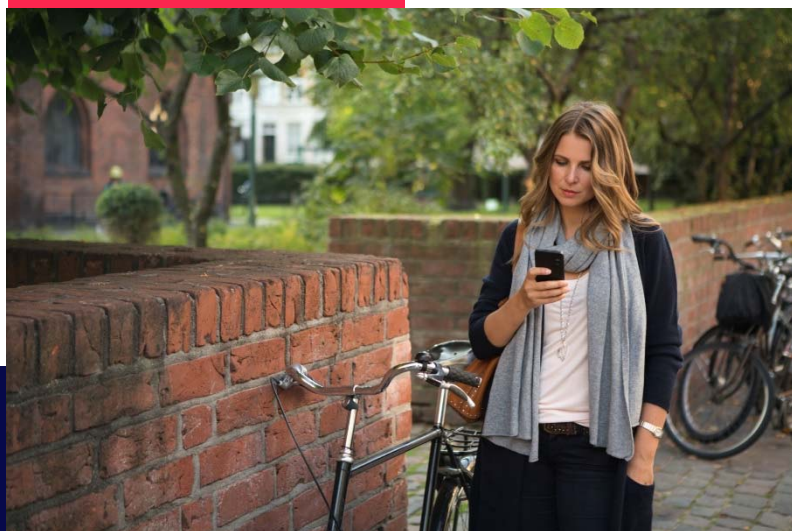


Nykredit  
Group

## H1 Interim Report 2020



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# FINANCIAL HIGHLIGHTS

DKK million

Nykredit Group	H1/ 2020	H1/ 2019	Q2/ 2020	Q1/ 2020	Q2/ 2019	2019
<b>BUSINESS PROFIT AND PROFIT FOR THE PERIOD</b>						
Net interest income	4,832	4,592	2,438	2,394	2,310	9,344
Net fee income	1,136	1,155	594	542	671	2,739
Wealth management income	987	719	485	502	369	1,610
Net interest from capitalisation	(198)	(172)	(93)	(105)	(84)	(352)
Net income relating to customer benefits programmes <sup>1</sup>	(97)	(103)	(52)	(45)	(23)	(358)
Trading, investment portfolio and other income	(189)	1,301	1,205	(1,394)	623	1,673
<b>Income</b>	<b>6,470</b>	<b>7,492</b>	<b>4,576</b>	<b>1,894</b>	<b>3,865</b>	<b>14,656</b>
Costs	2,841	2,502	1,421	1,420	1,273	5,347
<b>Business profit before impairment charges</b>	<b>3,630</b>	<b>4,990</b>	<b>3,156</b>	<b>474</b>	<b>2,593</b>	<b>9,308</b>
Impairment charges for loans and advances	1,755	433	443	1,312	213	994
<b>Business profit (loss)</b>	<b>1,875</b>	<b>4,557</b>	<b>2,713</b>	<b>(838)</b>	<b>2,379</b>	<b>8,314</b>
Legacy derivatives	(103)	(269)	318	(421)	(50)	(112)
Badwill, impairment of goodwill and amortisation of customer relationships	(2)	-	(2)	-	-	564
<b>Profit (loss) before tax for the period</b>	<b>1,770</b>	<b>4,288</b>	<b>3,029</b>	<b>(1,259)</b>	<b>2,329</b>	<b>8,766</b>
Tax	204	681	581	(377)	352	1,340
<b>Profit (loss) for the period</b>	<b>1,566</b>	<b>3,606</b>	<b>2,448</b>	<b>(882)</b>	<b>1,977</b>	<b>7,427</b>
Other comprehensive income, remaining items	(35)	(3)	(20)	(15)	29	22
<b>Comprehensive income (loss) for the period</b>	<b>1,531</b>	<b>3,603</b>	<b>2,428</b>	<b>(897)</b>	<b>2,006</b>	<b>7,449</b>
Interest on Additional Tier 1 capital charged against equity	117	116	59	58	58	233
Minority interests	14	-	7	7	-	(1)
<b>SUMMARY BALANCE SHEET</b>						
Assets	30.06.2020	30.06.2019	30.06.2020	31.03.2020	30.06.2019	31.12.2019
Receivables from credit institutions and central banks	32,698	43,475	32,698	41,002	43,475	59,623
Mortgage loans at fair value	1,313,138	1,232,135	1,313,138	1,286,026	1,232,135	1,287,370
Bank loans excluding reverse repurchase lending	67,014	63,505	67,014	69,389	63,505	65,466
Bonds and equities	114,005	117,650	114,005	117,662	117,650	115,690
Remaining assets	71,035	83,929	71,035	77,340	83,929	82,171
<b>Total assets</b>	<b>1,597,890</b>	<b>1,540,695</b>	<b>1,597,890</b>	<b>1,591,419</b>	<b>1,540,695</b>	<b>1,610,319</b>
Liabilities and equity						
Payables to credit institutions and central banks	14,445	26,647	14,445	22,705	26,647	13,914
Deposits excluding repo deposits	85,267	79,940	85,267	80,526	79,940	85,374
Bonds in issue at fair value	1,313,990	1,263,666	1,313,990	1,308,146	1,263,666	1,336,414
Subordinated debt	10,951	11,077	10,951	11,011	11,077	11,004
Remaining liabilities	87,446	78,796	87,446	85,551	78,796	79,246
Equity	85,791	80,569	85,791	83,479	80,569	84,366
<b>Total liabilities and equity</b>	<b>1,597,890</b>	<b>1,540,695</b>	<b>1,597,890</b>	<b>1,591,419</b>	<b>1,540,695</b>	<b>1,610,319</b>
<b>FINANCIAL RATIOS</b>						
Profit (loss) for the period as % pa of average business capital (ROAC) <sup>2</sup>	4.6	12.4	15.2	(6.3)	13.2	12.4
Profit (loss) for the period as % pa of average equity <sup>3</sup>	3.6	9.2	11.8	(4.7)	10.1	9.3
Costs as % of income	43.9	33.4	31.0	75.0	32.9	36.5
Total provisions for loan impairment and guarantees	9,579	8,027	9,579	9,171	8,027	8,033
Impairment charges for the period, %	0.12	0.03	0.02	0.10	0.02	0.07
Total capital ratio, %	22.0	23.2	22.0	23.0	23.2	22.4
Common Equity Tier 1 capital ratio, %	19.2	20.5	19.2	20.2	20.5	19.5
Internal capital adequacy requirement, %	10.7	10.1	10.7	11.0	10.1	10.9
Average number of staff, full-time equivalent	3,726	3,378	3,725	3,728	3,434	3,515

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

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

<sup>3</sup> For the purpose of return on equity etc, 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 (loss) for the period.

## EXECUTIVE SUMMARY

Nykredit delivered a profit for H1/2020, which is satisfactory in the circumstances and significantly exceeds expectations earlier this year. The Nykredit Group's profit before tax was DKK 1,770 million in H1/2020 (H1/2019: DKK 4,288 million).

Against this backdrop, we raised our guidance for business profit and profit before tax from between DKK 2.5 billion and DKK 3.5 billion to between DKK 4.0 billion and DKK 5.0 billion earlier this month. The higher guidance reflects the current outlook for the economy and financial markets as well as the continued positive development in our underlying core business. Our guidance is still subject to higher-than-usual uncertainty as a result of covid-19.

The period saw good momentum in the underlying business as demonstrated by increased net interest and wealth management income. Nykredit also recorded an increase in the number of customers and growth in bank and mortgage lending – hence, recent years' strong inflow of customers continued in H1/2020. Particularly bank lending increased significantly in the past 12 months, up 5% since end-June 2019. Furthermore, mortgage lending increased, which led to rising net interest income. Conversely, interest margins were under pressure, as more and more customers choose fixed-rate repayment loans.

Despite the fact that our results for H1 exceed expectations earlier this year, our performance was naturally marked by the continued uncertainty related to the impacts of the covid-19 pandemic in Denmark and globally. H1 results were negatively influenced by the financial market unrest, which impacted trading, investment portfolio and other income. Financial markets recovered significantly in Q2 and regained most of the losses from Q1.

At the same time, our results were marked by the increased impairment charges for loans and advances due to the uncertainty about the duration and severity of the covid-19 pandemic. The negative impact was lower in Q2, however, compared with Q1. In H1 impairment charges for loans and advances totalled DKK 1,755 million, of which DKK 1,549 million was provided for losses anticipated as a consequence of covid-19. Such provisions are based on management judgement. Covid-19-induced write-offs remained low, due to the generally robust finances and liquidity of our customers coupled with the effect of government relief packages and expanded access to credit in the financial sector.

In recent years, Nykredit has built a healthy core business and a strong capital position, and we are therefore able to focus on helping otherwise financially healthy families and businesses through this crisis prudently and responsibly. The increasing demand for lending and liquidity seen particularly in March, April and May has since receded concurrently with the reopening of Denmark. If such higher demand returns, we are ready to accommodate our customers' needs. In this way, we contribute to preserving healthy Danish businesses and workplaces, which might otherwise have been lost due to covid-19. The duration and severity of the economic crisis lying ahead of us are currently hard to predict but Nykredit operates from a strong foundation, and we are fully committed to delivering on our responsibility to society and helping as many families and businesses as possible through the crisis.

### Together we can help more people

At Nykredit, we aim to create opportunities and provide security for our customers and help them find the right solutions. Shortly after the Danish government announced the release in October of three weeks' holiday pay, our full-service customers were therefore given the opportunity to have an interest- and fee-free credit corresponding to the amount of holiday pay due to them in October. They merely have to repay the credit when they receive their holiday pay. Our personal customers will thus be able to spend their holiday pay already this summer. And hopefully, this will affect our business customers so they will prosper from higher Danish private consumption already this summer instead of having to wait till autumn.

Nykredit Bank has launched a number of initiatives to help Danish families and businesses in financial difficulties as a consequence of covid-19. In the current situation, many families and businesses with otherwise healthy finances may be unable to make ends meet for a period of time. To provide the best possible support, we consider the circumstances of the individual customer, and together we strive to come up with the right solution.

We have launched two initiatives specifically targeted at our business customers. First, refusals are subject to the four-eyes principle. This means that a refusal must be exceptionally well-founded, and it will minimise the risk of mistakes. Secondly, we have set up a complaints board with a fast-tracked complaints procedure. This is to ensure that customers get a quick decision, helping them move forward.

Nykredit holds a strong capital position but still complies with the government's and the authorities' recommendation to financial undertakings to refrain from distributing dividend in 2020.

Nykredit's majority shareholder, Forenet Kredit, endorses the Group's customer programmes and has announced that the withholding of dividend in 2020 will not affect the association's financial backing for the Group's customer programmes. As a result, we were in March able to announce to our homeowner customers the continuation of the KundeKroner benefits programme on the current terms up to and including 2021. At end-June we were able to announce to our business customers the continuation of the ErhvervsKroner programme up to and including 2021 on the current terms. It is important to us that our customers know they can rely on the KundeKroner and ErhvervsKroner discount programmes. These programmes illustrate the unique strength of our mutual ownership structure.

Nykredit aligns its guidelines for meetings and access to locations with the authorities' recommendations and rules on assembly. Nykredit's customer centres have been closed for a period, and our people have made every effort to help customers while working from home. At the beginning of June, it was considered safe to reopen our customer centres. However, we still recommend that most meetings be held online or by telephone. We continue acting on a precautionary principle, observing all guidelines from authorities to minimise the spread of covid-19.

### Top ranking of Nykredit products

In June Totalkredit was ranked no 1 in a test of mortgage loans for holiday homes and was recommended by the Danish Consumer Council. In all of the nine loan case examples the ongoing costs of a Totalkredit loan were the lowest when including KundeKroner. In February the Danish Consumer Council compared the prices of home equity loans, and Totalkredit was ranked best in test and given a recommendation. In June last year, Totalkredit was recommended as the mortgage lender offering the most attractive mortgage loans in the sector.

The strong product supply and good customer experience delivered by Wealth Management have again been recognised. Nykredit Invest won all three main categories at the annual Morningstar Fund Awards. The investment fund Nykredit Invest was awarded best manager of equities and bonds as well as best at equities, bonds and balanced funds. This is the third year running that Nykredit Invest has won one or more main categories at the Morningstar Fund Awards.

Also, the fund Sparinvest INDEX Europe Growth KL won Morningstar's category "European Equities". Nykredit Invest and Sparinvest were nominated in 7 out of 8 of Morningstar's categories.

### Strong alliance

The alliance between Totalkredit and its partner banks is strong, and partner satisfaction is higher than ever.

The alliance with the 53 Totalkredit partner banks is the foundation for our commitment to contribute to development and growth and offer attractive and secure loans all over Denmark at all times.

### Lowest administration margin payments for more than six years

Nykredit offers attractive home loans. KundeKroner and ErhvervsKroner discounts have a large impact on the costs of a mortgage loan. For instance, homeowners' average administration margin payments to Totalkredit are today the lowest for more than six years. The programme also means that Totalkredit currently charges the lowest administration margin payments in the market on the most popular types of mortgage loans, such as fixed-rate mortgages and ARMs with 5-year interest reset.

### Our contribution to the green transition

Sustainability has become an important part of our work, and we are working across the Group to support Denmark's green transition and the Danish government's ambitions in this area. A key element of Nykredit's strategy is the green agenda. Together with the Danish Energy Agency, Totalkredit and its partner banks have developed an energy calculator, which is a tool for home energy optimisation. The energy calculator is to raise awareness of sustainable housing and energy renovation. It provides homeowners with an easy and quick overview of the actions they need to take to save the most money and upgrade the energy performance of their homes. This way we can guide our customers towards a more financially attractive and greener path.

Nykredit was among the first to offer mortgage financing for wind turbines, electricity grids and fibre network solutions, and in July we were pleased to announce that we were the first provider of mortgage financing for solar panel parks. Mortgage lending is a unique, competitive and long-term source of funding, and Nykredit is contributing to founding a new market for green infrastructure financing. We see a major potential in contributing to driving the green transition by ensuring the right funding.

Nykredit's fund "Bæredygtige Aktier", which carries the Nordic Swan Ecolabel, also underscores our commitment to sustainable investment. Nykredit will continue to introduce products aimed at facilitating the green transition. At Nykredit we are also working to reduce our resource consumption and carbon footprint.



## FINANCIAL REVIEW

	<b>Business profit H1/2020</b>	<b>Profit H1/2020</b>	<b>Income H1/2020</b>
	<b>DKK 1,875 million</b> Business profit	<b>DKK 1,770 million</b> Profit before tax for the period	<b>DKK 6,470 million</b> Income
	<b>ROAC</b>	<b>Return on equity</b>	<b>Cost:income ratio</b>
	<b>4.6%</b> Profit for the period as % pa of average business capital	<b>3.6%</b> Profit for the period as % pa of average equity	<b>43.9%</b> Costs as % of income

### FINANCIAL HIGHLIGHTS IN H1/2020

Nykredit delivered a profit before tax of DKK 1,770 million for H1/2020 (H1/2019: DKK 4,288 million). Business profit for H1/2020 was DKK 1,875 million (H1/2019: DKK 4,557 million). Results were impacted by covid-19 and the ensuing turmoil in financial markets and increased loan impairment charges. Nykredit's underlying business was, however, less impacted by covid-19, with growth in customers as well as lending in H1.

Financial markets tumbled in Q1, but normalised gradually in Q2. Losses on the Group's investment portfolios of bank equities and negative unrealised value adjustments of swaps etc were consequently significantly lower in Q2 than in Q1. However, in total, the investment portfolio generated a loss for H1. Loan impairment charges also increased significantly in the period due to the adverse economic outlook for especially businesses resulting from the covid-19 situation.

#### Income

Income totalled DKK 6,470 million in H1/2020 (H1/2019: DKK 7,492 million).

Net interest income, which rose by DKK 240 million compared with the same period last year, was satisfactory. Net interest income came to DKK 4,832 million (H1/2019: DKK 4,592 million). The underlying business is performing well, and continued growth in bank and mortgage lending has affected net interest income positively. In addition, negative interest rates for personal customers have also affected net interest income positively.

Net fee income decreased to DKK 1,136 million in H1/2020 (H1/2019: DKK 1,155 million), primarily owing to the exceptionally high remortgaging activity last year.

Wealth management income totalled DKK 987 million in H1/2020 (H1/2019: DKK 719 million). The rise primarily stemmed from Sparinvest, which was included in H1/2020, but not in H1/2019.

Net interest expenses from capitalisation, which includes interest on subordinated debt, grew to a negative DKK 198 million (H1/2019: a negative DKK 172 million).

Net income relating to the customer benefits programmes KundeKroner, ErhvervsKroner and MineMål was a negative DKK 97 million in H1/2020 (H1/2019: a negative DKK 103 million). The amount includes contributions received from Forenet Kredit.

Trading, investment portfolio and other income, including value adjustment of swaps etc, dropped to a negative DKK 189 million (H1/2019: income of DKK 1,301 million). This was strongly impacted by covid-19 and attributable to negative unrealised value adjustment of swaps prompted by credit and funding spread widening, losses on investment portfolios following mortgage spread widening and equity market declines; all covid-19 impacts. In H1/2019 investment portfolio income was significantly higher due to considerable capital gains on the portfolio of, for example, Danish bank equities.

#### Costs

Costs totalled DKK 2,841 million in H1/2020 (H1/2019: DKK 2,502 million). The increase was primarily related to staff from Sparinvest, LR Realkredit and Shared Valuation etc in 2020 relative to H1/2019, as well as investments in compliance.

The average headcount was 3,726 in H1/2020 (H1/2019: 3,378).

