	(179)	9,356
Costs	1,474	787	2,261	410	283	169	452	328	166	3,617
Business profit (loss) before impairment charges	626	2,047	2,673	1,762	1,271	50	1,321	329	(345)	5,739
Impairment charges for loans and advances	116	76	192	(22)	25	-	25	24	(7)	213
Business profit (loss)	510	1,971	2,481	1,784	1,245	50	1,295	305	(339)	5,527
Legacy derivatives	1	237	238	-	124	22	146	(0)	-	384
Profit (loss) before tax	510	2,209	2,719	1,784	1,369	72	1,441	305	(339)	5,910
BALANCE SHEET, 30 SEPTEMBER 2018										
Assets										
Mortgage loans etc at fair value	176,971	235,393	412,364	568,669	193,839	-	193,839	8,622	-	1,183,494
Reverse repurchase lending									32,669	32,669
Loans and advances at amortised cost	11,872	20,856	32,728	-	22,298	-	22,298	3,549	479	59,054
Assets by business area	188,538	256,249	444,787	568,669	216,137	-	216,137	12,171	33,148	1,275,217
Unallocated assets										150,011
Total assets										1,425,228
Liabilities and equity										
Repo deposits									12,952	12,952
Bank deposits and other payables at amortised cost	29,055	17,927	46,981	-	8,908	-	8,908	12,124	4,675	72,688
Liabilities by business area	29,055	17,927	46,981	-	8,908	-	8,908	12,124	17,627	85,640
Unallocated liabilities										1,260,667
Equity										78,921
Total liabilities and equity										1,425,228

Nykredit Group

3. BUSINESS AREAS (CONTINUED)

Results Q1-Q3/2017	Personal Banking	Business Banking	Total Retail	Totalkredit Partners	Corporate & Institutional Banking	Markets	Total Wholesale	Wealth Management	Group Items	Total
RESULTS BY BUSINESS AREA										
Net interest income	1,446	2,159	3,605	2,005	1,089	-	1,089	73	2	6,774
Net fee income	553	435	988	374	440	-	440	15	(11)	1,806
Wealth management income	270	138	408	-	69	-	69	554	16	1,047
Net interest from capitalisation	(59)	(131)	(190)	(135)	(62)	(4)	(66)	(4)	122	(273)
Trading, investment portfolio and other income	3	316	319	(10)	93	311	405	11	970	1,694
Income	2,213	2,917	5,130	2,233	1,630	307	1,937	648	1,100	11,048
Costs	1,472	815	2,287	452	296	164	460	323	68	3,590
Business profit before impairment charges	741	2,103	2,844	1,780	1,334	143	1,477	326	1,032	7,459
Impairment charges for loans and advances	37	(245)	(207)	111	(421)	-	(421)	11	(43)	(550)
Business profit	703	2,348	3,051	1,670	1,756	143	1,899	315	1,075	8,009
Legacy derivatives	0	358	358	-	1,097	33	1,130	0	-	1,488
Profit before tax	703	2,706	3,409	1,670	2,852	176	3,028	315	1,075	9,497
BALANCE SHEET, 30 SEPTEMBER 2017										
Assets										
Mortgage loans etc at fair value	183,442	241,847	425,289	537,091	185,344	-	185,344	7,324	-	1,155,047
Reverse repurchase lending									20,168	20,168
Loans and advances at amortised cost	11,926	20,035	31,961	-	22,177	-	22,177	3,001	467	57,607
Assets by business area	195,368	261,882	457,250	537,091	207,521	-	207,521	10,325	20,635	1,232,821
Unallocated assets										166,713
Total assets										1,399,534
Liabilities and equity										
Repo deposits									12,218	12,218
Bank deposits and other payables at amortised cost	26,843	18,119	44,962	-	10,794	3	10,797	11,482	1,761	69,001
Liabilities by business area	26,843	18,119	44,962	-	10,794	3	10,797	11,482	13,979	81,219
Unallocated liabilities										1,239,831
Equity										78,484
Total liabilities and equity										1,399,534

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4. RECONCILIATION OF INTERNAL AND REGULATORY INCOME STATEMENTS	Q1-Q3/2018			Q1-Q3/2017		
	Earnings presentation in Management Commentary	Reclassification	Income statement	Earnings presentation in Management Commentary	Reclassification	Income statement
Net interest income	6,727	1,430	8,157	6,774	1,832	8,607
Dividend on equities etc		138	138		126	126
Fee and commission income, net	1,523	(1,854)	(332)	1,806	(2,040)	(233)
Net interest and fee income		(287)	7,963		(81)	8,500
Wealth management income	1,024	(1,024)		1,047	(1,047)	
Net interest from capitalisation	(264)	264		(273)	273	
Trading, investment portfolio and other income	348	(348)		1,694	(1,694)	
Value adjustments		1,054	1,054		3,691	3,691
Other operating income		722	722		327	327
Total income	9,356			11,048		
Costs	3,617	-	3,617	3,590	-	3,590
Business profit before impairment charges	5,739			7,459		
Impairment charges for loans and advances etc	213	-	213	(550)	-	(550)
Profit from investments in associates		2	2		18	18
Business profit	5,527			8,009		
Legacy derivatives	384	(384)		1,488	(1,488)	
Profit before tax	5,910	-	5,910	9,497	-	9,497