#### Impairment charges for loans and advances

Impairment charges for loans and advances totalled DKK 1,755 million in H1/2020 (H1/2019: DKK 433 million). The favourable economic trends from early Q1, before the covid-19 outbreak, continued into Q2 and were reflected in low write-offs and low individual impairment provisions for homeowners and businesses alike. Individual and model-based impairment provisions increased from a net reversal of DKK 103 million in Q1 to a net reversal of DKK 74 million in Q2.

	DKK million	
	Q2/	Q1/
	2020	2020
Nykredit Group		
Impairment charges for loans and advances		
Individual impairment provisions (stage 3)	(40)	152
Model-based impairment provisions (stages 1 and 2)	(34)	(255)
Management judgement (stages 1, 2 and 3)	517	1,415
- of the above attributable to covid-19	374	1,175
<b>Impairment charges for loans and advances</b>	<b>443</b>	<b>1,312</b>



Loan impairments were, however, impacted by the uncertainty about the duration and severity of the covid-19 pandemic. The negative impact was lower in Q2 compared with Q1. In H1 DKK 1,549 million was provided for losses anticipated as a consequence of covid-19. Such provisions are based on management judgement, stress tests, economic trends and portfolio calculations. Write-offs incurred by the covid-19 pandemic remain low due to the financial strength and liquidity of our customers as well as the effect of government relief packages and expanded access to credit in the financial sector. But the risk of higher losses will remain significant, if the pandemic continues to stretch on, adversely impacting the economy as well as the labour supply at national and international levels. For further information about the impacts of covid-19 on impairment charges for loans and advances and lending mix, please refer to "Credit risk" on page 21 of this report as well as our Fact Book Q2/2020 which is available at [Nykredit.com](https://www.nykredit.com).

#### Other items

Legacy derivatives, which are not included in business profit, resulted in a negative value adjustment of DKK 103 million for the period (H1/2019: a negative DKK 269 million). This was primarily due to widened credit spreads resulting from covid-19. Legacy derivatives are derivatives Nykredit no longer offers to customers, comprising a portfolio with a total market value of DKK 7.2 billion (end-2019: DKK 6.6 billion). The portfolio was written down to DKK 5.1 billion at end-June 2020 (end-2019: DKK 4.5 billion).

#### Tax

Tax calculated on profit for the period was DKK 204 million (H1/2019: DKK 681 million).

#### Balance sheet

Nominal mortgage lending was DKK 1,292 billion at end-June 2020 (end-2019: DKK 1,263 billion), equal to an increase of DKK 30 billion on end-2019.

The strong alliance between Totalkredit and its partner banks continues to drive growth in Totalkredit's mortgage lending, which amounted to DKK 770 billion at nominal value at end-June 2020 (end-2019: DKK 740 billion). This represents a 4% increase since end-2019. Almost 850,000 homeowners now have Totalkredit loans.

The Group's market share of total Danish mortgage lending (including LR Realkredit) was 43.2% at end-June 2020 (end-2019: 42.8%).

Nykredit's loan portfolio continues to develop positively, and Nykredit Bank's lending increased by DKK 1.5 billion to DKK 67.0 billion at end-June 2020 (end-2019: DKK 65.5 billion), corresponding to a 2% increase since end-2019. Bank lending (including secured homeowner loans transferred to Totalkredit) rose to DKK 73.9 billion (end-2019: DKK 72.3 billion). At 30 June 2020 secured homeowner loans transferred to Totalkredit amounted to DKK 6.9 billion (end-2019: DKK 6.8 billion).

Guarantees provided by Nykredit amounted to DKK 6.8 billion at end-June 2020 (end-2019: DKK 6.6 billion).

Deposits, excluding repo deposits, decreased to DKK 85.3 billion (end-2019: DKK 85.4 billion).

Nykredit Bank's deposits exceeded lending by DKK 18.4 billion at end-June 2020 (end-2019: DKK 20.1 billion).

#### Equity

The Nykredit Group's equity stood at DKK 85.8 billion at end-June 2020 (end-2019: DKK 84.4 billion).

### RESULTS FOR Q2/2020 RELATIVE TO Q1/2020

Profit before tax was DKK 3,029 million in Q2/2020 (Q1: a loss of DKK 1,259 million).

Income amounted to DKK 4,576 million in Q2 (Q1: DKK 1,894 million), primarily driven by the recovery in financial markets in Q2 compared with Q1, which had a positive impact on derivatives as well as investment portfolio income. Impairment charges for loans and advances totalled DKK 443 million, which was considerably lower than the impairment charges of DKK 1,312 million in Q1. Impairment charges were still impacted by the uncertainty about the duration and severity of the covid-19 pandemic. The negative impact, however, was lower in Q2 compared with Q1.

Costs in Q2 were on a par with Q1 and totalled DKK 1,421 million (Q1: DKK 1,420 million).

Legacy derivatives resulted in a positive value adjustment of DKK 318 million (Q1: a negative value adjustment of DKK 421 million). The large negative impact in Q1 was somewhat reversed in Q2 due to tightened credit and funding spreads.

### OUTLOOK AND GUIDANCE FOR 2020

At the presentation of the Q1 Interim Report for 2020, our guidance for business profit and profit before tax for 2020 was between DKK 2.5 billion and DKK 3.5 billion. Based on our current outlook for the economy and financial markets, we have raised our guidance for business profit and profit before tax for 2020 to between DKK 4.0 billion and DKK 5.0 billion. Our guidance is still surrounded by higher-than-usual uncertainty as a result of covid-19.

The earnings guidance is based on the following assumptions:

- Financial markets have recovered markedly since end-Q1/2020, positively affecting investment portfolio income as well as current and legacy derivatives.
- Nykredit has taken additional loan impairment provisions in Q2 of around DKK 0.5 billion, bringing the total impairment level up to DKK 1.8 billion for H1. The total expected impairment level for the year remains unchanged compared with Q1. Write-offs on customer exposures are still very low. However, despite the implementation of the relief packages and the reopening of most of Denmark, Nykredit still expects significantly increased impairments for the year, of which a large part has already been recognised in H1 based on management judgement and updated macro scenarios in model calculations. Of total loan impairments recorded in H1/2020, some DKK 1.5 billion can be ascribed to covid-19. As the year

brings more clarity about the effects of covid-19 on Nykredit's customers, we foresee additional impairment provisions, if necessary.

- Nykredit still expects to deliver growth in the underlying business and the customer base, but as reported earlier, we anticipate lower income, as the high remortgaging activity seen in 2019 is not expected to continue at the same level in 2020.
- We expect slightly increasing costs as a result of the full-year impact of the acquisition of LR Realkredit and Sparinvest as well as investments in compliance.

The most important uncertainty factors affecting our 2020 guidance are the covid-19 impacts on investment portfolio income due to Nykredit's portfolio of bank equities and on legacy derivatives as well as impairment charges for loans and advances.

## SPECIAL ACCOUNTING CIRCUMSTANCES

### Presentation of negative interest income

Due to increased negative interest income from deposits and lending, negative interest income has been included under interest expenses, while negative interest expenses have been included under interest income in the presentation of the income statement on page 28. Negative interest is generally attributable to repo lending and deposits. The change does not affect total net interest income, profit or the Group's financial ratios. Reference is made to note 6 in the Financial Statements.

## OTHER

### Dividend

In the Annual Report 2019, the Board of Directors proposed dividend for 2019 of DKK 3,610 million to the Company's shareholders. This was in accordance with Nykredit's dividend policy.

In light of the macroeconomic uncertainty caused by the covid-19 pandemic, the Annual General Meeting, which convened in March 2020, resolved to retain the full net profit for the year. Nykredit holds a strong capital position but still complies with the government's and the authorities' recommendation to financial undertakings to refrain from distributing dividend in 2020.

### Totalkredit has taken over selected functions of Bolighed

From end-June, Totalkredit A/S has taken over part of the digital platform Bolighed and continues its services under a new name (Mit hjem). The majority of the staff has transferred to Totalkredit, and Christian Jaspers, Managing Director of Bolighed, will join the management team of Totalkredit.

### KundeKroner and ErhvervsKroner benefits programmes

Backed by Forenet Kredit, Nykredit has decided that the KundeKroner benefits programme for homeowners and the ErhvervsKroner benefits programme for business customers will be extended on the current terms up to and including 2021 to enhance our customers' financial security. In the current situation, it is important to us that our customers feel assured that they can rely on the KundeKroner and ErhvervsKroner benefits programmes as a unique strength of our customer-ownership structure.

Nykredit's majority shareholder, Forenet Kredit, endorses the Group's customer programmes and has announced that the withholding of dividend in 2020 will not affect the association's financial backing for the Group's customer programmes.

### Conditional agreement on sale of shares in VP Securities

On 23 April Denmark's Nationalbank together with Nykredit and three other major shareholders announced an agreement to sell their shares in VP Securities to Euronext. Nykredit holds 12.7% of the shares in VP Securities. The agreement was approved by the Danish FSA in July 2020, and closing will be at the beginning of Q3/2020.

## 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 as well as valuation of unlisted financial instruments, including swaps, see note 1, accounting policies, to which reference is made.

For H1/2020 the impact from covid-19 has led to significant volatility in fixed income markets and increased complexity in determining the market value of interest rate swaps in particular. Compared with more normal market conditions, valuations are characterised by increased uncertainty.

Furthermore, the temporary global lockdown of borders and workplaces in Q1 and early Q2 with subsequent gradual reopening as well as the upward unemployment trends mean that the determination of impairment provisions for loans and advances is also subject to increased uncertainty. The main reason for this is the current difficulty in predicting the duration and severity of the crisis and its resulting impact on customers' financial position.

## MATERIAL RISKS

The Group's most material risks are described in detail in note 50 of the Annual Report for 2019, to which reference is made.

## EVENTS SINCE THE BALANCE SHEET DATE

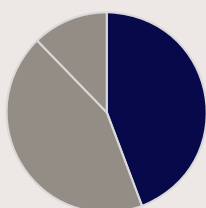
No events have occurred in the period up to the presentation of the H1 Interim Report 2020 which materially affect the Group's financial position.



# BUSINESS AREAS

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

## Banking



Comprises Retail and Corporates & Institutions.

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

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

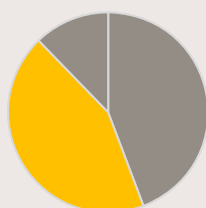
**Business profit H1/2020:**  
DKK 1,023 million

**Income H1/2020:**  
DKK 4,440 million

**Impairment charges for loans and advances H1/2020:**  
DKK 1,461 million

**Total lending end-June 2020:**  
DKK 701 billion

## Totalkredit Partners



Comprises Totalkredit-branded mortgage loans to personal and business customers arranged by 53 Danish local and regional banks. Mortgage loans arranged by Nykredit are included in the business area Banking.

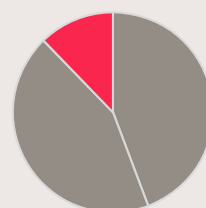
**Business profit H1/2020:**  
DKK 1,005 million

**Income H1/2020:**  
DKK 1,615 million

**Impairment charges for loans and advances H1/2020:**  
DKK 242 million

**Total lending end-June 2020:**  
DKK 645 billion

## Wealth Management



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

**Business profit H1/2020:**  
DKK 283 million

**Income H1/2020:**  
DKK 768 million

**Total lending end-June 2020:**  
DKK 14 billion

**Assets under management end-June 2020:** DKK 325.0 billion

**Assets under administration end-June 2020:** DKK 867.2 billion

Percentages show the business divisions' share of business profit for H1/2020 excluding Group Items.

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

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

DKK million

Results –	H1/	H1/	Q2/	Q1/	
Banking	2020	2019	2020	2020	2019
Net interest income	3,296	3,155	1,659	1,637	6,330
Net fee income	918	877	493	425	2,070
Wealth management income	331	291	162	169	614
Net interest from capitalisation	(178)	(167)	(86)	(92)	(336)
Trading, investment portfolio and other income	73	202	333	(259)	526
<b>Income</b>	<b>4,440</b>	<b>4,359</b>	<b>2,561</b>	<b>1,879</b>	<b>9,204</b>
Costs	1,956	1,865	1,000	956	3,843
<b>Business profit before impairment charges</b>	<b>2,483</b>	<b>2,494</b>	<b>1,561</b>	<b>923</b>	<b>5,361</b>
Impairment charges for mortgage lending	1,209	278	239	970	842
Impairment charges for bank lending	252	94	72	180	205
<b>Business profit (loss)</b>	<b>1,023</b>	<b>2,122</b>	<b>1,249</b>	<b>(227)</b>	<b>4,314</b>
Legacy derivatives	(102)	(269)	318	(420)	(113)
<b>Profit (loss) before tax</b>	<b>921</b>	<b>1,852</b>	<b>1,567</b>	<b>(646)</b>	<b>4,201</b>

### H1 in summary

2020 has seen a high level of activity. We have welcomed many new full-service personal as well as business customers, and also many new private banking clients, who are attracted by our award-winning concept. Our corporate and institutional clients have had a high activity level, and we have increased our lending facilities to ensure their liquidity. In order to strengthen customer experience

- we have launched Young Money, a new concept which makes it fun and interesting to learn about saving up and payments
- we are dedicated to promoting sustainable solutions by engaging in dialogue and having a sustainable product range
- Banking now also offers green construction loans to corporate and institutional clients.

Digital value propositions are a top priority in tandem with Nykredit's focus on a nation-wide physical presence. In concert with partners such as innovative fintech companies, we are working to expand our digital value propositions and make it easier to be a customer with Nykredit.

We have for example launched Young Money aimed at children and teenagers with the intention of making saving up and payments fun for young people and life with pocket money easier for their parents. Young Money is for children and teenagers aged 7-17 and includes a personal account, payment card and mobile app.

We remain dedicated to promoting sustainable solutions and having a sustainable product range. In 2020 we have launched green construction loans, increased our volume of green covered bonds and set up our Sustainable Solutions entity with a team of experts who provide advice to businesses about the green transition and how to finance it.

Nykredit's acquisition of LR Realkredit received final approval at end-2019. The integration of LR Realkredit's customers and staff into Corporates & Institutions started in Q1 and continued in Q2.

### Covid-19 response

At end-Q1, Denmark like other countries was affected by covid-19. The final impact is unknown, but it is only natural that families and businesses are worried about being unable to make ends meet for a period of time. We are fully aware of our responsibility and are helping our customers. In this spirit, we have launched a number of initiatives to help Danish families and businesses.

We offer our personal customers affected by critical income losses due to the covid-19 pandemic a special credit facility, payment holidays on car loans, consumption loans and bank home loans as well as no-fee overdrafts. We are also offering to pay out frozen holiday pay already now in the form of an interest- and fee-free overdraft of an amount equal to the holiday pay due to the customer in October.

We offer our business customers payroll finance as well as payment holidays on banking and lease facilities. We want to help and accommodate our customers as best we can and have therefore established a corona hotline, which business customers may consult by telephone or online for advice and information on the government aid initiatives.

In addition, we have introduced two new initiatives. First, refusals are subject to the four-eyes principle. And secondly, customers who disagree with a refusal and wish to file a complaint may take the matter to a designated complaints board with a fast-tracked complaints procedure. The complaints board convenes on all weekdays to consider customers' complaints and provide them with fast and efficient decisions.

Our actions are based on a precautionary principle and we abide by all government guidelines. Consequently, our customer centres were closed in April and May, and physical meetings with customers were cancelled and replaced by online or telephone meetings. At the end of H1 our customer centres reopened, but we still recommend that customers meet us online or by telephone, to which our customers have responded positively.

### Results for H1/2020 relative to H1/2019

Banking delivered a business profit of DKK 1,023 million in H1/2020 (H1/2019: DKK 2,122 million).

Total income amounted to DKK 4,440 million (H1/2019: DKK 4,359 million). The underlying business is performing satisfactorily. Continued growth in bank and mortgage lending positively impacted net interest income, up DKK 141 million compared with H1/2019 and totaling DKK 3,296 million (H1/2019: DKK 3,155 million). Income from trading, investment portfolio and other income decreased to DKK 73 million (H1/2019: DKK 202 million), driven by negative value adjustments of swaps and the impact of covid-19 on financial markets.

## Selected balance sheet items

Banking	30.06.2020	31.03.2020	31.12.2019	30.06.2019
<b>Retail Personal Banking</b>				
Loans and advances	184,707	185,480	186,113	184,406
- of which mortgage lending, nominal value	167,537	168,022	168,397	166,585
- of which secured homeowner loans	7,684	7,704	7,727	7,723
- of which bank lending	9,487	9,754	9,989	10,099
Deposits	36,826	34,737	35,379	33,185
<b>Retail Business Banking</b>				
Loans and advances	243,857	244,866	243,976	242,064
- of which mortgage lending, nominal value	220,658	220,450	220,039	219,499
- of which bank lending	23,198	24,416	23,938	22,565
Deposits	22,052	20,962	21,059	19,406
<b>Corporates &amp; Institutions</b>				
Loans and advances	272,389	267,990	264,003	230,878
- of which mortgage lending, nominal value	243,386	238,012	238,209	206,272
- of which bank lending	29,003	29,978	25,794	24,606
Deposits	10,135	6,149	9,495	8,585

We have moved a customer group from Retail, Business Banking to Corporates & Institutions. Comparative figures have been restated accordingly.

Costs rose to DKK 1,956 million (H1/2019: DKK 1,865 million), mainly due to a substantial increase in resources allocated for compliance.

Impairment charges for loans and advances rose to DKK 1,461 million in H1/2020 (H1/2019: DKK 372 million). The increase was due to provisions taken in response to the forecast adverse financial impact of covid-19.

Legacy derivatives saw a negative value adjustment of DKK 102 million (H1/2019: a negative DKK 269 million).

### Results for Q2/2020 relative to Q1/2020

Banking delivered a business profit of DKK 1,249 million in Q2/2020 (Q1/2020: a negative DKK 227 million).

Income amounted to DKK 2,561 million (Q1/2020: DKK 1,879 million), primarily driven by the recovery in financial markets in Q2 compared with Q1, which had a positive impact on derivatives as well as investment portfolio income.

Impairment charges for loans and advances of DKK 311 million (Q1/2020: DKK 1,150 million) were also in Q2 impacted by the uncertainty about the duration and severity of the covid-19 pandemic. The negative impact, however, was lower in Q2 compared with Q1.

Legacy derivatives were a gain of DKK 318 million (Q1/2020: a loss of DKK 420 million), chiefly driven by tightened credit and funding spreads.

### Activities

Banking has recorded strong lending growth, especially in bank lending, since end-2019. Loan volumes totalled DKK 701.0 billion at 30 June 2020 (end-2019: DKK 694.1 billion), of which DKK 631.6 billion was mortgage loans at nominal value (end-2019: DKK 626.6 billion).

Bank lending in Retail Personal Banking came to DKK 9.5 billion (end-2019: DKK 10.0 billion). Bank deposits in Retail Personal Banking rose by DKK 1.5 billion from end-2019 to DKK 36.8 billion.

Bank lending in Retail Business Banking stood at DKK 23.2 billion (end-2019: DKK 23.9 billion).

Bank lending in Corporates & Institutions rose to DKK 29.0 billion (end-2019: 25.8 billion).

### Arrears

At the March due date 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.67% against 0.76% at the same date in 2019.



DKK million

Results –	H1/ 2020	H1/ 2019	Q2/ 2020	Q1/ 2020	2019
<b>Totalkredit Partners</b>					
Net interest income	1,443	1,372	728	716	2,879
Net fee income	219	270	98	121	657
Net interest from capitalisation	(101)	(87)	(47)	(53)	(182)
Trading, investment portfolio and other income	53	11	32	21	24
<b>Income</b>	<b>1,615</b>	<b>1,566</b>	<b>810</b>	<b>805</b>	<b>3,378</b>
Costs	368	291	193	175	651
<b>Business profit before impairment charges</b>	<b>1,247</b>	<b>1,275</b>	<b>617</b>	<b>629</b>	<b>2,726</b>
Impairment charges for mortgage lending	242	58	139	103	(69)
<b>Business profit</b>	<b>1,005</b>	<b>1,217</b>	<b>478</b>	<b>526</b>	<b>2,796</b>

## H1 in summary

Totalkredit Partners is committed to further strengthening the alliance with Nykredit's partner banks as well as offering customers the best loan propositions in the market. As a result of our efforts

- Totalkredit has been recommended by the Danish Consumer Council three times as the Danish mortgage lender offering the lowest mortgage prices, most recently in a holiday home loans survey from June
- from end-June, Totalkredit has taken over part of the digital company Bolighed and continues its services under a new name ("Mit Hjem") in an effort to meet our customers' demand for customised digital content about housing
- we have seen high lending and customer growth
- we now have a joint IT platform, which supports our continued ability to offer customers the best home financing options.

KundeKroner discounts have a large impact on the costs of a mortgage loan. This means that right now Totalkredit generally charges the lowest administration margins in the market on the most popular types of mortgage loans.

The alliance between Totalkredit and its partner banks is strong and has been instrumental in driving the 4% growth in lending recorded since end-2019. We have welcomed a large number of new customers, and now almost 850,000 homeowners have Totalkredit loans.

The Totalkredit alliance is developing a new joint IT platform aimed to secure its market position in coming years as the best provider of advisory services and home financing options. All three of the collaborating IT partners have implemented the first part of the platform, offering customers and advisers a better overview of customers' aggregate facilities, including Totalkredit mortgage loans.

A very successful implementation of the new shared property valuation unit serving the Totalkredit alliance was completed in the last half of 2019, and the unit performed well amid the very high remortgaging activity as from Q2/2019. The aim of the unit is to ensure uniform property valuations, fast response times and focus on customer experience.

Totalkredit business mortgages are offered to the segments Office and Retail, Residential Rental as well as Industry and Trades. A total of 38 banks, representing the majority of partner banks having business customers with mortgage needs, offer business mortgages.

## Covid-19 response

All essential functions of Totalkredit Partners have been running in order for Totalkredit to continue to help customers and support our partner banks. Thus, during the temporary lockdown, customers throughout Denmark were able to raise mortgage loans with Totalkredit's partner banks as usual.

Moreover, backed by Forenet Kredit, the Nykredit Group has decided to extend the KundeKroner benefits programme on the current terms up to and including 2021 to enhance customers' financial security. In the current critical situation, it is important to us that our almost 850,000 homeowners with Totalkredit loans feel assured that they can rely on the KundeKroner discount programme as a unique strength of our customer-ownership structure.

## Results for H1/2020 relative to H1/2019

Totalkredit Partners delivered a business profit of DKK 1,005 million (H1/2019: DKK 1,217 million).

Income of DKK 1,615 million (H1/2019: DKK 1,566 million) was satisfactory.

Net interest income, which amounted to DKK 1,443 million in H1/2020 (H1/2019: DKK 1,372 million), was satisfactory and driven by rising mortgage lending but also margin pressure, as more and more customers opt for fixed-rate repayment loans.

Net fee income decreased to DKK 219 million relative to last year (H1/2019: DKK 270 million), mainly driven by significantly higher remortgaging activity in Q2/2019.

Costs rose to DKK 368 million (H1/2019: DKK 291 million), primarily due to higher expenses in connection with the establishment of the new shared property valuation unit as well as rising expenses for compliance.

Impairment charges for loans and advances increased to DKK 242 million (H1/2019: DKK 58 million), driven by loan impairment provisions taken in response to the covid-19 pandemic. Write-offs and individual impairment provisions for the homeowner segment were low. General uncertainty about the impacts of the pandemic remains significant, but GDP and house prices are expected to return to a "pre-covid-19 level at end-2019" in 2022.



DKK million

## Selected balance sheet items

Totalkredit Partners	30.06.2020	31.03.2020	31.12.2019	30.06.2019
<b>Personal Banking</b>				
Loans and advances	637,242	628,833	614,336	584,910
- of which mortgage lending, nominal value	628,634	619,871	604,881	574,364
- of which secured homeowner loans	8,608	8,962	9,455	10,545
<b>Business Banking</b>				
Loans and advances	7,339	6,772	6,319	4,998
- of which mortgage lending, nominal value	7,339	6,772	6,319	4,998

## Results for Q2/2020 relative to Q1/2020

Totalkredit Partners delivered a business profit of DKK 478 million in Q2/2020 (Q1/2020: DKK 526 million).

Income rose to DKK 810 million (Q1/2020: DKK 805 million) mainly driven by higher net interest income from rising mortgage lending, partly offset by lower net fee income due to lower activity compared with Q1.

Impairment charges for loans and advances were DKK 139 million (Q1/2020: DKK 103 million) owing to provisions for loan impairment as a consequence of covid-19.

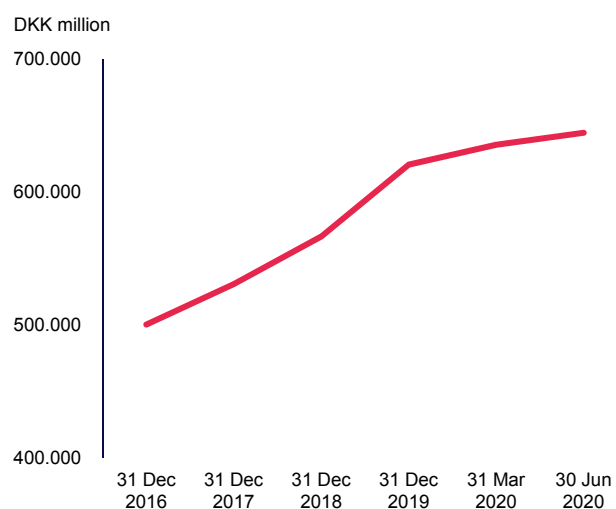
## Activities

Totalkredit Partners recorded high lending growth, and nominal lending to personal customers came to DKK 637.2 billion at end-June 2020 (end-2019: DKK 614.3 billion), equal to a 4% increase. The business loan portfolio increased by DKK 1.0 billion to nominally DKK 7.3 billion (end-2019: DKK 6.3 billion).

## Arrears

At the March due date, 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.23% against 0.21% at the same date in 2019.

## Lending, Totalkredit Partners



DKK million

Results –	H1/ 2020	H1/ 2019	Q2/ 2020	Q1/ 2020	2019
Wealth Management					
Net interest income	90	65	49	41	129
Net fee income	16	15	6	10	36
Wealth management income	649	422	319	330	984
Net interest from capitalisation	(5)	(5)	(2)	(2)	(9)
Trading, investment portfolio and other income	17	12	12	5	23
<b>Income</b>	<b>768</b>	<b>510</b>	<b>384</b>	<b>384</b>	<b>1,163</b>
Costs	429	234	212	217	666
<b>Business profit before impairment charges</b>	<b>339</b>	<b>276</b>	<b>172</b>	<b>167</b>	<b>498</b>
Impairment charges for mortgage lending	(5)	0	0	(4)	11
Impairment charges for bank lending	60	(5)	5	55	0
<b>Business profit</b>	<b>283</b>	<b>281</b>	<b>167</b>	<b>116</b>	<b>487</b>
Legacy derivatives	(1)	0	1	(1)	0
<b>Profit before tax</b>	<b>282</b>	<b>281</b>	<b>168</b>	<b>115</b>	<b>487</b>

### H1 in summary

Wealth Management got off to a good start in 2020 before the covid-19 crisis set in. Many of our Wealth Management client portfolios have been affected by the impact from covid-19 on financial markets, but in Q2 we nonetheless recorded an increase in assets under management. We continued our commitment to enhancing the customer experience by, for example,

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

The Private Banking Elite segment recorded continued client growth. Nykredit Invest won all three main categories at the annual Morningstar Fund Awards. The investment fund Nykredit Invest was awarded best manager of equities and bonds as well as best at equities, bonds and balanced funds. This is the third year running that Nykredit Invest has won one or more main categories at the Morningstar Fund Awards.

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

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

38% of Nykredit Asset Management's investment strategies (GIPS composites) generated above-benchmark returns in H1/2020. Over the past three years, 66% has generated above-benchmark returns.

### Covid-19 response

Wealth Management is maintaining all operations, but we have adjusted our ways of working. We adhere to all guidelines from the authorities to minimise the spread of covid-19. We recommend that all meetings – internal, external and with customers – are conducted digitally.

Remaining in close contact with all of our Wealth Management clients has been essential, as many client portfolios have been affected by the impact from covid-19 on financial markets.

### Results for H1/2020 relative to H1/2019

Wealth Management's business profit remained high at DKK 283 million in H1/2020 (H1/2019: DKK 281 million).

Income amounted to DKK 768 million and rose compared with the previous year (H1/2019: DKK 510 million), mainly due to the recognition of Sparinvest as from September last year.

Impairment charges for loans and advances were DKK 55 million (H1/2019: a negative DKK 5 million). The rise was due to impairment charges for single-name exposures and to a limited extent covid-19.

### Results for Q2/2020 relative to Q1/2020

Wealth Management's business profit totalled DKK 167 million in Q2, equal to a rise of DKK 51 million (Q1/2020: DKK 116 million).

Income amounted to DKK 384 million in Q2/2020 – the same level as in Q1 (Q1/2020: DKK 384 million).

Impairment charges for loans and advances of DKK 5 million (Q1/2020: DKK 51 million) were made for single-name exposures.



DKK million

## Selected balance sheet items

Wealth Management	30.06.2020	31.03.2020	31.12.2019	30.06.2019
<b>Assets under management</b>	325,029	305,735	335,771	232,852
- of which Nykredit Group investment funds	153,063	142,158	162,997	78,069
<b>Assets under administration</b>	867,164	777,429	888,569	755,342
<b>Lending/deposits</b>				
Loans and advances	13,768	13,430	13,301	12,771
- of which mortgage lending, nominal value	9,377	9,075	8,539	7,716
- of which secured homeowner loans	1,107	1,117	1,134	1,172
- of which bank lending	3,284	3,238	3,629	3,883
Deposits	15,506	16,551	16,121	16,598

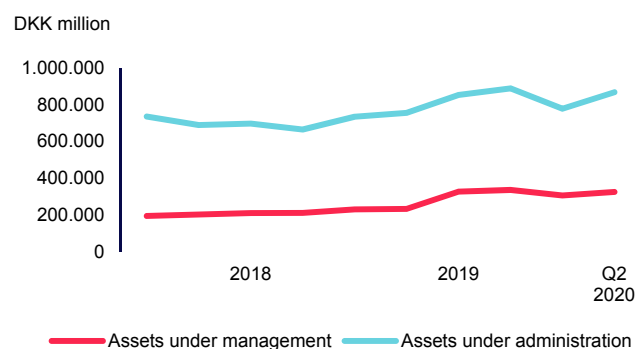
## Activities

Due to the covid-19 pandemic, substantial negative value adjustments in financial markets impacted the development in assets under management in H1.

Total assets under management fell by DKK 10.7 billion to DKK 325.0 billion at end-June 2020 (end-2019: DKK 335.8 billion). The decrease comprised positive net sales of DKK 3.1 billion, driven by demand from international clients, Private Banking Elite clients and the Group's savings products, as well as negative returns of DKK 13.8 billion.

Total assets under administration decreased by DKK 21.4 billion compared with end-2019 to DKK 867.2 billion at end-June 2020 (end-2019: DKK 888.6 billion). The decrease comprised a net addition of DKK 23.7 billion, driven by demand from institutional clients and the Group's savings products, as well as negative returns of DKK 45.1 billion.

## Assets under management and assets under administration by Wealth Management



## GROUP ITEMS

	DKK million				
Results – Group Items	H1/ 2020	H1/ 2019	Q2/ 2020	Q1/ 2020	2019
Net interest income	3	0	2	1	6
Net fee income	(18)	(8)	(4)	(14)	(24)
Wealth management income	7	5	4	3	12
Net interest from capitalisation	86	87	43	43	175
Net income relating to customer benefits programmes <sup>1</sup>	(97)	(103)	(52)	(45)	(358)
Trading, investment portfolio and other income	(332)	1,075	828	(1,161)	1,099
<b>Income</b>	<b>(352)</b>	<b>1,057</b>	<b>821</b>	<b>(1,173)</b>	<b>911</b>
Costs	87	112	16	71	187
<b>Business profit (loss) before impairment charges</b>	<b>(439)</b>	<b>945</b>	<b>806</b>	<b>(1,244)</b>	<b>723</b>
Impairment charges for bank lending	(3)	8	(13)	9	5
<b>Business profit (loss)</b>	<b>(435)</b>	<b>937</b>	<b>818</b>	<b>(1,253)</b>	<b>718</b>
Badwill, impairment of goodwill and amortisation of customer relationships	(2)	0	(2)	0	564
<b>Profit (loss) before tax</b>	<b>(438)</b>	<b>937</b>	<b>816</b>	<b>(1,253)</b>	<b>1,283</b>

<sup>1</sup> "Net income relating to customer benefits programmes" is described in detail in "Alternative performance measures".

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

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

### Results for H1/2020 relative to H1/2019

The business profit of Group Items decreased by DKK 1,373 million relative to H1/2019 to a negative DKK 435 million (H1/2019: DKK 937 million) primarily due to falling investment portfolio income following mortgage spread widening and equity market declines; all impacts resulting from covid-19. In H1/2019 investment portfolio income was significantly higher due to considerable capital gains on the portfolio of, for example, Danish bank equities.

# CAPITAL, LIQUIDITY AND FUNDING

## EQUITY AND OWN FUNDS

The Nykredit Group's equity stood at DKK 85.8 billion at end-June 2020 (end-2019: DKK 84.4 billion). In the Annual Report for 2019 the Board of Directors proposed dividend for 2019 of DKK 3,610 million to the Company's shareholders. This was in accordance with Nykredit's dividend policy. However, due to the covid-19 crisis the Danish government and authorities have urged financial businesses not to distribute dividend in 2020. Nykredit complies with this request.

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		
Equity (including AT1 capital)	30.06.2020	31.12.2019
Equity, beginning of period	84,366	79,883
Profit for the period	1,566	7,427
Other adjustments	(141)	(2,944)
<b>Equity, end of period</b>	<b>85,791</b>	<b>84,366</b>

DKK million		
Nykredit Group		
Capital and capital adequacy	30.06.2020	31.12.2019
Credit risk	327,435	323,497
Market risk	49,299	29,336
Operational risk	28,109	25,499
<b>Total risk exposure amount</b>	<b>404,843</b>	<b>378,332</b>
Equity (including AT1 capital)	85,791	84,366
AT1 capital etc	(3,760)	(3,777)
Deduction, profit for the period (excluding AT1 interest)	(1,329)	-
Proposed dividend	-	(3,610)
CET1 capital regulatory adjustments	(2,924)	(2,902)
<b>Common Equity Tier 1 capital</b>	<b>77,778</b>	<b>74,077</b>
Additional Tier 1 capital	2,359	2,380
Additional Tier 1 regulatory adjustments	(59)	(48)
<b>Tier 1 capital</b>	<b>80,079</b>	<b>76,409</b>
Tier 2 capital	7,329	7,189
Tier 2 capital regulatory adjustments	1,879	1,224
<b>Own funds</b>	<b>89,287</b>	<b>84,821</b>
Common Equity Tier 1 capital ratio, %	19.2	19.5
Tier 1 capital ratio, %	19.7	20.1
Total capital ratio, %	22.0	22.4
Internal capital adequacy requirement	10.7	10.9

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

At end-June 2020 Nykredit's risk exposure amount (REA) totalled DKK 404.8 billion (end-2019: DKK 378.3 billion). With own funds at DKK 89.3 billion, this corresponds to a total capital ratio of 22.0% (end-2019: 22.4%). The CET1 capital ratio was 19.2% (end-2019: 19.5%).