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

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

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

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

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

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5. NET INTEREST INCOME ETC AND VALUE ADJUSTMENTS

Q1-Q3/2018	Interest income	Interest expenses	Net interest income	Dividend on equities	Value adjustments	Total
Financial portfolios at amortised cost						
Receivables from and payables to credit institutions and central banks	(7)	35	(42)	-	-	(42)
Lending and deposits	1,500	(19)	1,519	-	11	1,519
Repo transactions and reverse repurchase lending	(124)	(102)	(21)	-	-	(10)
Subordinated debt	-	266	(266)	-	-	(266)
Other financial instruments	67	60	8	-	-	8
Total	1,437	240	1,197	-	11	1,208
Financial portfolios at fair value and financial instruments at fair value						
Mortgage loans and bonds in issue	17,662	10,904	6,758	-	92	6,850
Bonds	359	-	359	-	144	503
Equities etc	-	-	-	138	(219)	(81)
Derivative financial instruments etc	(157)	-	(157)	-	939	782
Total	17,865	10,904	6,960	138	956	8,054
Foreign currency translation adjustment					86	86
Net interest income etc and value adjustments	19,301	11,145	8,157	138	1,054	9,348
KundeKroner and ErhvervsKroner discounts recognised under interest income for the period (charge)	783					
Q1-Q3/2017						
Financial portfolios at amortised cost						
Receivables from and payables to credit institutions and central banks	(20)	4	(24)	-	-	(24)
Lending and deposits	1,472	13	1,459	-	-	1,459
Subordinated debt	-	273	(273)	-	-	(273)
Other financial instruments	67	51	17	-	-	17
Total	1,519	341	1,178	-	-	1,178
Financial portfolios at fair value and financial instruments at fair value						
Mortgage loans and bonds in issue	18,835	11,684	7,151	-	179	7,331
Repo transactions and reverse repurchase lending	(67)	(79)	12	-	3	14
Bonds	543	-	543	-	849	1,391
Equities etc	-	-	-	126	419	546
Investment properties	-	-	-	-	(3)	(3)
Derivative financial instruments	(277)	-	(277)	-	2,174	1,897
Total	19,034	11,606	7,428	126	3,621	11,176
Foreign currency translation adjustment					70	70
Net interest income etc and value adjustments	20,553	11,946	8,607	126	3,691	12,425
KundeKroner and ErhvervsKroner discounts recognised under interest income for the period (charge)	151					

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7. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC**7 a. Impairment charges for loans, advances and receivables etc**

	Loans and advances 2018	Loans and advances 2017	Guarantees etc 2018	Guarantees etc 2017	Credit institutions and other 2018	Credit institutions and other 2017	Total 2018	Total 2017
Total impairment provisions								
Beginning of period	7,857	8,288	58	52	-	44	7,916	8,384
Impact following implementation of IFRS 9	506		62		3		571	
Balance, 1 January 2018	8,363		120		3		8,486	
New impairment provisions as a result of additions and change in credit risk	3,836	1,175	79	22	28		3,944	1,197
Releases as a result of redemptions and change in credit risk	3,591	1,631	83	19	3	44	3,677	1,693
Impairment provisions written off	709	582	-		-		709	582
Transferred to "Impairment provisions for properties acquired by foreclosure"	(11)	93	-		-	-	(11)	93
Total provisions for impairment of loans, advances and receivables, and for guarantees	7,910	7,158	115	55	30	-	8,055	7,213
Earnings impact								
Change in impairment provisions for loans and advances (individual and collective)		(456)		4		(44)		(496)
Change in impairment provisions for loans and advances (stages 1-3)	245		(4)		25		267	-
Write-offs for the period, not previously provided for	178	271	-		-		178	271
Recoveries on claims previously written off	95	145					95	145
Total	327	(330)	(4)	4	25	(44)	349	(371)
Value adjustment of assets in temporary possession	(0)	14					(0)	14
Value adjustment of claims previously written off	3	(39)					3	(39)
Losses offset, in accordance with partnership agreement	(138)	(155)					(138)	(155)
Earnings impact, Q1-Q3	192	(510)	(4)	4	25	(44)	213	(550)

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7. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (CONTINUED)**7 b. 2018: Total impairment provisions by stage**

	Stage 1 (12 months expected credit losses)	Stage 2 (Lifetime expected credit losses)	Stage 3 (Lifetime expected credit losses)	Total
Total impairment provisions, end-2017 (Annual Report for 2017)				7,857
Provisions for guarantees, end-2017 (Annual Report for 2017)				58
Adjustment at 1 January from implementation of IFRS 9				571
Total, 1 January 2018	1,474	1,993	5,020	8,486
Impairment provisions as at 1 January 2018 determined according to IFRS 9 principles				
Transfer of impairments at the beginning of the period to stage 1	466	(223)	(243)	-
Transfer of impairments at the beginning of the period to stage 2	(139)	433	(295)	-
Transfer of impairments at the beginning of the period to stage 3	(37)	(320)	356	-
Impairment provisions for new loans and advances (additions)	196	63	181	440
Additions as a result of change in credit risk	890	944	1,669	3,503
Releases as a result of change in credit risk	1,396	1,044	1,237	3,677
Previously written down for impairment, now written off	-	-	698	698
Total impairment provisions, end of period	1,454	1,848	4,753	8,055
Impairment provisions, end of period, are attributable to:				
Mortgage lending	1,027	1,662	2,524	5,213
Bank lending	397	186	2,229	2,812
Credit institutions	30	-	-	30
Earnings impact, Q1-Q3/2018	(310)	(36)	614	267
2018: Total impairment provisions by stage regarding loans and advances at fair value through profit or loss				
Total, 1 January 2018	975	1,791	2,801	5,567
Impairment provisions as at 1 January 2018 determined according to IFRS 9 principles				
Transfer of impairments at the beginning of the period to stage 1	432	(201)	(231)	-
Transfer of impairments at the beginning of the period to stage 2	(85)	254	(169)	-
Transfer of impairments at the beginning of the period to stage 3	(26)	(289)	315	-
Impairment provisions for new loans and advances (additions)	126	53	106	284
Additions as a result of change in credit risk	687	830	1,096	2,612
Releases as a result of change in credit risk	1,081	776	887	2,745
Previously written down for impairment, now written off	-	-	506	506
Total impairment provisions, end of period	1,027	1,662	2,524	5,213
Impairment provisions, end of period, are attributable to:				
Mortgage lending	1,027	1,662	2,524	5,213
Earnings impact, Q1-Q3/2018	(269)	107	315	153

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7. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (CONTINUED)**7 b. 2018: Total impairment provisions by stage regarding loans and advances etc at amortised cost**

	Stage 1 (12 months expected credit losses)	Stage 2 (Lifetime expected credit losses)	Stage 3 (Lifetime expected credit losses)		Total
Total impairment provisions, end-2017 (Annual Report for 2017)					2,290
Provisions for guarantees, end-2017 (Annual Report for 2017)					58
Adjustment at 1 January from implementation of IFRS 9					571
Total, 1 January 2018	499	202	2,219		2,919
Impairment provisions as at 1 January 2018 determined according to IFRS 9 principles					
Transfer of impairments at the beginning of the period to stage 1	34	(22)	(12)		-
Transfer of impairments at the beginning of the period to stage 2	(54)	180	(126)		-
Transfer of impairments at the beginning of the period to stage 3	(11)	(30)	41		-
Impairment provisions for new loans and advances (additions)	70	10	75		156
Additions as a result of change in credit risk	204	114	573		891
Releases as a result of change in credit risk	315	268	350		932
Previously written down for impairment, now written off	-	-	192		192
Total impairment provisions, end of period	427	186	2,229	-	2,842
Impairment provisions, end of period, are attributable to:					
Bank lending	397	186	2,229		2,812
Credit institutions	30	-	-		30
Earnings impact, Q1-Q3/2018	(41)	(143)	299		115

2017: Total impairment provisions	Individual impairment provisions	Collective impairment provisions	Banks and other	Provisions for guarantees	Total
Impairment provisions, beginning of period	6,003	2,285	44	52	8,384
Additions as a result of new loans and advances and change in credit risk	1,175	-		22	1,197
Releases as a result of change in credit risk	1,381	250	44	19	1,694
Impairment provisions for properties acquired by foreclosure	93				93
Previously written down for impairment, now written off	582				582
Total impairment provisions, 30 September	5,123	2,035	-	55	7,213
Earnings impact, Q1-Q3/2017	(205)	(250)	(44)	4	(496)

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7. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (CONTINUED)**7 c. Distribution of provisions for loan impairment and guarantees etc, end of period**

	Stage 1 (12 months expected credit losses)	Stage 2 (Lifetime expected credit losses)	Stage 3 (Lifetime expected credit losses)	Total
Q1-Q3/2018: Total impairment provisions by loans and advances etc				
Loans and advances etc				
Bank and mortgage lending etc, gross	1,229,072	41,249	12,621	1,282,942
Total impairment provisions, end of period	1,387	1,810	4,528	7,725
Loans and advances, carrying amount	1,227,685	39,439	8,093	1,275,217
Guarantees and loan commitments				
Bank lending	21,478	531	254	22,264
Total impairment provisions, end of period	37	38	39	115
Guarantees and loan commitments, carrying amount	21,441	493	215	22,149
Q1-Q3/2017: Total impairment provisions by loans and advances etc				
Loans and advances etc				
Bank and mortgage lending etc, gross	18,800	126,278	7,433	152,511
Total impairment provisions, end of period	5,123	2,035	55	7,213
Loans and advances etc, carrying amount	13,677	124,243	7,377	145,298

NOTES

Nykredit A/S		DKK million		
Q1-Q3/2017	Q1-Q3/2018	Q1-Q3/2018	Q1-Q3/2017	
7. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (CONTINUED)				
7 d. Impairment provisions for properties acquired by foreclosure				
-	-	Impairment provisions, beginning of period	139	272
-	-	Transfer from impairment provisions for loans and advances	(11)	93
-	-	Impairment provisions for the period	21	30
-	-	Impairment provisions reversed	(21)	(29)
-	-	Impairment provisions written off	(57)	(186)
-	-	Impairment provisions, end of period	71	181
Impairment provisions for properties acquired by foreclosure have been offset against "Assets in temporary possession".				
8. PROFIT FROM INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES				
-	-	Profit from investments in associates	2	18
7,493	4,600	Profit from investments in Group enterprises	-	-
7,493	4,600	Total	2	18