REA increased in Q2 following elevated market risk caused by the financial market turbulence in Q1 and implementation of new regulatory requirements applying to IRB models. We expect additional REA increases of up to 5-15% in the next 12-24 months. The increases will be driven by a) credit risk, both as regards covid-19-induced increases and expected growth in lending, and b) implementation of new regulatory requirements applying to IRB models. The estimated scenario-based REA

increase is subject to high uncertainty, and the same applies to the timing of the increase.

Own funds include CET1 capital, AT1 capital and Tier 2 capital. Nykredit's Tier 1 capital, which consists mainly of Common Equity Tier 1 (CET1) capital, stood at DKK 80.1 billion at end-June 2020 (end-2019: DKK 76.4 billion). CET1 capital amounted to DKK 77.8 billion (end-2019: DKK 74.1 billion). Additional Tier 1 capital was DKK 2.4 billion after regulatory adjustments (end-2019: DKK 2.4 billion), whereas Tier 2 capital amounted to DKK 7.3 billion including regulatory adjustments (end-2019: DKK 7.2 billion). The decision by the Annual General Meeting to transfer the net profit for 2019 to retained earnings increased the CET1 capital by DKK 3,610 million, and the Tier 1 capital ratio has equally improved.

It has been decided that profit for the period will not be recognised in own funds at end-June 2020.

### Capital targets 2020

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

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

The Board of Directors has set the CET1 capital requirement at 15.5-16.5% of REA, whereas the total capital need is calculated at 20-21%. Furthermore, Nykredit has already reserved CET1 capital to meet the upcoming Basel requirements and may also obtain new CET1 capital from Forenet Kredit and through investment commitments from a number of Danish pension companies. Based on the capital resources inherent in the ownership structure, Nykredit is expected to have a capital requirement corresponding to that of a listed SIFI when the new Basel requirements have been implemented.

### Update on capital targets

In H1 Nykredit completed the annual FSA stress test, which shows that Nykredit would be sufficiently resilient to a severe recession. The test outcomes are well within the framework of Nykredit's capital policy. The countercyclical capital buffer was reduced to 0% in March 2020.

Pursuant to the Danish Financial Business Act, it is the responsibility of the Board of Directors and the Executive Board to ensure that Nykredit has the required own funds. The required own funds are the minimum capital needed, based on management judgement, to cover all significant risks. This accounted for 10.7% of the risk exposure amount at end-June 2020 equal to the internal capital adequacy requirement.

### Dividend policy

Nykredit complies with the authorities' recommendation to financial undertakings to refrain from distributing dividend in 2020. Nevertheless, Nykredit remains committed to providing 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 position and can continue to make contributions to the Group to be used for KundeKroner discounts for example.

## 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.

Nykredit's balance sheet mainly consists of lending secured by mortgages on real estate funded through the issuance of mortgage covered bonds (SDOs and ROs). Mortgage covered bonds are issued through daily tap issuance coupled with refinancing auctions for adjustable-rate mortgages (ARMs) and floating-rate loans etc. 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-H1/2020 Nykredit Bank's deposits equalled 127% of lending (end-2019: 131%).

### 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.

The size and composition of the liquidity buffer remain as intended despite rising volatility in financial markets and general economic uncertainty. The Danish central bank has made a temporary lending facility available in connection with the covid-19 pandemic, which has reduced the risk of unforeseen liquidity needs. The Danish FSA has also allowed the use of the liquidity buffers if necessary in the future.

Nykredit holds substantial liquidity reserves and meets the requirements of the Danish FSA by a comfortable margin. The Group's overall liquidity position was strengthened this quarter to prepare for renewed financial unrest and Nykredit has secured reserves to meet any increased loan demand. Nykredit's liquidity position is illustrated in the table below, which shows that the LCR of the various companies is significantly above the regulatory requirement of 100%.

Nykredit Group	(%)	
LCR determination	30.06.2020	31.12.2019
Nykredit Realkredit Group	524	357
Nykredit Realkredit Group, LCR requirement in EUR	425	483
Nykredit Realkredit and Totalkredit	1,264	3,482
Nykredit Realkredit and Totalkredit, incl min LCR requirement	168	155
Nykredit Bank	221	153

LCR is calculated excluding LR Realkredit. Since 2016, as a Danish mortgage provider, Nykredit has been exempt from including a part of the mortgage-related cash flows in the determination of the LCR, and the Danish FSA has instead set a minimum liquidity requirement. In practice, the requirement means that Nykredit must hold a stock of liquid assets of 2.5% of total mortgage lending.

The LCR of the Nykredit Realkredit Group at end-2019 has been changed following announcement of its Annual Report due to a reinterpretation of the scope of consolidation.

### 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. As much as 92% of the outstanding amounts in Nykredit's active bond series is today classified in the top LCR category, while 5% is in the second-best category.

The covid-19 situation triggered a short period with price decline, spread widening and increased volatility in covered bonds in March and April. Nevertheless, Nykredit has not had difficulty selling bonds to fund its lending. The covered bond market has stabilised in recent months.

Nykredit's fixed-rate callable covered bonds maturing in 2050 will close for new issuance on 31 August 2020 as scheduled. The closing takes place as part of the usual 3-year maturity class cycle of fixed-rate bonds. As at 1 September 2020, new 30Y lending will be based on issuance in the new fixed-rate callable covered bonds maturing in 2053.

### Green bonds

Nykredit's green mortgage loans are offered to finance energy-efficient buildings with energy label A or B or equivalent certification. The product is offered to major corporate clients. About DKK 7.5 billion-worth of green bonds had been issued at end-June 2020.

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

### Refinancing and issuance schedule for 2020

Nykredit Realkredit will continue to issue mortgage covered bonds on tap and at refinancing auctions. Nykredit holds refinancing auctions four times a year. That way, auction volumes are deconcentrated, and the refinancing risk is reduced.

Nykredit expects to refinance bonds worth up to DKK 36 billion and DKK 37 billion at the auctions in August and November 2020.

The annual maturity one year ahead totals DKK 240 billion, of which ordinary principal payments, prepayments etc totalled DKK 75 billion. Refinancing volumes are expected to make up DKK 165 billion.

	DKK billion
Nykredit Group	1 July 2020
Refinancing <sup>1</sup>	- 30 June 2021
Total maturity before set-off of self-issued bonds	239.8
- ordinary principal payments and scheduled <sup>2</sup> prepayments (paid up)	46.2
- ordinary principal payments and scheduled <sup>2</sup> prepayments (unpaid)	24.9
- pre-issued bonds and interest rate risk <sup>2</sup>	3.7
Total refinancing volume	165.0
- pre-auctioned amount sold under forward contracts	28.9
Refinancing volume remaining for	
1 July 2020 – 30 June 2021	136.1
- of which SDOs and ROs	136.1
- of which other issues	-

<sup>1</sup> Covers the July and October 2020 payment dates as well as January and April 2021 payment dates.

<sup>2</sup> At 30 June 2020.

Because of the low interest rate levels, borrowers increasingly request loans funded by bonds with maturities from 5 to 30 years. This has reduced refinancing volumes to about DKK 160 billion pa. The refinancing volumes are expected to be maintained at this level going forward.

	DKK million	
Nykredit Group		
Bonds in issue	30.06.2020	31.12.2019
Covered bonds (RO), see note 14 a	142,295	152,406
Covered bonds (SDOs), see note 14 b	1,238,237	1,262,714
Senior secured debt, see note 14 c	8,932	934
Senior preferred debt in Nykredit Bank A/S	529	1,369
Senior preferred debt in Nykredit Realkredit A/S	5,599	-
Senior non-preferred (SNP), see note 15	39,746	30,306
Tier 2 capital, see note 17	10,951	11,004
Additional Tier 1 capital, see note 2 (Nykredit Realkredit A/S)	3,713	3,735
ECP issues of Nykredit Bank A/S	3,963	3,185

#### Supervisory Diamond for mortgage lenders

		Nykredit Realkredit Group 30 June 2020	Nykredit Realkredit A/S 30 June 2020	Limit value
Benchmark	Definition			
Lending growth in segment				
Personal customers <sup>1</sup>	Annual lending growth may not exceed 15% in each of the segments personal customers, commercial residential properties, agricultural properties and other commercial.	7.4%	(18.4)%	15.0%
Commercial residential properties		4.7%	6.0%	15.0%
Agricultural properties		(0.2)%	(0.2)%	15.0%
Other commercial		4.4%	4.2%	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.	11.6%	20.0%	25.0%
Interest-only period				
Personal Banking	The proportion of IO loans for owner-occupied and holiday homes with an LTV ratio above 75% of the statutory LTV limit may not exceed 10% of total lending.	7.4%	5.3%	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.	10.9%	16.4%	25.0%
Refinancing (quarterly)		3.0%	4.8%	12.5%
Large exposures				
Loans and advances:equity	The sum of the 20 largest exposures must be less than equity.	39.4%	38.4%	100.0%

<sup>1</sup> 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.

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

In H1/2020 Nykredit issued DKK 5.6 billion-worth of senior preferred debt and DKK 7.5 billion-worth of senior non-preferred debt. In H1 the Danish FSA relaxed its subordination requirement for MREL, which allowed Nykredit to meet part of the MREL requirement with senior preferred debt.

In light of the debt buffer requirement, Nykredit expects to issue additional debt in 2020. The funding scheduled for the rest of 2020 is expected to amount to DKK 5 billion.

#### Supervisory Diamond

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

The Supervisory Diamond model for banks uses five key benchmarks to measure if a bank is operating at an elevated risk. Nykredit complies with all Supervisory Diamond benchmark limits as at 30 June 2020.

Nykredit Bank A/S			
Supervisory Diamond	30.06.2020	31.12.2019	
Large exposures (limit value <175%)	140.7%	109.9%	
Lending growth (limit value <20%)	5.5%	8.1%	
Property exposure (limit value <25%)	11.0%	10.2%	
Funding ratio (limit value <1.0)	0.58	0.57	
Liquidity benchmark (limit value >100%)	178.2%	194.9%	

## 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

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

Senior 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.

Covered bonds issued by LR Realkredit are not and will not be rated.

### Fitch Ratings

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

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

Senior non-preferred debt is rated A by Fitch.

### Listing of ratings

For a complete overview of Nykredit's credit ratings with S&P and Fitch Ratings, please visit [nykredit.com/rating](https://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 mortgage loans are secured by real estate, credit risk is low. Credit risk on mortgage loans is typically characterised by a stable development.

### Information related to covid-19

There is still substantial uncertainty about the impact of the covid-19 pandemic. Nykredit's main scenario assumes that GDP and house prices will return to a "pre-covid-19 level at end-2019" in 2022 due to the effects of the relief packages. Net unemployment, however, is not expected to normalise within this time horizon.

Loan impairments related to covid-19 are comprised of three different components based on management judgement. Firstly, stress simulations have been performed for the personal customer segment and the following business sectors: manufacturing, accommodation and food service, retail, arts, entertainment and recreation activities, transport, construction, and sale and repair of motor vehicles, service providers, professionals, general practitioners, dentists, hospitals as well as business rental. Secondly, the property values of stage 3 customers have been stressed to simulate a reduction in collateral values, and thirdly the macroeconomic scenarios of the model have been updated to allow for the covid-19 impact, including mitigating relief packages. Covid-19-induced loan impairment have generally not led to a change of stages.

In H1/2020 we have offered our customers a number of solutions to mitigate the impact of covid-19, including greater possibilities of temporary overdrafts and payment holidays. Moreover, our full-service personal customers are given the opportunity to have an interest- and fee-free credit corresponding to the amount of holiday pay due to the customer in October. For accounting purposes, this is a special loan option which does not make the loan terms more favourable. Accordingly, no special impairment provisions have been made for such credit facilities, where they were offered to customers who were credit-worthy before the covid-19 crisis and not due to financial distress.

For further information about the impacts of covid-19 on impairment charges for loans and advances and lending mix, please refer to our Fact Book Q2/2020, which is available at [Nykredit.com](http://Nykredit.com).

### Provisions in H1 related to covid-19

Nykredit's loan impairments based on management judgement totalled DKK 1,932 million in H1/2020, of which DKK 1,549 million was provided for the consequential losses arising from covid-19. As we get more clarity during the year about the effects of covid-19 on Nykredit's customers, additional impairment provisions may be taken, but the uncertainty remains substantial. This situation is monitored by Nykredit's scenario expert group, which regularly assesses the need for calculation updates based on input concerning relief packages, support schemes and overall international economic trends.

Nykredit Group

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

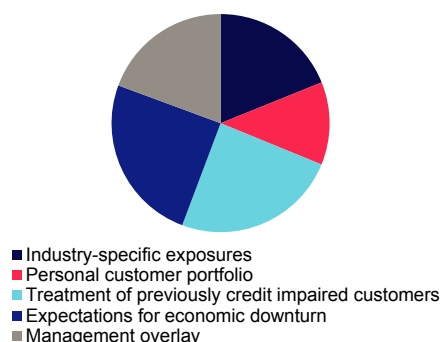
DKK million	Loans, advances and guarantees		Total provisions for loan impairment and guarantees		Impairment charges for loans and advances, earnings impact	
	30.06.2020	31.12.2019	30.06.2020	31.12.2019	H1/2020	FY/2019
<b>Mortgage lending, nominal value</b>						
Nykredit Realkredit	501,572	500,522	4,910	3,845	1,197	695
Totalkredit	769,547	740,289	1,627	1,469	225	82
LR Realkredit	21,328	21,877	77	51	26	-
<b>Total</b>	<b>1,292,446</b>	<b>1,262,689</b>	<b>6,614</b>	<b>5,365</b>	<b>1,448</b>	<b>777</b>
<b>Loans and advances etc</b>						
Nykredit Bank	67,014	65,466	2,710	2,526	189	190
<b>Total</b>	<b>67,014</b>	<b>65,466</b>	<b>2,710</b>	<b>2,526</b>	<b>189</b>	<b>190</b>
Receivables from credit institutions	20,478	52,413	28	28	(0)	7
Reverse repurchase lending	35,846	48,749	-	-	-	-
Guarantees	6,774	6,616	255	137	118	20
<b>Loan impairment, %<sup>1</sup></b>						
Nykredit Realkredit	-	-	0.98	0.77	0.24	0.14
Totalkredit	-	-	0.21	0.20	0.03	0.01
<b>Total</b>	<b>-</b>	<b>-</b>	<b>0.51</b>	<b>0.43</b>	<b>0.11</b>	<b>0.06</b>
Nykredit Bank	-	-	4.04	3.72	0.28	0.28
<b>Total</b>	<b>-</b>	<b>-</b>	<b>4.04</b>	<b>3.72</b>	<b>0.28</b>	<b>0.28</b>

<sup>1</sup> Loan impairment excluding receivables from credit institutions, reverse repurchase lending and guarantees.

The loan portfolio developed positively in H1, and individual impairment provisions remain low. Arrears ratios have been declining for some portfolios and are stable for others. Write-offs have also been low.

The portfolio of personal customers has been reassessed from a covid-19 perspective, and at end-June provisions of DKK 190 million have been made based on management judgement. Moreover, stress simulations have been performed for the sectors manufacturing, accommodation and food service, retail and construction etc, which has resulted in increased provisions of DKK 184 million.

#### Breakdown of loan impairments related to covid-19



#### Credit models

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

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

#### Expectations for macroeconomic models

Nykredit's impairment models are based on forward-looking macroeconomic scenarios. In H1 the adverse scenario (main scenario) has been updated to reflect the economic environment caused by the covid-19 crisis. Expectations included a GDP decline of 5% and house price declines of 3.9% in 2020. The main scenario was included in the models at a probability of 80%. The base scenario carries a 20% probability and is based on the macroeconomic conditions observed at the date of this Interim Report. The economy is currently not expected to improve further from the base scenario.

	%			
Nykredit Group				
Main scenarios for impairment calculations	2019	2020	2021	2022
Short-term rate <sup>1</sup>	(0.4)	(0.2)	(0.4)	(0.2)
Long-term rate <sup>2</sup>	(0.2)	(0.4)	(0.2)	0.0
House prices <sup>3</sup>	3.0	(3.9)	0.3	5.3
GDP <sup>3</sup>	2.4	(5.0)	3.8	2.6
Unemployment <sup>4</sup>	3.1	4.7	4.5	4.0

<sup>1</sup> Short-term rate reflects the Copenhagen Interbank Offered Rate (Cibor).

<sup>2</sup> Long-term rate reflects 10-year Danish government bonds.

<sup>3</sup> House prices and GDP reflect annual changes as a percentage.

<sup>4</sup> Unemployment is registered net unemployment as a percentage of the workforce stated as an annual average.

There is still substantial uncertainty about the impact of the pandemic despite the relief packages from the Danish government and banks. Nykredit's main scenario assumes that GDP and house prices will return to a "pre-covid-19 level at end-2019" in 2022 due to the effects of the relief packages, but still at a lower level than in 2019. Net unemployment, however, is not expected to normalise within this time horizon.

As we get more clarity during the year about the effects of covid-19 on Nykredit's customers, additional impairment provisions may be taken, but the uncertainty remains substantial.

## MORTGAGE LENDING

At end-June 2020, Nykredit's credit exposure in terms of nominal mortgage lending was DKK 1,292 billion, corresponding to an increase of DKK 30 billion (end-2019: DKK 1,263 billion).

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

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

The average LTV ratio was 61.6% at end-June 2020 (end-2019: 61.8%).

## Total provisions for mortgage loan impairment

Total impairment provisions for mortgage loan impairment equalled 0.51% of total mortgage lending (end-2019: 0.43%). Total impairment provisions amounted to DKK 6,614 million at end-June 2020 (end-2019: DKK 5,365 million). The covid-19 provisions are based on management judgement.

Impairment charges for loans and advances are mainly attributable to:

DKK million	
Nykredit Group	
Total impairment provisions for mortgage lending	30.06.2020
Individual impairment provisions (stage 3)	2,759
Model-based impairment provisions (stages 1 and 2)	1,014
Management judgement (stages 1, 2 and 3)	2,841
- of the above attributable to covid-19	1,218
<b>Total impairment provisions for mortgage lending</b>	<b>6,614</b>

Management judgements are made as a supplement to model-based impairment provisions to the extent that recent economic changes (such as covid-19, unemployment, etc) have not yet been captured by Nykredit's models.

### Mortgage lending

#### Nykredit Group

#### Debt outstanding relative to estimated property values

DKK million	LTV (loan-to-value) <sup>2</sup>						LTV	
	0-40	40-60	60-80	80-90	90-100	>100	Total	average, %
Owner-occupied dwellings	521,256	194,908	105,395	7,610	1,568	1,294	832,032	66.7
Private rental <sup>1</sup>	117,386	33,799	12,623	859	386	433	165,487	61.2
Industry and trades	19,556	3,506	213	48	43	53	23,418	46.9
Office and retail	92,173	24,938	2,155	225	112	133	119,738	52.3
Agricultural property	59,506	20,419	6,743	657	274	498	88,098	61.7
Public housing	-	-	-	-	-	-	70,691	-
Other	10,807	2,117	664	28	20	38	13,675	50.7
<b>Total H1/2020</b>	<b>820,685</b>	<b>279,687</b>	<b>127,794</b>	<b>9,427</b>	<b>2,404</b>	<b>2,450</b>	<b>1,313,138</b>	<b>61.6</b>
<b>Total, 2019</b>	<b>799,585</b>	<b>277,911</b>	<b>125,465</b>	<b>7,963</b>	<b>2,708</b>	<b>2,845</b>	<b>1,287,370</b>	<b>61.8</b>

<sup>1</sup> Including cooperative housing.

<sup>2</sup> Determined as the top part of the debt outstanding relative to estimated property values.

Note: The figures are actual LTV ratios including any financed costs. Public authority guarantees reduce the credit risk relating to subsidised housing, 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

#### Mortgage lending by property type<sup>1</sup>

	30.06.2020			31.12.2019		
	Total impairment provisions	Total earnings	Total impact	Total impairment provisions	Total earnings	Total impact
Owner-occupied dwellings	2,740		424	2,433		277
Private rental	725		264	467		181
Industry and trades	93		7	87		27
Office and retail	856		339	578		191
Agricultural property	1,456		211	1,250		3
Public housing	83		(14)	101		38
Cooperative housing	506		166	345		29
Other	154		46	109		22
<b>Total</b>	<b>6,614</b>		<b>1,443</b>	<b>5,365</b>		<b>768</b>

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

### Arrears

Mortgage loan arrears are determined 15 and 75 days past the due date. Mortgage loan arrears dropped to 0.34% of total mortgage payments due 75 days past the March due date (March 2019: 0.37%).

Bond debt outstanding affected by arrears as a percentage of total bond debt outstanding also increased to DKK 3.15 billion (March 2019: DKK 3.36 billion).

### Properties acquired by foreclosure

In H1/2020 the Group acquired 12 properties by foreclosure and sold 18. The property portfolio counted 14 properties at 30 June 2020 (end-2019: 20).

### 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
<b>2020</b>			
- March	0.34	0.25	3.15
<b>2019</b>			
- December	0.30	0.24	2.96
- September	0.35	0.25	3.11
- June	0.36	0.28	3.47
- March	0.37	0.28	3.36
<b>2018</b>			
- December	0.38	0.23	2.80

## BANK LENDING

Bank lending at amortised cost amounted to DKK 67.0 billion at end-June 2020 (end-2019: DKK 65.5 billion).

Reverse repurchase lending totalled DKK 35.8 billion at end-June 2020 (end-2019: DKK 48.7 billion). Guarantees provided amounted to DKK 6.8 billion (end-2019: DKK 6.6 billion).

### Total provisions for bank loan impairment etc

Provisions for bank loan impairment (exclusive of credit institutions and guarantees) totalled DKK 2,710 million at end-June 2020 (end-2019: DKK 2,526 million). The covid-19 provisions are based on management judgement.

Impairment charges for loans and advances are mainly attributable to:

	DKK million
Nykredit Group	
Total provisions for bank loan impairment	30.06.2020
Individual impairment provisions (stage 3)	1,573
Model-based impairment provisions (stages 1 and 2)	402
Management judgement (stages 1, 2 and 3)	735
- of the above attributable to covid-19	351
<b>Total provisions for bank loan impairment</b>	<b>2,710</b>

Nykredit Group

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

DKK million

	30.06.2020			31.12.2019		
	Lending, end of period	Total impair- ment provisions	Earnings impact	Lending, year-end	Total impair- ment provisions	Earnings impact
<b>Public sector</b>	<b>844</b>	<b>1</b>	<b>(0)</b>	<b>765</b>	<b>1</b>	<b>(1)</b>
Agriculture, hunting, forestry and fishing	3,446	197	37	4,197	164	27
Manufacturing, mining and quarrying	10,321	322	43	8,921	285	3
Energy supply	2,914	22	(2)	2,857	30	6
Construction	3,519	201	8	3,723	198	37
Trade	8,798	320	(17)	7,831	335	63
Transport, accommodation and food service activities	6,304	106	19	5,780	99	22
Information and communication	3,019	95	(8)	3,434	102	48
Finance and insurance	47,081	127	12	54,702	122	2
Real estate	14,593	519	55	14,266	472	20
Other	9,361	396	157	9,941	266	5
<b>Total business customers</b>	<b>109,356</b>	<b>2,305</b>	<b>304</b>	<b>115,651</b>	<b>2,072</b>	<b>233</b>
Personal customers	27,090	564	(67)	33,773	589	(22)
<b>Total</b>	<b>137,290</b>	<b>2,870</b>	<b>237</b>	<b>150,188</b>	<b>2,663</b>	<b>210</b>
- of which provisions for losses under guarantees		147	10		137	20
Impairment provisions for credit institutions		19	7		12	0
<b>- of which intercompany guarantees and total</b>	<b>20,841</b>	<b>2,889</b>	<b>244</b>	<b>29,358</b>	<b>2,675</b>	<b>210</b>

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

## ALTERNATIVE PERFORMANCE MEASURES

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

The income statement format of the financial highlights on page 3 and the business areas (pages 9-16 and note 3) reflect the internal management reporting.

In certain respects, the presentation of the financial highlights differs from the format of the Financial Statements prepared under the International Financial Reporting Standards (IFRS). No correcting entries have been made, 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 as well as interest income from bank lending and deposits. The corresponding item in the income statement (page 28) includes all interest.

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

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

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

"Net income relating to customer benefits programmes" comprising discounts etc, such as KundeKroner, ErhvervsKroner and MineMål granted to the Group's customers. The amount includes contributions received. The effect of the benefits programmes is included under "Group Items".

### Supplementary financial ratios etc

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

*Profit (loss) as % 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 Additional Tier 1 capital, which is treated as dividend in the Financial Statements. Business capital corresponds to a capital target of 16% of the risk exposure amount.

*Profit (loss) for the year as % of average equity.* Profit for the period corresponds to net profit or loss less minority interests and interest expenses for Additional Tier 1 capital, which is treated as dividend in the Financial Statements. 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.



# 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 June 2020 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 June 2020 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 June 2020.

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

The Interim Report has not been subject to audit or review.

Copenhagen, 20 August 2020

### Executive Board

Michael Rasmussen  
Group Chief Executive

Tonny Thierry Andersen  
Group Managing Director

David Hellemann  
Group Managing Director

Anders Jensen  
Group Managing Director

### Board of Directors

Merete Eldrup  
Chairman

Nina Smith  
Deputy Chairman

Helge Leiro Baastad

Olav Bredgaard Brusen\*

Michael Demsitz

Per W. Hallgren

Jørgen Høholt

Hans-Ole Jochumsen

Vibeke Krag

Allan Kristiansen\*

Ann-Mari Lundbæk Lauritsen\*

Lasse Nyby

Claus E. Petersen

Inge Sand\*

Kristina Andersen Skiøld\*

\* Staff-elected member

# STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

DKK million					
Nykredit Group		H1/ 2020	H1/ 2019	Q2/ 2020	Q2/ 2019
	Note				
INCOME STATEMENTS					
Interest income		11,753	12,520	5,824	6,368
Interest income based on the effective interest method		1,002	983	506	499
Interest expenses		7,169	8,054	3,591	4,093
Net interest income	6	5,586	5,450	2,739	2,774
Dividend on equities etc	6	39	151	15	101
Fee and commission income	5	1,917	1,516	907	832
Fee and commission expenses		1,851	1,781	916	915
Net interest and fee income		5,691	5,336	2,744	2,792
Value adjustments	6, 7	(28)	1,180	1,794	640
Other operating income		698	705	352	382
Staff and administrative expenses		2,586	2,295	1,278	1,168
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets		147	136	72	66
Other operating expenses		106	71	71	39
Impairment charges for loans, advances and receivables etc	8	1,755	433	443	213
Profit (loss) from investments in associates and Group enterprises	9	4	2	2	0
Profit before tax		1,770	4,288	3,029	2,329
Tax		204	681	581	352
Profit for the period		1,566	3,606	2,448	1,977
Distribution of profit for the period					
Shareholders of Nykredit A/S		1,436	3,491	2,383	1,919
Minority interests		14	-	7	-
Holders of Additional Tier 1 capital notes		116	116	58	58
Profit for the period		1,566	3,606	2,448	1,977
COMPREHENSIVE INCOME					
Profit for the period		1,566	3,606	2,448	1,977
Other comprehensive income					
Items that cannot be reclassified to profit or loss:					
Actuarial gains/losses on defined benefit plans		(45)	(4)	(25)	37
Tax on actuarial gains/losses on defined benefit plans		10	1	6	(8)
Total items that cannot be reclassified to profit or loss		(35)	(3)	(20)	29
Other comprehensive income		(35)	(3)	(20)	29
Comprehensive income for the period		1,531	3,604	2,428	2,006
Distribution of comprehensive income					
Shareholders of Nykredit A/S		1,402	3,488	2,363	1,948
Minority interests		14	-	7	-
Holders of Additional Tier 1 capital notes		116	116	58	58
Comprehensive income for the period		1,531	3,604	2,428	2,006

# STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

DKK million					
Nykredit A/S		H1/ 2020	H1/ 2019	Q2/ 2020	Q2/ 2019
	Note				
INCOME STATEMENTS					
Interest expenses		0	0	0	0
Net interest income		(0)	(0)	(0)	(0)
Staff and administrative expenses		5	10	2	8
Profit from investments in associates and Group enterprises	9	1,440	3,499	2,384	1,926
Profit before tax		1,435	3,488	2,383	1,917
Tax		(1)	(2)	(0)	(2)
Profit for the period		1,436	3,491	2,383	1,919
Distribution of profit for the period					
Shareholders of Nykredit A/S		1,436	3,491	2,383	1,919
Profit for the period		1,436	3,491	2,383	1,919
COMPREHENSIVE INCOME					
Profit for the period		1,436	3,491	2,383	1,919
Other comprehensive income					
Items that cannot be reclassified to profit or loss:					
Share of comprehensive income in associates and Group enterprises		(35)	(3)	(20)	29
Total items that cannot be reclassified to profit or loss		(35)	(3)	(20)	29
Other comprehensive income		(35)	(3)	(20)	29
Comprehensive income for the period		1,402	3,488	2,363	1,948
Distribution of comprehensive income					
Shareholders of Nykredit A/S		1,402	3,488	2,363	1,948
Comprehensive income for the period		1,402	3,488	2,363	1,948

## BALANCE SHEETS

Nykredit A/S			DKK million	
	31.12.2019	30.06.2020	Note	Nykredit Group 31.12.2019
		<b>ASSETS</b>		
-	-	Cash balances and demand deposits with central banks		7,210
21	11	Receivables from credit institutions and central banks		52,413
-	-	Loans, advances and other receivables at fair value	10	1,287,610
-	-	Loans, advances and other receivables at amortised cost	11	114,590
-	-	Bonds at fair value	12	108,555
-	-	Equities etc		7,135
-	-	Investments in associates		43
80,543	81,957	Investments in Group enterprises		-
-	-	Intangible assets		2,181
		<b>Land and buildings</b>		
-	-	Owner-occupied properties		75
-	-	Leased properties		662
-	-	<b>Total</b>		<b>736</b>
-	-	Other property, plant and equipment		156
3	5	Current tax assets		255
10	9	Deferred tax assets		126
-	-	Assets in temporary possession		32
-	-	Other assets		28,710
1	1	Prepayments		568
<b>80,579</b>	<b>81,984</b>	<b>Total assets</b>		<b>1,610,319</b>

## BALANCE SHEETS

Nykredit A/S				DKK million	
31.12.2019	30.06.2020		Note	30.06.2020	Nykredit Group 31.12.2019
		<b>LIABILITIES AND EQUITY</b>			
32	29	Payables to credit institutions and central banks		14,445	13,914
-	-	Deposits and other payables	13	97,160	100,656
-	-	Bonds in issue at fair value	14	1,313,990	1,336,414
-	-	Bonds in issue at amortised cost	15	43,983	33,810
-	-	Other non-derivative financial liabilities at fair value	16	7,845	4,523
-	-	Current tax liabilities		213	78
16	14	Other liabilities		22,352	24,404
-	-	Deferred income		12	14
<b>48</b>	<b>43</b>	<b>Total payables</b>		<b>1,500,000</b>	<b>1,513,812</b>
		<b>Provisions</b>			
-	-	Provisions for pensions and similar obligations		53	62
-	-	Provisions for deferred tax		367	389
-	-	Repayable reserves in pre-1972 series		33	34
-	-	Provisions for losses under guarantees		255	137
-	-	Other provisions		442	515
-	-	<b>Total provisions</b>		<b>1,148</b>	<b>1,136</b>
-	-	<b>Subordinated debt</b>	17	<b>10,951</b>	<b>11,004</b>
		<b>Equity</b>			
1,327	1,327	Share capital		1,327	1,327
		<b>Accumulated value adjustments</b>			
-	-	- revaluation reserves		5	5
		<b>Other reserves</b>			
62,362	63,776	- statutory reserves		-	-
-	-	- series reserves		48,871	48,871
-	-	- non-distributable reserve funds		4,849	4,849
13,233	16,838	- retained earnings		26,889	21,869
3,610	-	- proposed dividend		-	3,610
<b>80,532</b>	<b>81,942</b>	<b>Shareholders of Nykredit A/S</b>		<b>81,942</b>	<b>80,532</b>
-	-	Minority interests		89	57
-	-	Holders of Additional Tier 1 capital		3,760	3,777
<b>80,532</b>	<b>81,942</b>	<b>Total equity</b>		<b>85,791</b>	<b>84,366</b>
<b>80,579</b>	<b>81,984</b>	<b>Total liabilities and equity</b>		<b>1,597,890</b>	<b>1,610,319</b>
		<b>OFF-BALANCE SHEET ITEMS</b>			
-	-	Contingent liabilities		6,774	6,616
-	-	Other commitments		27,599	28,206
-	-	<b>Total</b>		<b>34,373</b>	<b>34,822</b>

# STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Group

	Share capital <sup>1</sup>	Revaluation reserves	Series reserves	Non-distributable reserve funds <sup>2</sup>	Retained earnings	Proposed dividend	Shareholders of Nykredit A/S	Minority interests	Additional Tier 1 capital <sup>3</sup>	Total equity
<b>2020</b>										
<b>Equity, 1 January</b>	<b>1,327</b>	<b>5</b>	<b>48,871</b>	<b>4,849</b>	<b>21,869</b>	<b>3,610</b>	<b>80,532</b>	<b>57</b>	<b>3,777</b>	<b>84,366</b>
Profit (loss) for the period	-	-	-	-	1,436	-	1,436	14	116	1,566
Total other comprehensive income	-	-	-	-	(35)	-	(35)	-	-	(35)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,402</b>	<b>-</b>	<b>1,402</b>	<b>14</b>	<b>116</b>	<b>1,531</b>
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	-	(117)	(117)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	9	-	9	-	(9)	-
Subsequent adjustment of purchase price allocation	-	-	-	-	-	-	-	34	-	34
Reversed dividend	-	-	-	-	3,610	(3,610)	-	(16)	-	(16)
Portfolio of self-issued bonds	-	-	-	-	-	-	-	-	(8)	(8)
<b>Equity, 30 June</b>	<b>1,327</b>	<b>5</b>	<b>48,871</b>	<b>4,849</b>	<b>26,889</b>	<b>-</b>	<b>81,942</b>	<b>89</b>	<b>3,760</b>	<b>85,791</b>
<b>2019</b>										
<b>Equity, 1 January</b>	<b>1,327</b>	<b>5</b>	<b>36,575</b>	<b>1,646</b>	<b>33,757</b>	<b>2,800</b>	<b>76,111</b>	<b>-</b>	<b>3,772</b>	<b>79,883</b>
Profit for the period	-	-	-	-	3,491	-	3,491	-	116	3,606
Total other comprehensive income	-	-	-	-	(3)	-	(3)	-	-	(3)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,488</b>	<b>-</b>	<b>3,488</b>	<b>-</b>	<b>116</b>	<b>3,604</b>
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	-	(117)	(117)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	2	-	2	-	(2)	-
Tax on Additional Tier 1 capital	-	-	-	-	(0)	-	(0)	-	-	(0)
Distributed dividend	-	-	-	-	-	(2,800)	(2,800)	-	-	(2,800)
Portfolio of self-issued bonds	-	-	-	-	-	-	-	-	(0)	(0)
<b>Equity, 30 June</b>	<b>1,327</b>	<b>5</b>	<b>36,575</b>	<b>1,646</b>	<b>37,247</b>	<b>-</b>	<b>76,800</b>	<b>-</b>	<b>3,769</b>	<b>80,569</b>

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

<sup>2</sup> Non-distributable reserve funds of Totalkredit A/S and LR Realkredit A/S.