NOTES

Nykredit A/S		DKK million		
		Nykredit Group		
31.12.2017	30.09.2018	30.09.2018	31.12.2017	
		9. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE		
-	-	Mortgage loans	1,183,494	1,163,879
-	-	Arrears and outlays	305	432
-	-	Reverse repurchase lending to undertakings other than credit institutions and central banks	-	27,566
-	-	Total	1,183,799	1,191,877
		On implementation of IFRS 9 reverse repurchase lending to undertakings other than credit institutions and central banks was reclassified to loans and advances and other receivables at amortised cost.		
		9 a. Mortgage loans		
-	-	Balance, beginning of period, nominal value	1,138,109	1,107,135
-	-	New loans	150,165	217,933
-	-	Indexation	231	120
-	-	Foreign currency translation adjustment	(1,016)	(428)
-	-	Ordinary principal payments	(19,398)	(25,394)
-	-	Prepayments and extraordinary principal payments	(107,648)	(161,257)
-	-	Balance, end of period, nominal value	1,160,443	1,138,109
-	-	Loans transferred relating to properties in temporary possession	(28)	(36)
-	-	Loans assumed by the Danish Agency for Governmental Management	(0)	(0)
-	-	Total	1,160,416	1,138,073
-	-	Adjustment for interest rate risk etc	28,106	31,117
-	-	- of which adjustment relating to sold foreign portfolio	-	(200)
		Adjustment for credit risk		
-	-	Impairment provisions	(5,027)	(5,311)
-	-	Balance, end of period, fair value	1,183,494	1,163,879
		As collateral for loans and advances, Nykredit has received mortgages over real estate and:		
-	-	Supplementary guarantees totalling	70,195	63,479
-	-	Interim loan guarantees totalling	20,760	18,776
-	-	Mortgage registration guarantees etc totalling	17,149	25,792
		9 b. Arrears and outlays		
-	-	Arrears before impairment provisions	424	340
-	-	Outlays before impairment provisions	67	348
-	-	Impairment provisions	(186)	(256)
-	-	Total	305	432

NOTES

Nykredit A/S		DKK million		
		Nykredit Group		
31.12.2017	30.09.2018		30.09.2018	31.12.2017
		12. DEPOSITS AND OTHER PAYABLES		
-	-	On demand	63,478	64,528
-	-	At notice	435	1,286
-	-	Time deposits	5,942	7,484
-	-	Special deposits	2,833	2,616
-	-	Repo deposits	12,952	-
-	-	Total	85,640	75,914
		13. BONDS IN ISSUE AT FAIR VALUE		
-	-	ROs	156,654	192,360
-	-	SDOs	1,131,422	1,100,930
-	-	Senior secured debt	4,915	4,981
-	-	Senior unsecured debt	3,743	3,748
-	-	Total	1,296,735	1,302,019
-	-	Self-issued bonds	(112,415)	(122,926)
-	-	Total	1,184,320	1,179,093
		13 a. ROs		
-	-	ROs at nominal value	147,942	183,226
-	-	Fair value adjustment	8,712	9,134
-	-	ROs at fair value	156,654	192,360
-	-	Self-issued ROs	(39,503)	(34,324)
-	-	Total	117,151	158,035
-	-	Of which pre-issuance	76	44
-	-	ROs redeemed and maturing at next creditor payment date	11,812	34,354
		13 b. SDOs		
-	-	SDOs at nominal value	1,112,028	1,078,747
-	-	Fair value adjustment	19,394	22,183
-	-	SDOs at fair value	1,131,422	1,100,930
-	-	Self-issued SDOs	(72,638)	(88,402)
-	-	Total	1,058,784	1,012,528
-	-	Of which pre-issuance	7,882	4,544
-	-	SDOs redeemed and maturing at next creditor payment date	64,249	71,305

NOTES

Nykredit A/S		DKK million		
		Nykredit Group		
31.12.2017	30.09.2018	30.09.2018	31.12.2017	
		13. BONDS IN ISSUE AT FAIR VALUE (CONTINUED)		
		13 c. Senior secured debt		
-	-	Senior secured debt at nominal value	4,698	4,690
-	-	Fair value adjustment	218	291
-	-	Senior secured debt at fair value	4,915	4,981
-	-	Self-issued senior secured debt	(197)	(200)
-	-	Total	4,718	4,781
-	-	Senior secured debt maturing at next creditor payment date	-	-
		13 d. Senior unsecured debt		
-	-	Senior unsecured debt at nominal value	3,728	3,723
-	-	Fair value adjustment	15	26
-	-	Total	3,743	3,748
-	-	Self-issued senior unsecured debt	(77)	-
-	-	Total	3,666	3,748
		14. BONDS IN ISSUE AT AMORTISED COST		
-	-	Corporate bonds	4,937	7,196
-	-	SDOs	13	16
-	-	Senior secured debt	-	3,735
-	-	Senior unsecured debt	17,072	13,314
-	-	Other securities	54	27
-	-	Total	22,075	24,288
-	-	Self-issued corporate bonds	(393)	(722)
-	-	Self-issued SDOs	(13)	(16)
-	-	Other self-issued securities transferred	(18)	(18)
-	-	Total	21,652	23,532
		15. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE		
-	-	Repo transactions with undertakings other than credit institutions and central banks	-	16,714
-	-	Negative securities portfolios	1,655	2,307
-	-	Total	1,655	19,021