<sup>3</sup> 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 <sup>1</sup>	Statutory reserves <sup>2</sup>	Retained earnings	Proposed dividend	Total equity
<b>2020</b>					
<b>Equity, 1 January</b>	<b>1,327</b>	<b>62,362</b>	<b>13,233</b>	<b>3,610</b>	<b>80,532</b>
Loss for the period	-	1,440	(4)	-	1,436
Total other comprehensive income	-	(35)	-	-	(35)
<b>Total comprehensive income</b>	<b>-</b>	<b>1,406</b>	<b>(4)</b>	<b>-</b>	<b>1,402</b>
Reversed dividend	-	-	3,610	(3,610)	-
Adjustment relating to subsidiaries	-	9	-	-	9
<b>Equity, 30 June</b>	<b>1,327</b>	<b>63,776</b>	<b>16,838</b>	<b>-</b>	<b>81,942</b>
<b>2019</b>					
<b>Equity, 1 January</b>	<b>1,327</b>	<b>57,925</b>	<b>14,058</b>	<b>2,800</b>	<b>76,111</b>
Profit (loss) for the period	-	3,499	(8)	-	3,491
Total other comprehensive income	-	(3)	-	-	(3)
<b>Total comprehensive income</b>	<b>-</b>	<b>3,496</b>	<b>(8)</b>	<b>-</b>	<b>3,488</b>
Distributed dividend	-	-	-	(2,800)	(2,800)
Dividend received from subsidiaries	-	(2,800)	2,800	-	-
Adjustment relating to subsidiaries	-	1	-	-	1
<b>Equity, 30 June</b>	<b>1,327</b>	<b>58,622</b>	<b>16,850</b>	<b>-</b>	<b>76,800</b>

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

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

# CASH FLOW STATEMENT

DKK million

Nykredit Group	H1/2020	H1/2019
<b>Profit for the period</b>	<b>1,566</b>	<b>3,606</b>
<b>Adjustments</b>		
Net interest income	(5,586)	(5,450)
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	147	136
Profit from investments in associates	(4)	(2)
Impairment charges for loans, advances and receivables etc	1,755	433
Prepayments/deferred income, net	(255)	(201)
Tax calculated on profit for the period	204	681
Other adjustments	538	(2,189)
<b>Total</b>	<b>(1,635)</b>	<b>(2,986)</b>
<b>Change in operating capital</b>		
Loans, advances and other receivables	(16,298)	(53,597)
Deposits and payables to credit institutions	(2,965)	13,147
Bonds in issue	(12,250)	73,363
Other operating capital	732	(2,005)
<b>Total</b>	<b>(32,416)</b>	<b>27,922</b>
Interest income received	12,726	13,611
Interest expenses paid	(7,916)	(8,180)
Corporation tax paid, net	(215)	(581)
<b>Cash flows from operating activities</b>	<b>(27,820)</b>	<b>32,772</b>
<b>Cash flows from investing activities</b>		
Dividend received from associates	4	2
Purchase and sale of bonds and equities, net	1,175	(17,431)
Purchase of intangible assets	(56)	(55)
Purchase of property, plant and equipment	(25)	(21)
Sale of property, plant and equipment	19	1
Payment of lease liabilities	(78)	(79)
<b>Total</b>	<b>1,042</b>	<b>(17,584)</b>
<b>Cash flows from financing activities</b>		
Distributed dividend	(16)	(2,800)
Purchase and sale of self-issued subordinated debt instruments	(8)	0
<b>Total</b>	<b>(24)</b>	<b>(2,800)</b>
<b>Total cash flows for the period</b>	<b>(26,802)</b>	<b>12,389</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>59,623</b>	<b>29,691</b>
Foreign currency translation adjustment of cash	(123)	1,397
Total cash flows for the period	(26,802)	12,389
<b>Cash and cash equivalents, end of period</b>	<b>32,698</b>	<b>43,475</b>
<b>Cash and cash equivalents, end of period:</b>		
Cash balances and demand deposits with central banks	12,220	7,223
Receivables from credit institutions and central banks	20,478	36,252
<b>Total</b>	<b>32,698</b>	<b>43,475</b>

# NOTES

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## Nykredit Group

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## 1. ACCOUNTING POLICIES

### General

The Consolidated Financial Statements for H1/2020 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 H1/2020 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).

The accounting policies of Nykredit A/S and the Nykredit Group are unchanged compared with the Annual Report for 2019 (note 1) and compared with the information disclosed in the Annual Report for 2019, no additional new reporting standards or interpretations have been issued or approved, and no amendments have been made to the Danish Executive Order on Financial Reports of the Danish FSA which influence the H1 Interim Report 2020.

Full accounting policies as well as a description of the Company's and the Group's material risks appear from the Annual Report for 2019 (note 1).

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

### 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 and based on past experience and an assessment of future conditions.

Accounting estimates are tested and assessed regularly. The estimates and assessments applied are based on assumptions which Management considers reasonable and realistic, but which to some extent involves significant uncertainty and unpredictability.

Areas implying a high degree of assessment or complexity or areas in which assumptions and estimates are material to the Financial Statements include provisions for loan and receivable impairment as well as valuation of unlisted financial instruments, including swaps, see "Accounting policies" in the Annual Report for 2019.

In Q1 the impact from covid-19 led to significant volatility in fixed income markets and increased complexity in determining the market value of interest rate swaps in particular. Market conditions normalised somewhat in Q2. Valuations are still subject to greater uncertainty, but at a more moderate level compared with end-Q1/2020.

Compared with the temporary global lockdown of borders and workplaces in Q1/2020, Q2 was positively impacted by a gradual reopening of several borders and sectors. However, the determination of impairment provisions for loans and advances is still subject to increased uncertainty, as it is currently quite difficult to predict the duration and severity of the crisis internationally as well as its long-term impact on customers' finances.

# NOTES

Nykredit A/S		DKK million		
31.12.2019	30.06.2020		30.06.2020	Nykredit Group 31.12.2019
<b>2. CAPITAL AND CAPITAL ADEQUACY</b>				
80,532	81,942	Equity for accounting purposes	85,791	84,366
-	-	Minority interests not included	(89)	(57)
-	-	Carrying amount of Additional Tier 1 capital recognised in equity	(3,760)	(3,777)
-	(1,436)	Profit etc for H1/2020 not included	(1,329)	-
<b>80,532</b>	<b>80,506</b>	<b>Equity excluding Additional Tier 1 capital and minority interests</b>	<b>80,613</b>	<b>80,532</b>
(3,610)	-	Proposed dividend	-	(3,610)
-	-	Prudent valuation adjustment	(50)	(78)
-	-	Minority interests	50	35
-	-	Intangible assets excluding deferred tax liabilities	(2,190)	(2,114)
-	-	Provisions for expected credit losses in accordance with IRB approach	(18)	(40)
-	-	Other additions/deductions	(322)	(343)
-	(306)	Deduction for treasury shares	(306)	(306)
<b>(3,610)</b>	<b>(306)</b>	<b>Common Equity Tier 1 capital deductions</b>	<b>(2,834)</b>	<b>(6,455)</b>
<b>76,922</b>	<b>80,200</b>	<b>Common Equity Tier 1 capital</b>	<b>77,778</b>	<b>74,077</b>
-	-	Additional Tier 1 capital	2,359	2,380
-	-	Additional Tier 1 capital deductions	(59)	(48)
-	-	<b>Total Additional Tier 1 capital after deductions</b>	<b>2,300</b>	<b>2,332</b>
<b>76,922</b>	<b>80,200</b>	<b>Tier 1 capital</b>	<b>80,079</b>	<b>76,409</b>
-	-	Tier 2 capital	7,329	7,189
-	-	Tier 2 capital additions/deductions	1,879	1,224
<b>76,922</b>	<b>80,200</b>	<b>Own funds</b>	<b>89,287</b>	<b>84,821</b>
298,011	303,243	Credit risk	327,435	323,497
-	-	Market risk	49,299	29,336
1	1	Operational risk	28,109	25,499
<b>298,011</b>	<b>303,244</b>	<b>Total risk exposure amount</b>	<b>404,843</b>	<b>378,332</b>
<b>Financial ratios</b>				
25.8	26.4	Common Equity Tier 1 capital ratio, %	19.2	19.5
25.8	26.4	Tier 1 capital ratio, %	19.7	20.1
25.8	26.4	Total capital ratio, %	22.0	22.4

Capital and capital adequacy have been determined in accordance with Capital Requirements Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 as well as the Danish transitional rules laid down by the Danish FSA.

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

## 3. BUSINESS AREAS

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

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

	Personal Banking	Business Banking	Total Retail	Corporates & Institutions	Banking	Totalcredit Partners	Wealth Management	Group Items	Total
<b>Results</b>									
<b>H1/2020</b>									
<b>Results by business area</b>									
Net interest income	965	1,376	2,341	954	3,296	1,443	90	3	4,832
Net fee income	316	311	627	291	918	219	16	(18)	1,136
Wealth management income	202	69	271	60	331	-	649	7	987
Net interest from capitalisation	(37)	(71)	(108)	(71)	(178)	(101)	(5)	86	(198)
Net income relating to customer benefits programmes <sup>1</sup>	-	-	-	-	-	-	-	(97)	(97)
Trading, investment portfolio and other income	6	28	34	39	73	53	17	(332)	(189)
<b>Income</b>	<b>1,453</b>	<b>1,713</b>	<b>3,166</b>	<b>1,274</b>	<b>4,440</b>	<b>1,615</b>	<b>768</b>	<b>(352)</b>	<b>6,470</b>
Costs	1,035	578	1,613	343	1,956	368	429	87	2,841
<b>Business profit (loss) before impairment charges</b>	<b>417</b>	<b>1,136</b>	<b>1,553</b>	<b>931</b>	<b>2,483</b>	<b>1,247</b>	<b>339</b>	<b>(439)</b>	<b>3,630</b>
Impairment charges for loans and advances	195	973	1,168	293	1,461	242	56	(3)	1,755
<b>Business profit (loss)</b>	<b>222</b>	<b>163</b>	<b>385</b>	<b>638</b>	<b>1,023</b>	<b>1,005</b>	<b>283</b>	<b>(435)</b>	<b>1,875</b>
Legacy derivatives	(4)	(127)	(131)	29	(102)	-	(1)	-	(103)
Badwill	-	-	-	-	-	-	-	(2)	(2)
<b>Profit (loss) before tax</b>	<b>218</b>	<b>36</b>	<b>254</b>	<b>667</b>	<b>921</b>	<b>1,005</b>	<b>282</b>	<b>(438)</b>	<b>1,770</b>
<b>BALANCE SHEET, 30 JUNE 2020</b>									
<b>Assets</b>									
Mortgage loans etc at fair value	176,432	224,191	400,623	247,283	647,906	654,900	10,332	-	1,313,138
Reverse repurchase lending								35,846	35,846
Loans and advances at amortised cost	11,115	23,325	34,440	29,161	63,601	-	3,618	160	67,379
<b>Assets by business area</b>	<b>187,547</b>	<b>247,516</b>	<b>435,063</b>	<b>276,444</b>	<b>711,507</b>	<b>654,900</b>	<b>13,950</b>	<b>36,006</b>	<b>1,416,363</b>
Unallocated assets									181,527
<b>Total assets</b>									<b>1,597,890</b>
<b>Liabilities and equity</b>									
Repo deposits								11,893	11,893
Bank deposits and other payables at amortised cost	36,761	22,013	58,774	10,117	68,892	-	15,479	897	85,267
<b>Liabilities by business area</b>	<b>36,761</b>	<b>22,013</b>	<b>58,774</b>	<b>10,117</b>	<b>68,892</b>	<b>-</b>	<b>15,479</b>	<b>12,789</b>	<b>97,160</b>
Unallocated liabilities									1,414,939
Equity									85,791
<b>Total liabilities and equity</b>									<b>1,597,890</b>

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

## 3. BUSINESS AREAS (CONTINUED)

Results H1/2019	Personal Banking	Business Banking	Total Retail	Corporates & Institutions	Banking	Totalcredit Partners	Wealth Management	Group Items	Total
<b>Results by business area</b>									
Net interest income	929	1,392	2,321	834	3,155	1,372	65	0	4,592
Net fee income	289	308	597	281	877	270	15	(8)	1,155
Wealth management income	166	74	241	51	291	-	422	5	719
Net interest from capitalisation	(33)	(77)	(110)	(58)	(167)	(87)	(5)	87	(172)
Net income relating to customer benefits programmes <sup>1</sup>	-	-	-	-	-	0	-	(103)	(103)
Trading, investment portfolio and other income	4	52	56	146	202	11	12	1,075	1,301
<b>Income</b>	<b>1,355</b>	<b>1,749</b>	<b>3,105</b>	<b>1,254</b>	<b>4,359</b>	<b>1,566</b>	<b>510</b>	<b>1,057</b>	<b>7,492</b>
Costs	991	566	1,557	308	1,865	291	234	112	2,502
<b>Business profit before impairment charges</b>	<b>364</b>	<b>1,183</b>	<b>1,547</b>	<b>947</b>	<b>2,494</b>	<b>1,275</b>	<b>276</b>	<b>945</b>	<b>4,990</b>
Impairment charges for loans and advances	47	357	403	(31)	372	58	(5)	8	433
<b>Business profit</b>	<b>317</b>	<b>827</b>	<b>1,144</b>	<b>978</b>	<b>2,122</b>	<b>1,217</b>	<b>281</b>	<b>937</b>	<b>4,557</b>
Legacy derivatives	(4)	(162)	(166)	(103)	(269)	-	(0)	-	(269)
<b>Profit before tax</b>	<b>314</b>	<b>664</b>	<b>978</b>	<b>874</b>	<b>1,852</b>	<b>1,217</b>	<b>281</b>	<b>937</b>	<b>4,288</b>

## BALANCE SHEET, 30 JUNE 2019

## Assets

Mortgage loans etc at fair value	177,565	226,005	403,570	212,387	615,957	607,394	8,785	-	1,232,135
Reverse repurchase lending								49,147	49,147
Loans and advances at amortised cost	12,017	22,686	34,704	24,737	59,441	-	4,262	145	63,848
<b>Assets by business area</b>	<b>189,582</b>	<b>248,691</b>	<b>438,274</b>	<b>237,124</b>	<b>675,397</b>	<b>607,394</b>	<b>13,047</b>	<b>49,292</b>	<b>1,345,131</b>
Unallocated assets									195,564
<b>Total assets</b>									<b>1,540,695</b>

## Liabilities and equity

Repo deposits								15,416	15,416
Bank deposits and other payables at amortised cost	33,124	19,370	52,494	8,569	61,063	-	16,567	2,309	79,940
<b>Liabilities by business area</b>	<b>33,124</b>	<b>19,370</b>	<b>52,494</b>	<b>8,569</b>	<b>61,063</b>	<b>-</b>	<b>16,567</b>	<b>17,726</b>	<b>95,356</b>
Unallocated liabilities									1,364,769
Equity									80,569
<b>Total liabilities and equity</b>									<b>1,540,695</b>

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



## 4. RECONCILIATION OF INTERNAL AND REGULATORY INCOME STATEMENT

	H1/2020			H1/2019		
	Earnings presentation in Management Commentary	Reclassification	Income statement	Earnings presentation in Management Commentary	Reclassification	Income statement
Net interest income	4,832	754	5,586	4,592	857	5,450
Dividend on equities etc		39	39		151	151
Fee and commission income, net	1,136	(1,069)	66	1,155	(1,419)	(265)
<b>Net interest and fee income</b>		<b>(277)</b>	<b>5,691</b>		<b>(412)</b>	<b>5,336</b>
Wealth management income	987	(987)	-	719	(719)	-
Net interest from capitalisation	(198)	198	-	(172)	172	-
Net income relating to customer benefits programmes	(97)	97	-	(103)	103	-
Trading, investment portfolio and other income	(189)	189	-	1,301	(1,301)	-
Value adjustments		(28)	(28)		1,180	1,180
Other operating income		698	698		705	705
<b>Income</b>	<b>6,470</b>			<b>7,492</b>		
Costs	2,841	(1)	2,839	2,502	(0)	2,502
<b>Business profit before impairment charges</b>	<b>3,630</b>			<b>4,990</b>		
Impairment charges for loans and advances etc	1,755	0	1,755	433	0	433
Profit from investments in associates and Group enterprises		4	4		2	2
<b>Business profit</b>	<b>1,875</b>			<b>4,557</b>		
Legacy derivatives	(103)	103	-	(269)	269	-
Badwill	(2)	2	-	-	-	-
<b>Profit before tax</b>	<b>1,770</b>	<b>0</b>	<b>1,770</b>	<b>4,288</b>	<b>0</b>	<b>4,288</b>

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

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

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

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

The internal presentation is based on the same recognition and measurement principles as the IFRS-based Financial Statements for which reason profit before tax is unchanged.

Nykredit Group

	H1/2020	H1/2019
<b>5. FEE AND COMMISSION INCOME</b>		
<b>Revenue from contracts with customers (IFRS 15)</b>		
Fees:	1,917	1,516
<b>Revenue from contracts with customers (IFRS 15) by business area</b>		
Retail	321	336
Corporates & Institutions	183	170
Totalkredit Partners	406	317
Wealth Management	981	662
Group Items	26	31
<b>Total</b>	<b>1,917</b>	<b>1,516</b>

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

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

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

Revenue comprised by IFRS 15 mainly relates to:

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

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

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

## 6. NET INTEREST INCOME ETC AND VALUE ADJUSTMENTS

H1/2020	Interest income	Interest expenses	Net interest income	Dividend on equities	Value adjustments	Total
<b>Financial portfolios at amortised cost</b>						
Receivables from and payables to credit institutions and central banks	(17)	22	(39)	-	-	(39)
Lending and deposits	999	(56)	1,056	-	2	1,057
Repo transactions and reverse repurchase lending	(105)	(51)	(54)	-	-	(54)
Subordinated debt	-	178	(178)	-	-	(178)
Other financial instruments	68	56	13	-	-	13
<b>Total</b>	<b>946</b>	<b>149</b>	<b>797</b>	<b>-</b>	<b>2</b>	<b>799</b>
<b>Financial portfolios at fair value and financial instruments at fair value</b>						
Mortgage loans and bonds in issue <sup>1</sup>	10,785	6,095	4,690	-	(2)	4,688
- of which administration margin income	4,630	-	4,630	-	-	-
Bonds	156	-	156	-	211	367
Equities etc	-	-	-	39	(487)	(449)
Derivative financial instruments	(57)	-	(57)	-	107	51
<b>Total</b>	<b>10,885</b>	<b>6,095</b>	<b>4,789</b>	<b>39</b>	<b>(171)</b>	<b>4,657</b>
Foreign currency translation adjustment					141	141
<b>Net interest income etc and value adjustments</b>	<b>11,830</b>	<b>6,244</b>	<b>5,586</b>	<b>39</b>	<b>(28)</b>	<b>5,596</b>
Negative interest income	416	416	-			
Negative interest expenses	509	509	-			
<b>Total</b>	<b>12,755</b>	<b>7,169</b>	<b>5,586</b>			
KundeKroner and ErhvervsKroner discounts are offset against interest income and for the period amounted to	709					
<b>H1/2019</b>						
<b>Financial portfolios at amortised cost</b>						
Receivables from and payables to credit institutions and central banks	4	27	(23)	-	-	(23)
Lending and deposits	968	(0)	968	-	5	973
Repo transactions and reverse repurchase lending	(98)	(49)	(49)	-	-	(49)
Subordinated debt	-	178	(178)	-	-	(178)
Other financial instruments	53	47	7	-	-	7
<b>Total</b>	<b>927</b>	<b>203</b>	<b>725</b>	<b>-</b>	<b>5</b>	<b>730</b>
<b>Financial portfolios at fair value and financial instruments at fair value</b>						
Mortgage loans and bonds in issue <sup>1</sup>	11,731	7,203	4,528	-	(17)	4,511
- of which administration margin income	4,465	(61)	4,526	-	-	4,526
Bonds	225	-	225	-	1,223	1,447
Equities etc	-	-	-	151	789	939
Derivative financial instruments	(28)	-	(28)	-	(856)	(884)
<b>Total</b>	<b>11,928</b>	<b>7,203</b>	<b>4,725</b>	<b>151</b>	<b>1,138</b>	<b>6,014</b>
Foreign currency translation adjustment					37	37
<b>Net interest income etc and value adjustments</b>	<b>12,855</b>	<b>7,406</b>	<b>5,450</b>	<b>151</b>	<b>1,180</b>	<b>6,780</b>
Negative interest income	309	309	-			
Negative interest expenses	339	339	-			
<b>Total</b>	<b>13,503</b>	<b>8,054</b>	<b>5,450</b>			
KundeKroner and ErhvervsKroner discounts are offset against interest income and for the period amounted to	644					

<sup>1</sup> Recognised at fair value under the fair value option.

# NOTES

DKK million

Nykredit Group	H1/2020	H1/2019	2019
<b>6. NET INTEREST INCOME ETC AND VALUE ADJUSTMENTS (CONTINUED)</b>			
<b>Nykredit Group</b>			
<b>Interest income</b>			
Interest income	11,830	12,855	25,266
Negative interest income	(416)	(309)	(776)
Negative interest expenses	509	339	939
<b>Total</b>	<b>12,755</b>	<b>13,503</b>	<b>26,982</b>
<b>Interest expenses</b>			
Interest expenses	6,244	7,406	14,229
Negative interest expenses	(509)	(309)	(939)
Negative interest income	416	339	776
<b>Total</b>	<b>7,169</b>	<b>8,054</b>	<b>15,945</b>
<b>Net interest income</b>	<b>5,586</b>	<b>5,450</b>	<b>11,037</b>
<b>Nykredit A/S</b>			
<b>Interest income</b>			
Interest income	-	0	0
Negative interest income	-	0	0
Negative interest expenses	-	0	0
<b>Total</b>	<b>-</b>	<b>0</b>	<b>0</b>
<b>Interest expenses</b>			
Interest expenses	0	0	0
Negative interest expenses	-	-	-
Negative interest income	-	-	-
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net interest income</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>

Due to increased negative interest from the Group's deposit and lending business, "Negative interest income" will now be included under "Interest expenses", while "Negative interest expenses" will be included under "Interest income". Negative interest is generally attributable to repo lending and deposits. The change does not affect total net interest, profit (loss) or the Group's financial ratios.

# NOTES

		DKK million	
Nykredit A/S		Nykredit Group	
H1/2019	H1/2020	H1/2020	H1/2019
<b>7. VALUE ADJUSTMENTS</b>			
<b>Assets measured at fair value through profit or loss</b>			
-	- Mortgage loans	(2,277)	13,266
-	- Other loans, advances and receivables at fair value	2	5
-	- Bonds	211	1,223
-	- Equities etc	(487)	789
-	- Foreign exchange	141	37
-	- Foreign exchange, interest rate and other contracts as well as derivative financial instruments	103	(878)
-	- Other assets	4	22
<b>Liabilities measured at fair value through profit or loss</b>			
-	- Bonds in issue	2,275	(13,283)
-	- <b>Total</b>	<b>(28)</b>	<b>1,180</b>

Value adjustments mainly relate to financial assets, financial liabilities and derivative financial instruments included in the Group's trading activities.

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

## 8 A. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC

	Loans and advances at fair value	Loans and advances at fair value	Loans and advances at amortised cost	Loans and advances at amortised cost	Credit institutions	Credit institutions	Guarantees etc <sup>1</sup>	Guarantees etc <sup>1</sup>	Total	Total
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
<b>Total impairment provisions</b>										
<b>Beginning of period</b>	<b>5,365</b>	<b>5,025</b>	<b>2,526</b>	<b>2,767</b>	<b>28</b>	<b>21</b>	<b>137</b>	<b>117</b>	<b>8,056</b>	<b>7,930</b>
New impairment provisions as a result of additions and change in credit risk	3,053	1,614	893	749	12	4	170	75	4,127	2,442
Releases as a result of redemptions and change in credit risk	1,606	1,278	678	703	9	6	52	60	2,346	2,047
Impairment provisions written off	195	204	61	102	-	-	-	-	256	307
Other adjustments and interest from impaired facilities	-	-	30	31	-	-	-	-	30	31
Transferred to "Impairment provisions for properties acquired by foreclosure"	3	2	-	-	-	-	-	-	3	2
<b>Total impairment provisions</b>	<b>6,614</b>	<b>5,153</b>	<b>2,710</b>	<b>2,741</b>	<b>30</b>	<b>20</b>	<b>255</b>	<b>132</b>	<b>9,609</b>	<b>8,046</b>
<b>Earnings impact</b>										
Change in impairment provisions for loans and advances (stages 1-3)	1,447	335	215	46	2	(2)	118	15	1,782	395
Write-offs for the period, not previously written down for impairment	109	196	9	66	-	-	-	-	117	262
Recoveries on claims previously written off	(47)	(52)	(26)	(27)	-	-	-	-	(73)	(79)
<b>Total</b>	<b>1,509</b>	<b>479</b>	<b>197</b>	<b>86</b>	<b>2</b>	<b>(2)</b>	<b>118</b>	<b>15</b>	<b>1,826</b>	<b>578</b>
Value adjustment of assets in temporary possession	3	(28)	-	-	-	-	-	-	3	(28)
Value adjustment of claims previously written off	14	(30)	(11)	(8)	-	-	-	-	4	(38)
Losses offset, in accordance with partnership agreement <sup>2</sup>	(77)	(79)	-	-	-	-	-	-	(77)	(79)
<b>Earnings impact</b>	<b>1,448</b>	<b>342</b>	<b>186</b>	<b>78</b>	<b>2</b>	<b>(2)</b>	<b>118</b>	<b>15</b>	<b>1,755</b>	<b>433</b>

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

<sup>2</sup> According to the partnership agreement with the partner banks Totalkredit A/S has a right of set-off against commission in connection with write-offs on lending.

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

8 b. 2020: Total impairment provisions by stage	Loans and advances at fair value			Loans and advances at amortised cost			Guarantees etc			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Total, beginning of period	1,589	1,235	2,542	425	199	1,930	52	38	46	8,056
Transfer to stage 1	169	(144)	(25)	104	(86)	(18)	13	(13)	(0)	-
Transfer to stage 2	(78)	348	(270)	(16)	197	(182)	(4)	7	(3)	-
Transfer to stage 3	(5)	(147)	152	(8)	(19)	26	(0)	(2)	2	-
Impairment provisions for new loans and advances (additions)	250	151	74	57	14	70	35	8	5	665
Additions as a result of change in credit risk	740	772	1,066	193	138	431	80	26	16	3,463
Releases as a result of change in credit risk	494	571	542	215	182	290	28	11	14	2,346
Previously written down for impairment, now written off	-	-	198	-	-	61	-	-	-	259
Other adjustments and interest from impaired facilities	-	-	-	-	-	30	-	-	-	30
Total impairment provisions, end of period	2,171	1,644	2,799	541	262	1,937	149	53	52	9,609
Total, end of period	6,614			2,741			255			9,609
Impairment provisions, end of period, are moreover attributable to:										
Credit institutions				30	-	-				30
Earnings impact, H1/2020	496	353	598	35	(29)	211	87	23	8	1,782

8 b. 2019: Total impairment provisions by stage	Loans and advances at fair value			Loans and advances at amortised cost			Guarantees etc			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
<b>Impairment provisions as at 1 January 2019</b>	<b>953</b>	<b>1,626</b>	<b>2,447</b>	<b>326</b>	<b>187</b>	<b>2,274</b>	<b>36</b>	<b>29</b>	<b>53</b>	<b>7,930</b>
Transfer to stage 1	254	(235)	(19)	141	(119)	(22)	21	(10)	(11)	-
Transfer to stage 2	(34)	175	(141)	(7)	77	(70)	(3)	9	(6)	-
Transfer to stage 3	(2)	(103)	105	(1)	(14)	15	(0)	(1)	2	-
Impairment provisions for new loans and advances (additions)	53	51	79	69	23	48	8	5	3	340
Additions as a result of change in credit risk	219	578	634	98	121	394	6	26	26	2,102
Releases as a result of change in credit risk	551	443	285	253	86	370	30	12	18	2,047
Previously written down for impairment, now written off	-	-	207	-	-	102	-	-	-	309
Other adjustments and interest from impaired facilities	-	-	-	-	-	31	-	-	-	31
<b>Total impairment provisions, end of period</b>	<b>892</b>	<b>1,648</b>	<b>2,613</b>	<b>374</b>	<b>189</b>	<b>2,198</b>	<b>38</b>	<b>45</b>	<b>49</b>	<b>8,046</b>
<b>Total, end of period</b>	<b>5,153</b>				<b>2,761</b>		<b>132</b>			<b>8,046</b>

**Impairment provisions, end of period, are moreover attributable to:**

Credit institutions	20	-	-							20
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<b>Earnings impact, H1/2019</b>	<b>(279)</b>	<b>186</b>	<b>428</b>	<b>(85)</b>	<b>58</b>	<b>72</b>	<b>(16)</b>	<b>19</b>	<b>12</b>	<b>395</b>
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The principles of impairment are described in detail in the accounting policies (note 1) of the Annual Report for 2019.

Stage 1 covers loans and advances etc without significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the expected credit losses over a period of 12 months for loans and advances etc at amortised cost. For loans and advances at fair value the initial impairment was calculated at DKK 0.

Stage 2 covers loans and advances etc with significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the expected credit losses over the asset's maturity.

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



**8. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)****8 c: Loans, advances and guarantees etc by stage, at 30 June 2020**

	Stage 1	Stage 2	Stage 3	Total
<b>Loans and advances at fair value, gross</b>				
Loans and advances at fair value, gross	1,272,139	35,798	12,194	1,320,131
Total impairment provisions, end of period	2,171	1,644	2,799	6,614
<b>Value, end of period</b>	<b>1,269,968</b>	<b>34,153</b>	<b>9,396</b>	<b>1,313,517</b>
<b>Loans and advances at amortised cost excluding credit institutions, gross</b>				
Loans and advances at amortised cost excluding credit institutions, gross	98,219	5,070	2,647	105,935
Total impairment provisions, end of period	510	262	1,937	2,710
<b>Value, end of period</b>	<b>97,708</b>	<b>4,807</b>	<b>709</b>	<b>103,225</b>
<b>Guarantees etc</b>				
Guarantees etc	34,001	965	186	35,152
Total impairment provisions, end of period	149	53	52	255
<b>Value, end of period</b>	<b>33,852</b>	<b>912</b>	<b>134</b>	<b>34,897</b>

**8 c: Loans, advances and guarantees etc by stage, at end-2019**

	Stage 1	Stage 2	Stage 3	Total
<b>Loans and advances at fair value, gross</b>				
Loans and advances at fair value, gross	1,246,256	35,597	11,123	1,292,975
Total impairment provisions, end of period	1,589	1,235	2,542	5,365
<b>Value, end of period</b>	<b>1,244,667</b>	<b>34,362</b>	<b>8,581</b>	<b>1,287,610</b>
<b>Loans and advances at amortised cost excluding credit institutions, gross</b>				
Loans and advances at amortised cost excluding credit institutions, gross	109,982	4,574	2,560	117,116
Total impairment provisions, end of period	396	199	1,930	2,526
<b>Value, end of period</b>	<b>109,586</b>	<b>4,374</b>	<b>630</b>	<b>114,590</b>
<b>Guarantees etc</b>				
Guarantees etc	30,021	1,094	241	31,356
Total impairment provisions, end of period	52	38	46	137
<b>Value, end of period</b>	<b>29,969</b>	<b>1,056</b>	<b>195</b>	<b>31,219</b>

Nykredit A/S		DKK million	
		Nykredit Group	
H1/2019	H1/2020	H1/2020	H1/2019

# NOTES

		DKK million	
Nykredit A/S		Nykredit Group	
31.12.2019	30.06.2020	30.06.2020	31.12.2019
<b>10. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE</b>			
-	- Mortgage loans	1,313,138	1,287,370
-	- Arrears and outlays	380	240
-	- <b>Total</b>	<b>1,313,517</b>	<b>1,287,610</b>
<b>10 a. Mortgage loans</b>			
-	- <b>Balance, beginning of period, nominal value</b>	<b>1,262,689</b>	<b>1,171,449</b>
-	- Additions from LR Realkredit A/S	-	21,877
-	- New loans	147,353	404,162
-	- Indexation	135	156
-	- Foreign currency translation adjustment	(338)	(393)
-	- Ordinary principal payments	(16,712)	(28,412)
-	- Prepayments and extraordinary principal payments	(100,680)	(306,151)
-	- <b>Balance, end of period, nominal value</b>	<b>1,292,446</b>	<b>1,262,689</b>
-	- Loans transferred relating to properties in temporary possession	(23)	(7)
-	- <b>Total</b>	<b>1,292,423</b>	<b>1,262,681</b>
-	- Adjustment for interest rate risk etc	27,228	29,889
<b>Adjustment for credit risk</b>			
-	- Impairment provisions	(6,513)	(5,200)
-	- <b>Balance, end of period, fair value</b>	<b>1,313,138</b>	<b>1,287,370</b>
<b>As collateral for loans and advances, Nykredit has received mortgages over real estate and:</b>			
-	- Supplementary guarantees totalling	92,322	97,887
-	- Interim loan guarantees totalling	26,472	23,903
-	- Mortgage registration guarantees etc totalling	27,691	58,209
<b>10 b. Arrears and outlays</b>			
-	- Arrears before impairment provisions	379	350
-	- Outlays before impairment provisions	101	55
-	- Individual impairment provisions for arrears and outlays	(101)	(165)
-	- <b>Total</b>	<b>380</b>	<b>240</b>

# NOTES

		DKK million	
Nykredit A/S		Nykredit Group	
31.12.2019	30.06.2020	30.06.2020	31.12.2019
<b>11. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST</b>			
-	- Bank loans and advances	69,724	67,992
-	- Mortgage loans	10	10
-	- Reverse repurchase lending	35,846	48,749
-	- Other loans and advances	356	366
-	- <b>Balance, end of period</b>	<b>105,935</b>	<b>117,116</b>
<b>Adjustment for credit risk</b>			
-	- Impairment provisions	(2,710)	(2,526)
-	- <b>Balance after impairment provisions, end of period</b>	<b>103,225</b>	<b>114,590</b>
<b>12. BONDS AT FAIR VALUE</b>			
-	- Self-issued SDOs	79,655	93,305
-	- Self-issued ROs	15,381	16,437
-	- Self-issued corporate bonds	179	178
-	- Self-issued senior debt	8,312	310
-	- Other covered bonds	83,828	95,718
-	- Government bonds	19,008	8,564
-	- Other bonds	4,529	4,273
-	- <b>Total</b>	<b>210,891</b>	<b>218,786</b>
-	- Set-off of self-issued SDOs against "Bonds in issue at fair value" – note 14	(79,645)	(93,295)
-	- Set-off of self-issued SDOs against "Bonds in issue at amortised cost" – note 15	(10)	(10)
-	- Set-off of self-issued ROs against "Bonds in issue at fair value" – note 14	(15,381)	(16,437)
-	- Set-off of self-issued corporate bonds against "Bonds in issue at amortised cost" – note 15	(179)	(178)
-	- Set-off of self-issued senior debt against "Bonds in issue at fair value" – note 14	(8,005)	-
-	- Set-off of self-issued senior unsecured debt against "Bonds in issue at amortised cost" – note 15	(307)	(310)
-	- <b>Total</b>	<b>107,364</b>	<b>108,555</b>
<b>Of bonds at fair value before set-off of self-issued bonds:</b>			
-	- As collateral security for the Danish central bank and foreign clearing centres, bonds have been deposited of a total market value of	13,758	7,918
The deposits were made on an arm's length basis in connection with clearing and settlement of securities and foreign exchange trades. The deposits are adjusted on a daily basis and generally have a repayment term of very few days.			
Collateral security was provided on an arm's length basis.			