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
31.12.2017	30.09.2018	30.09.2018	31.12.2017
	16. SUBORDINATED DEBT		
	Subordinated debt consists of financial liabilities in the form of subordinate loan capital and Additional Tier 1 capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.		
	Subordinated debt is included in Nykredit's own funds etc in accordance with the EU's Capital Requirements Regulation.		
	Subordinate loan capital		
	Nom EUR 600 million. The loan matures on 3 June 2036, but may be redeemed at par (100) from 3 June 2021. The loan carries a fixed interest rate of 4.0% pa up to 3 June 2021, after which date the interest rate will be fixed every five years. If the Common Equity Tier 1 capital ratio of Nykredit Realkredit, the Nykredit Realkredit Group or the Nykredit Group falls below		
-	- 7%, the loan will be written down	4,572	4,584
	Nom EUR 800 million. The loan matures on 17 November 2027, but may be redeemed at par (100) from 17 November 2022. The loan carries a fixed interest rate of 2.75% pa up to 17 November 2022, after which date the interest rate will be fixed for the next five years		
-	-	5,996	5,986
	Nom EUR 50 million. The loan matures on 28 October 2030. The loan carries a fixed interest rate of 4% pa for the first two years after issuance. In the remaining loan term, the interest rate		
-	- will be fixed every six months	373	372
-	- Total subordinate loan capital	10,941	10,942
-	- Portfolio of self-issued bonds	(1)	-
-	- Total subordinated debt	10,940	10,942
-	- Subordinated debt that may be included in own funds	6,199	8,300

17. RELATED PARTY TRANSACTIONS AND BALANCES

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

No unusual related party transactions occurred in Q1-Q3/2018.

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 Q1-Q3/2018 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 when Nykredit Realkredit A/S makes payments to bondholders. The bondholders therefore enjoy the same security as if the Totalkredit loans had been granted directly from Nykredit Realkredit A/S's own balance sheet.

Nykredit Realkredit A/S has granted loans, see section 15 of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, to Totalkredit A/S serving as supplementary collateral in Totalkredit A/S's capital centres. The loans amounted to DKK 1.7 billion at 30 September 2018. The loans constitute secondary preferential claims and rank after the master bond in respect of the assets in Totalkredit A/S's capital centres.

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

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

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

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

Framework agreement on the terms for financial transactions relating to loans and deposits in the securities and money market areas etc.

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

Transaction between Nykredit Ejendomme A/S and the Kalvebod II Group

In Q1-Q3/2018 Nykredit Ejendomme A/S sold properties to a company in the Kalvebod II Group at a market value of DKK 218 million. Both companies are wholly owned by Nykredit Realkredit A/S.

18. FAIR VALUE DISCLOSURES

Listed prices

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

Bonds at fair value are recognised at listed prices if external prices have been updated within the past three trading days prior to the balance sheet date. If no listed prices have been observed during this time span, the portfolio is recognised at observable inputs.

Observable inputs

When an instrument is not traded in an active market, measurement is based on the most recent listed price in an inactive market, the price of comparable transactions or generally accepted valuation techniques based on, for instance, discounted cash flows and option models.

Observable inputs are typically yield curves, volatilities and market prices of similar instruments, which are usually obtained through ordinary providers such as Reuters, Bloomberg and market makers. If the fair value is based on transactions in similar instruments, measurement is exclusively based on transactions at arm's length. Unlisted derivatives generally belong to this category.

Bonds not traded in the past three trading days belong to this category. The valuation is based on the most recent observed price, and adjustments are made for subsequent changes in market conditions, eg by including transactions in similar instruments (matrix pricing). Redeemed bonds are transferred to this category, as there is no access to official prices in active markets.

Further, the valuation of derivatives implies the use of Credit Valuation Adjustment (CVA), thus including counterparty credit risk in the valuation. The CVA of derivatives with positive market value is primarily based on external credit curves such as Itraxx Main, but also on internal data as regards customers without 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.

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

FVA may involve both a funding benefit and a funding cost, but for Nykredit, the net FVA adjustment will be a funding cost resulting from customers' insufficient or lacking provision of collateral. Debit Valuation Adjustment (DVA) is now a sub-element of the FVA adjustment.

Net value adjustment due to CVA, DVA and FVA amounted to a negative DKK 439 million at 30 September 2018 against a negative DKK 366 million at end-2017.

Upon entering into derivatives contracts, further provisions are made in the form of a so-called minimum margin for liquidity and credit risk and return on capital etc. The minimum margin is amortised at the valuation of derivatives over their times-to-maturity. At 30 September 2018, the non-amortised minimum margin amounted to DKK 148 million against DKK 157 million at end-2017. With regard to liquidity and credit risk, DKK 202 million for 2018 and DKK 216 million for 2017 have been included above in the net adjustment of FVA and CVA. Finally, in some instances further value adjustment based on management judgement is made if the models are not deemed to take into account all known risks, including eg legal risks.

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

Unobservable inputs

When it is not possible to measure financial instruments at fair value based on prices in active markets or observable inputs, measurement is based on own assumptions and extrapolations etc. Where possible and appropriate, measurement is based on actual transactions adjusted for differences in eg the liquidity, credit spreads and maturities etc of the instruments. The Group's unlisted equities are generally classified under this heading, and valuation is based on the IPEV Valuation Guidelines.

The positive market values of a number of interest rate swaps with customers in the lowest rating categories have been adjusted for increased credit risk based on additional CVA. The adjustment uses for instance the statistical data applied by the Bank to calculate collective impairment provisions for loans and advances at amortised cost. Interest rate swaps which have been fair value adjusted to DKK 0 (after deduction for collateral) due to the creditworthiness of the counterparty are also included in the category "Unobservable inputs".

Following value adjustment, the fair value came to DKK 1,292 million at 30 September 2018. Credit value adjustments came to DKK 2,415 million at 30 September 2018 (2017: DKK 3,110 million).

The interest rate risk on these interest rate swaps is hedged in all material respects. However, interest rate fluctuations may impact results to the extent that the market value must be adjusted due to increased counterparty credit risk. A 0.1 percentage point change in interest rate levels will impact the fair value by +/- DKK 100 million.

However, financial assets measured on the basis of unobservable inputs account for a very limited part of total financial assets at fair value. At 30 September 2018, the proportion was thus 0.3% compared with 0.3% at end-2017. The proportion of financial liabilities was 0.0% against 0.0% at end-2017.

18. FAIR VALUE DISCLOSURES (CONTINUED)

Valuation, notably of instruments classified as unobservable inputs, is subject to some uncertainty. Of total assets and liabilities, DKK 4.5 billion (2017: DKK 4.0 billion) belonged to this category.

Assuming that an actual market price will deviate by +/-10% from the calculated fair value, the earnings impact will be DKK 449 million at 30 September 2018 (0.57% of equity at 30 September 2018). The earnings impact for 2017 was estimated at DKK 402 million (0.65% of equity at 31 December 2017).

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 2018 and 2017, transfers between the categories Observable inputs and Unobservable inputs mainly resulted from changes to the ratings (credit risk) of counterparties and primarily concerned interest rate swaps, as regards financial instruments with positive market value.

Transfers between the categories Listed prices and Observable inputs mainly result from bonds that are reclassified either due to traded volume or the number of days between last transaction and the time of determination. As at 30 September 2018, financial assets of DKK 25.3 billion have been transferred from Listed prices to Observable inputs and DKK 2.8 billion from Observable inputs to Listed prices. Financial liabilities of DKK 0.1 billion were transferred from Listed prices to Observable inputs and DKK 0.0 billion from Observable inputs to Listed prices.

Redeemed bonds (usually comprised by Listed prices) are transferred to Unobservable inputs on the last day before the coupon date, as there is no access to official prices in active markets. At 30 September 2018, the amount was DKK 1.8 billion against DKK 2.3 billion at end-2017.

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

Nykredit Group

18. FAIR VALUE DISCLOSURES (CONTINUED)

Fair value of assets and liabilities recognised at fair value (IFRS hierarchy)

30 September 2018

	Listed prices	Observable inputs	Unobservable inputs	Total fair value
Financial assets:				
- bonds at fair value	18,308	68,208	138	86,654
- equities measured at fair value through profit or loss	2,905	-	2,853	5,758
- positive fair value of derivative financial instruments	104	16,508	1,292	17,904
- mortgage loans, arrears and outlays	-	1,183,799	-	1,183,799
- owner-occupied properties	-	-	212	212
Total	21,318	1,268,515	4,495	1,294,328
Percentage	1.6	98.0	0.3	100.0

Financial liabilities:

- other non-derivative financial liabilities at fair value	1,215	440	-	1,655
- negative fair value of derivative financial instruments	119	11,542	-	11,661
- bonds in issue at fair value	1,181,478	2,841	-	1,184,320
Total	1,182,813	14,823	-	1,197,636
Percentage	98.8	1.2	-	100.0

Assets and liabilities measured on the basis of unobservable inputs

	Real estate	Bonds	Equities	Derivatives	Total
Fair value, beginning of period, assets	273	22	2,623	1,104	4,022
Value adjustment recognised through profit or loss	(10)	9	151	384	535
Purchases for the period	-	126	145	-	272
Sales for the period	(50)	(20)	(67)	(43)	(180)
Transferred from Listed prices and Observable inputs ¹	-	-	-	(419)	(419)
Transferred to Listed prices and Observable inputs ²	-	-	-	265	265
Fair value, end of period, assets	212	138	2,853	1,291	4,495

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.

Nykredit Group

18. FAIR VALUE DISCLOSURES (CONTINUED)

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

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

Financial liabilities:

- other non-derivative financial liabilities at fair value	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

Assets and liabilities measured on the basis of unobservable inputs

	Real estate	Bonds	Equities	Derivatives	Total
Fair value, beginning of period, 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, end of period, assets	273	22	2,623	1,104	4,022

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 Group	Q1-Q3/ 2018	Q1-Q3/ 2017	Q1-Q3/ 2016	Q1-Q3/ 2015	Q1-Q3/ 2014
19. FIVE-YEAR FINANCIAL HIGHLIGHTS					
SUMMARY INCOME STATEMENT					
Net interest income	8,157	8,607	8,383	8,990	8,427
Net fee income etc	(194)	(107)	(145)	53	8
Net interest and fee income	7,963	8,500	8,238	9,044	8,435
Value adjustments	1,054	3,691	45	175	(1,812)
Other operating income	722	327	149	136	143
Staff and administrative expenses	3,437	3,299	3,427	3,392	3,502
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	83	183	156	2,074	156
Other operating expenses	97	108	124	94	110
Impairment charges for loans, advances and receivables etc	213	(550)	385	693	1,457
Profit from investments in associates and Group enterprises	2	18	7	6	6
Profit before tax	5,910	9,497	4,346	3,107	1,546
Tax	1,166	1,942	906	1,119	326
Profit for the period	4,745	7,555	3,440	1,988	1,220
Value adjustment and reclassification of strategic equities against equity	-	72	38	254	224
SUMMARY BALANCE SHEET, END OF PERIOD					
	30.09.2018	30.09.2017	30.09.2016	30.09.2015	30.09.2014
Assets					
Cash balances and receivables from credit institutions and central banks	29,526	40,064	41,685	36,732	37,335
Mortgage loans at fair value	1,183,494	1,155,047	1,127,516	1,118,029	1,144,160
Bank loans excluding reverse repurchase lending	58,749	57,257	53,115	47,506	48,301
Bonds and equities etc	92,412	95,531	108,574	102,786	120,066
Remaining assets	61,047	51,635	74,919	83,379	98,034
Total assets	1,425,228	1,399,534	1,405,810	1,388,433	1,447,896
Liabilities and equity					
Payables to credit institutions and central banks	18,498	13,233	19,362	35,117	44,217
Deposits and other payables, excluding repo deposits	72,688	69,001	64,895	61,566	60,351
Bonds in issue at fair value	1,184,320	1,161,855	1,151,669	1,134,618	1,150,270
Subordinated debt	10,940	10,985	11,276	4,684	11,387
Remaining liabilities	59,861	65,977	89,732	87,847	121,493
Equity	78,921	78,484	68,876	64,599	60,177
Total liabilities and equity	1,425,228	1,399,534	1,405,810	1,388,433	1,447,896
OFF-BALANCE SHEET ITEMS					
Contingent liabilities	6,074	7,488	6,720	7,568	6,511
Other commitments	9,351	8,241	6,965	6,132	6,520
FINANCIAL RATIOS¹					
Total capital ratio, %	23.5	24.4	19.6	19.9	18.3
Tier 1 capital ratio, %	21.5	22.0	18.3	19.5	17.4
Return on equity before tax, %	7.5	12.8	6.7	5.5	3.0
Return on equity after tax, %	6.0	10.2	5.3	3.6	2.4
Income:cost ratio	2.5	4.1	2.1	1.5	1.3
Foreign exchange position, %	0.0	0.2	0.4	0.2	1.2
Loans and advances:equity (loan gearing)	16.2	15.7	17.5	18.6	20.5
Growth in loans and advances for the period, %	2.5	1.1	(1.5)	(0.3)	(1.7)
Total impairment provisions, %	0.62	0.58	0.68	0.73	0.70
Impairment charges for the period, %	0.02	(0.04)	0.03	0.06	0.12
Return on capital employed, %	0.33	0.54	0.24	0.14	0.08

¹ Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 53 in the Annual Report for 2017.

NOTES

DKK million

Nykredit A/S	Q1-Q3/ 2018	Q1-Q3/ 2017	Q1-Q3/ 2016	Q1-Q3/ 2015	Q1-Q3/ 2014
19. FIVE-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)					
SUMMARY INCOME STATEMENT					
Staff and administrative expenses	18	44	24	3	3
Profit from investments in associates	4,600	7,493	3,325	2,107	1,446
Profit before tax	4,582	7,449	3,301	2,103	1,443
Tax	(4)	(4)	(1)	(1)	(1)
Profit for the period	4,586	7,453	3,302	2,104	1,444
SUMMARY BALANCE SHEET, END OF PERIOD					
	30.09.2018	30.09.2017	30.09.2016	30.09.2015	30.09.2014
Assets					
Cash balances and receivables from credit institutions and central banks	27	-	2	15	21
Remaining assets	18	9	10	8	5
Investments in Group enterprises	75,147	74,704	65,046	60,747	60,152
Total assets	75,192	74,713	65,057	60,769	60,178
Liabilities and equity					
Payables to credit institutions and central banks	28	25	-	-	-
Remaining liabilities	8	26	12	1	1
Equity	75,156	74,662	65,045	60,769	60,177
Total liabilities and equity	75,192	74,713	65,057	60,769	60,178
FINANCIAL RATIOS¹					
Total capital ratio, %	25.9	26.2	27.0	26.9	26.8
Tier 1 capital ratio, %	25.9	26.2	27.0	26.9	26.8
Return on equity before tax, %	6.1	10.5	5.2	3.5	2.4
Return on equity after tax, %	6.1	10.5	5.2	3.5	2.4
Income:cost ratio	256.6	171.5	140.9	624.1	458.8
Return on capital employed, %	6.10	9.98	5.08	3.46	2.40

¹ Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 53 in the Annual Report for 2017.

Nykredit A/S

20. GROUP STRUCTURE

Name and registered office	Ownership interest as %, 30 September 2018	Profit for the period 2018	Equity, 30 September 2018	Profit for 2017	Equity, 31 December 2017
Nykredit A/S (Parent), Copenhagen, a)	-	4,586	75,156	7,766	75,005
Nykredit Realkredit A/S, Copenhagen, a)	100	4,774	78,976	8,074	78,847
Totalkredit A/S, Copenhagen, a)	100	1,695	27,884	1,752	26,300
Nykredit Bank A/S, Copenhagen, b)	100	1,647	21,083	3,133	19,877
Nykredit Portefølje Administration A/S, Copenhagen, g)	100	116	725	136	725
Nykredit Leasing A/S, Gladsaxe, e)	100	69	671	78	671
Nykredit Mægler A/S, Copenhagen, c)	100	51	118	110	137
Nykredit Ejendomme A/S, Copenhagen, d) ²	-	23	0	65	512
Ejendomsselskabet Kalvebod A/S, Copenhagen, h)	100	10	240	(3)	231
Kalvebod Ejendomme I A/S, Copenhagen, d)	100	6	117	(6)	112
Kalvebod Ejendomme II A/S, Copenhagen, d)	100	(0)	115	3	115
Nykredit Adm. V A/S, Copenhagen, f)	100	-	1	(0)	1

The Group structure only includes significant subsidiaries. Financial information is provided the order in which the subsidiaries are recognised in the Consolidated Financial Statements.

All banks and mortgage providers subject to national financial supervisory authorities must comply with the statutory capital requirements. The capital requirements may limit intercompany facilities and dividend payments.

Geographical distribution of activities	Number of staff	Revenue ¹	Profit before tax	Tax	Government aid received
Denmark: Names and activities appear from the Group structure above	3,376	22,206	5,908	-	-
Poland: Nykredit Realkredit A/S S.A. Oddział w Polsce, branch, a)	9	(8)	2	-	-

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

² Nykredit Ejendomme A/S, Copenhagen, was dissolved on 18 June 2018.

- 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 A/S is consolidated with Forenet Kredit f.m.b.a. The financial statements of Forenet Kredit f.m.b.a (in Danish) and Nykredit Realkredit A/S are available from:

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

Nykredit Group

21. CLASSIFICATIONS AND VALUE ADJUSTMENTS AS AT 1 JANUARY 2018

	Amortised cost	Fair value adjusted through profit or loss	Fair value adjusted through other comprehensive income	Balance sheet, 31 December 2017	Reclassification	Value adjustment	Balance sheet, 1 January 2018
Assets							
Cash balances etc and receivables from credit institutions and central banks	X a)			45,798	2,233	(3)	48,028
Cash balances etc and receivables from credit institutions and central banks		X a)		2,233	(2,233)		-
Loans, advances and other receivables at fair value		X a)		1,191,877	(27,566)		1,164,311
Loans, advances and other receivables at amortised cost	X a) b)			56,087	27,566	(501)	83,153
Bonds at fair value		X		97,149			97,149
Equities measured at fair value through profit or loss		X		2,526	2,450		4,977
Equities available for sale			X	2,450	(2,450)		-
Other balance sheet items				9,357			9,357
Positive market value of derivatives		X		19,269			19,269
Balance sheet total				1,426,746	-	(504)	1,426,242
a) Reclassification of repo transactions					29,799		
b) Impairment charges (IFRS 9) for loans and advances measured at amortised cost						(504)	
Liabilities and equity							
Payables to credit institutions and central banks	X a)			9,689	3,629	-	13,319
Payables to credit institutions and central banks		X a)		3,629	(3,629)		-
Deposits and other payables	X a)			75,914	16,714		92,628
Bonds in issue at fair value		X		1,179,093			1,179,093
Bonds in issue at amortised cost	X			23,532			23,532
Other non-derivative financial liabilities at fair value		X a)		19,021	(16,714)		2,307
Other balance sheet items b)				24,133		(125)	24,009
Negative market value of derivatives		X		12,905			12,905
Provisions for guarantees and other liabilities				58		62	120
Equity c)				78,770		(441)	78,329
Balance sheet total				1,426,746	-	(504)	1,426,242
a) Reclassification of repo transactions					20,343		
b) Tax effect concerning impairment charges (IFRS 9) for loans and advances measured at amortised cost etc						(125)	
c) Change in impairment charges (IFRS 9) for loans and advances measured at amortised cost etc						(441)	

Nykredit A/S

21. CLASSIFICATIONS AND VALUE ADJUSTMENTS AS AT 1 JANUARY 2018 (CONTINUED)

	Amortised cost	Fair value adjusted through profit or loss	Fair value adjusted through other comprehensive income	Balance sheet, 31 December 2017	Reclassification	Value adjustment	Balance sheet, 1 January 2018
Assets							
Cash balances etc and receivables from credit institutions and central banks	X a)			-	-		-
Cash balances etc and receivables from credit institutions and central banks		X a)		-	-		-
Loans, advances and other receivables at fair value		X a)		-	-		-
Loans, advances and other receivables at amortised cost	X a) b)			-	-	-	-
Bonds at fair value		X		-			-
Equities measured at fair value through profit or loss		X		-			-
Investments in Group enterprises b)				75,082	(441)		74,641
Other balance sheet items				14			14
Positive market value of derivatives		X		-			-
Balance sheet total				75,096	-	(441)	74,655
a) Reclassification of repo transactions					-		
b) Change in equity in Nykredit Bank A/S as a consequence of new impairment charges for loans and advances						(441)	
Liabilities and equity							
Payables to credit institutions and central banks	X a)			79	-	-	79
Payables to credit institutions and central banks		X a)		-	-		-
Deposits and other payables	X a)			-	-		-
Bonds in issue at fair value		X		-			-
Bonds in issue at amortised cost	X			-			-
Other non-derivative financial liabilities at fair value		X a)		-	-		-
Other balance sheet items				13			13
Negative market value of derivatives		X		-			-
Provisions for guarantees and other liabilities				-			-
Equity b)				75,005	(441)		74,564
Balance sheet total				75,096	-	(441)	74,655
a) Reclassification of repo transactions					-		
b) Change in equity in Nykredit Bank A/S as a consequence of new impairment charges for loans and advances						(441)	

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.