## NOTES

Nykredit A/S		DKK million	
31.12.2019	30.06.2020	30.06.2020	31.12.2019
-	- On demand	79,599	76,973
-	- At notice	-	5
-	- Time deposits	2,731	5,087
-	- Special deposits	2,937	3,310
-	- Repo deposits	11,893	15,281
-	- Total	97,160	100,656
-	- ROs	151,367	162,763
-	- SDOs	1,256,513	1,282,248
-	- Senior secured debt	9,141	1,135
-	- Total	1,417,021	1,446,146
-	- Offsetting of self-issued bonds	(103,031)	(109,732)
-	- Total	1,313,990	1,336,414
-	- ROs at nominal value	142,295	152,406
-	- Fair value adjustment	9,072	10,357
-	- ROs at fair value	151,367	162,763
-	- Self-issued ROs	(15,381)	(16,437)
-	- Total	135,986	146,326
-	- Of which pre-issuance	8	320
-	- ROs redeemed and maturing at next creditor payment date	3,213	7,447
-	- SDOs at nominal value	1,238,237	1,262,714
-	- Fair value adjustment	18,276	19,534
-	- SDOs at fair value	1,256,513	1,282,248
-	- Self-issued SDOs	(79,645)	(93,295)
-	- Total	1,176,868	1,188,954
-	- Of which pre-issuance	2,135	6,836
-	- SDOs redeemed and maturing at next creditor payment date	67,518	121,423

# NOTES

		DKK million	
Nykredit A/S		Nykredit Group	
31.12.2019	30.06.2020	30.06.2020	31.12.2019
	<b>14. BONDS IN ISSUE AT FAIR VALUE (CONTINUED)</b>		
	<b>14 c. Senior secured debt</b>		
-	- Senior secured debt at nominal value	8,932	934
-	- Fair value adjustment	209	201
-	- <b>Senior secured debt at fair value</b>	<b>9,141</b>	<b>1,135</b>
-	- Self-issued senior secured debt	(8,005)	-
-	- <b>Total</b>	<b>1,136</b>	<b>1,135</b>
	<b>15. BONDS IN ISSUE AT AMORTISED COST</b>		
-	- Corporate bonds	4,671	3,959
-	- SDOs	10	11
-	- Senior unsecured debt	39,746	30,306
-	- Other securities	52	33
-	- <b>Total</b>	<b>44,480</b>	<b>34,308</b>
-	- Self-issued corporate bonds	(179)	(178)
-	- Self-issued SDOs	(10)	(10)
-	- Self-issued senior unsecured debt at amortised cost	(307)	(310)
-	- <b>Total</b>	<b>43,983</b>	<b>33,810</b>
	<b>16. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE</b>		
-	- Negative securities portfolios	7,845	4,523
-	- <b>Total</b>	<b>7,845</b>	<b>4,523</b>

Nykredit A/S		DKK million	
		Nykredit Group	
31.12.2019	30.06.2020	30.06.2020	31.12.2019
	<b>17. SUBORDINATED DEBT</b>		
	Subordinated debt consists of financial liabilities in the form of subordinate loan capital and Additional Tier 1 capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.		
	Subordinated debt is included in Nykredit's own funds etc in accordance with the EU's Capital Requirements Regulation.		
	<b>Subordinate loan capital</b>		
	Nominally EUR 600 million. The loan matures on 3 June 2036, but may be redeemed at par (100) from 3 June 2021. The loan carries a fixed interest rate of 4.0% pa up to 3 June 2021, after which date the interest rate will be fixed every five years. If the Common Equity Tier 1 capital ratio of Nykredit Realkredit, the Nykredit Realkredit Group or the Nykredit Group falls below 7%, the loan will be written down	4,522	4,555
-	Nominally EUR 800 million. The loan matures on 17 November 2027, but may be redeemed at par (100) from 17 November 2022. The loan carries a fixed interest rate of 2.75% pa up to 17 November 2022, after which date the interest rate will be fixed for the next five years	6,075	6,087
-	Nominally EUR 50 million. The loan matures on 28 October 2030. The loan carries a fixed interest rate of 4% pa for the first two years after issuance. In the remaining loan term, the interest rate will be fixed every six months	373	373
-	<b>Total subordinate loan capital</b>	<b>10,970</b>	<b>11,016</b>
-	Portfolio of self-issued bonds	(19)	(12)
-	<b>Total subordinated debt</b>	<b>10,951</b>	<b>11,004</b>
-	Subordinated debt that may be included in own funds	7,329	7,189



## 18. 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 H1/2020.

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 as at 30 June 2020 include:

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

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

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

as if the Totalkredit loans had been granted directly from Nykredit Realkredit A/S's own balance sheet.

Nykredit Realkredit A/S has granted loans, see section 15 of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, to Totalkredit A/S serving as supplementary collateral in Totalkredit A/S's capital centres. The loans totalled DKK 0.9 billion at 30 June 2020. The loans constitute secondary preferential claims and rank after the master bond in respect of the assets in Totalkredit A/S's capital centres.

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

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

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

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

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

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

## 19. 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 impairment in the lowest rating categories, as there are no external curves suitable for the calculation of credit risk on these customers. Finally, calculations are made to simulate future exposures to interest rate swaps. Calculations entailing increased CVA are included in the value adjustment.

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

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

Net value adjustment due to CVA, DVA and FVA amounted to DKK 821 million at 30 June 2020 (end-2019: DKK 527 million).

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 June 2020, the non-amortised minimum margin amounted to DKK 128 million (end-2019: DKK 135 million). With regard to liquidity and credit risk, these amounts have been included above in the net adjustment of FVA and CVA; DKK 172 million at end-June 2020 (end-2019: DKK 182 million). Finally, in some instances further value adjustment based on management judgement is made if the models are not deemed to take into account all known risks, including eg legal risks.

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

### Unobservable inputs

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

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

Following value adjustment, the fair value came to DKK 1,868 million at 30 June 2020 (end-2019: DKK 1,033 million). Credit value adjustments came to DKK 2,169 million at 30 June 2020 (end-2019: DKK 2,301 million).

The interest rate risk on these interest rate swaps is hedged in all material respects. However, interest rate fluctuations may impact results to the extent that the market value must be adjusted due to increased counterparty credit risk. A 0.1 percentage point change in interest rate levels will impact the fair value by +/- DKK 74 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 June 2020, the proportion was thus 0.3% (end-2019: 0.3%). The proportion of financial liabilities was 0.0% (end-2019: 0.0%).

Valuation, notably of instruments classified as unobservable inputs, is subject to some uncertainty. Of total assets and liabilities, DKK 5.0 billion (end-2019: DKK 4.1 billion) belonged to this category.

Assuming that an actual market price will deviate by +/- 10% from the calculated fair value, the earnings impact will be DKK 501 million at 30 June 2020 (0.58% of equity at 30 June 2020) (end-2019: DKK 412 million, equal to 0.49% of equity).

## Transfers between categories

Transfers between the categories Listed prices, Observable inputs and Unobservable inputs are made when an instrument is classified differently on the balance sheet date than at the beginning of the financial year. The value transferred to another category corresponds to the fair value at the beginning of the year. With respect to interest rate swaps that have been fair value adjusted to DKK 0 due to credit risk adjustment, separate calculations are made at the end of each month.

In 2020 and 2019, transfers between the categories Observable inputs and Unobservable inputs mainly resulted from changes to the ratings (credit risk) of counterparties and primarily concerned interest rate swaps, as regards financial instruments with positive market value.

Transfers between the categories Listed prices and Observable inputs mainly result from bonds that are reclassified either due to traded volume or the number of days between last transaction and the time of determination. As at 30 June 2020, financial assets of DKK 6.0 billion (end-2019: DKK 1.4 billion) have been transferred from Listed prices to Observable inputs and DKK 9.4 billion (end-2019: DKK 0.8 billion) from Observable inputs to Listed prices. Financial liabilities of DKK 0.3 billion (end-2019: DKK 0.2 billion) were transferred from Listed prices to Observable inputs and DKK 0.0 billion (end-2019: DKK 0.1 billion) from Observable inputs to Listed prices.

Redeemed bonds (usually comprised by Listed prices) are transferred to Observable inputs on the last day before the coupon date, as there is no access to official prices in active markets. At 30 June 2020 the amount was DKK 3.4 billion (end-2019: DKK 0.6 billion).

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

## 19. FAIR VALUE DISCLOSURES (CONTINUED)

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

30 June 2020

	Listed prices	Observable inputs	Unobservable inputs	Total fair value
<b>Financial assets:</b>				
- bonds at fair value	34,277	73,087	-	107,364
- equities measured at fair value through profit or loss	3,560	-	3,081	6,641
- positive fair value of derivative financial instruments	117	21,382	1,868	23,367
- mortgage loans, arrears and outlays <sup>1</sup>	-	1,313,517	-	1,313,517
- owner-occupied properties	-	-	59	59
<b>Total</b>	<b>37,954</b>	<b>1,407,986</b>	<b>5,008</b>	<b>1,450,949</b>
<b>Percentage</b>	<b>2.6</b>	<b>97.0</b>	<b>0.3</b>	<b>100.0</b>

<b>Financial liabilities:</b>				
- other non-derivative financial liabilities at fair value	2,973	4,872	-	7,845
- negative fair value of derivative financial instruments	76	12,259	-	12,335
- bonds in issue at fair value <sup>3</sup>	1,290,108	23,882	-	1,313,990
<b>Total</b>	<b>1,293,158</b>	<b>41,013</b>	<b>-</b>	<b>1,334,171</b>
<b>Percentage</b>	<b>96.9</b>	<b>3.1</b>	<b>-</b>	<b>100.0</b>

## Assets measured on the basis of unobservable inputs

	Real estate	Bonds	Equities	Derivatives	Total
<b>Fair value, beginning of period, assets</b>	<b>74</b>	<b>2</b>	<b>3,014</b>	<b>1,033</b>	<b>4,123</b>
Value adjustment recognised through profit or loss	(0)	-	(18)	528	509
Purchases for the period	-	-	100	-	100
Sales for the period	(15)	(2)	(15)	(107)	(138)
Transferred from Listed prices and Observable inputs <sup>2</sup>	-	-	-	1,965	1,965
Transferred to Listed prices and Observable inputs <sup>3</sup>	-	-	-	(1,551)	(1,551)
Reclassification to "Other assets"	-	-	-	-	-
<b>Fair value, end of period, assets</b>	<b>59</b>	<b>0</b>	<b>3,081</b>	<b>1,868</b>	<b>5,009</b>

<sup>1</sup> Recognised at fair value under the fair value option.<sup>2</sup> Transfers from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.<sup>3</sup> Transfers to Observable inputs from Unobservable inputs principally consist of interest rate swaps for which individual adjustment for increased credit risk is no longer required.

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

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

**Financial liabilities:**

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

**Assets measured on the basis of unobservable inputs**

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

<sup>1</sup> Recognised at fair value under the fair value option.<sup>2</sup> Transfers from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.<sup>3</sup> Transfers to Observable inputs from Unobservable inputs principally consist of interest rate swaps for which individual adjustment for increased credit risk is no longer required.

## 20. ACQUISITION OF GROUP ENTERPRISE AND INTANGIBLE ASSETS

In 2019 the subsidiary Nykredit Bank A/S acquired 76% of the shares in Sparinvest Holdings SE, which subsequently became a subsidiary of the Nykredit Bank Group.

The assessment of net assets acquired, including determination of goodwill, has called for a few adjustments relative to intangible assets and deferred tax.

For the Parent, the change has resulted in a reclassification of DKK 71 million from "Investments in Group enterprises" to "Goodwill". Goodwill has then increased from DKK 1,686 million to DKK 1,756 million. The change has not affected profit (loss), comprehensive income or total equity.

The Consolidated Financial Statements have been affected by the adjustment of goodwill of DKK 71 million, adjustment of deferred tax by DKK 37 million and an increase in the minority interests' share of equity by DKK 30 million. The adjustment has not affected profit (loss), comprehensive income or total equity.

Please also refer to note 54 of the Annual Report for 2019 for more information.

The acquisition of LR Realkredit has not given rise to accounting adjustments in the H1 Interim Report 2020.

# NOTES

	DKK million				
Nykredit Group	H1/ 2020	H1/ 2019	H1/ 2018	H1/ 2017	H1/ 2016
<b>21. FIVE-YEAR FINANCIAL HIGHLIGHTS</b>					
<b>SUMMARY INCOME STATEMENT</b>					
Net interest income	5,586	5,450	5,444	5,822	5,483
Net fee income etc	105	(114)	(115)	(37)	(18)
<b>Net interest and fee income</b>	<b>5,691</b>	<b>5,336</b>	<b>5,329</b>	<b>5,786</b>	<b>5,464</b>
Value adjustments	(28)	1,180	786	2,860	(740)
Other operating income	698	705	439	135	105
Staff and administrative expenses	2,586	2,295	2,301	2,185	2,264
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	147	136	48	116	103
Other operating expenses	106	71	65	71	82
Impairment charges for loans, advances and receivables etc	1,755	433	103	(448)	125
Profit from investments in associates and Group enterprises	4	2	2	4	6
<b>Profit before tax</b>	<b>1,770</b>	<b>4,288</b>	<b>4,040</b>	<b>6,860</b>	<b>2,261</b>
Tax	204	681	755	1,407	444
<b>Profit for the period</b>	<b>1,566</b>	<b>3,606</b>	<b>3,285</b>	<b>5,453</b>	<b>1,817</b>
Value adjustment and reclassification of strategic equities against equity	-	-	-	125	(157)
<b>SUMMARY BALANCE SHEET, END OF PERIOD</b>					
	30.06.2020	30.06.2019	30.06.2018	30.06.2017	30.06.2016
<b>Assets</b>					
Cash balances and receivables from credit institutions and central banks	32,698	43,475	29,003	33,704	43,707
Mortgage loans at fair value	1,313,138	1,232,135	1,178,370	1,140,548	1,127,725
Bank loans excluding reverse repurchase lending	67,014	63,505	58,344	57,534	49,554
Bonds and equities etc	114,005	117,650	96,434	95,088	106,387
Remaining assets	71,035	83,929	60,131	52,824	79,934
<b>Total assets</b>	<b>1,597,890</b>	<b>1,540,695</b>	<b>1,422,282</b>	<b>1,379,697</b>	<b>1,407,306</b>
<b>Liabilities and equity</b>					
Payables to credit institutions and central banks	14,445	26,647	17,541	14,420	28,131
Deposits and other payables	97,160	95,356	92,165	69,442	69,537
Bonds in issue at fair value	1,313,990	1,263,666	1,179,842	1,140,474	1,142,561
Subordinated debt	10,951	11,077	10,982	10,956	11,260
Remaining liabilities	75,554	63,379	44,296	68,004	88,790
Equity	85,791	80,569	77,456	76,401	67,027
<b>Total liabilities and equity</b>	<b>1,597,890</b>	<b>1,540,695</b>	<b>1,422,282</b>	<b>1,379,697</b>	<b>1,407,306</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
Contingent liabilities	6,774	6,703	6,296	7,224	6,245
Other commitments	27,599	20,012	8,732	7,664	7,203
<b>FINANCIAL RATIOS<sup>1</sup></b>					
Total capital ratio, %	22.0	23.2	23.0	23.9	21.5
Tier 1 capital ratio, %	19.7	21.1	21.0	21.6	20.4
Return on equity before tax, %	2.1	5.3	5.0	9.2	3.0
Return on equity after tax, %	1.8	4.5	4.1	7.0	2.4
Income:cost ratio	1.4	2.5	2.6	4.6	1.8
Foreign exchange position, %	0.1	0.7	0.0	0.3	0.7
Loans and advances:equity (loan gearing)	16.5	16.7	16.4	16.0	18.0
Growth in loans and advances for the period, %	2.4	2.3	(0.8)	0.6	(1.0)
Impairment charges for the period, %	0.12	0.03	0.01	(0.04)	0.01
Return on capital employed, %	0.10	0.23	0.23	0.39	0.13

<sup>1</sup> Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 56 in the Annual Report for 2019.



# NOTES

DKK million					
Nykredit A/S	H1/ 2020	H1/ 2019	H1/ 2018	H1/ 2017	H1/ 2016
<b>21. FIVE-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)</b>					
<b>SUMMARY INCOME STATEMENT</b>					
Net interest income	(0)	(0)	(0)	(0)	-
Net fee income etc	-	-	-	-	-
<b>Net interest and fee income</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>	<b>-</b>
Staff and administrative expenses	5	10	12	8	14
Profit from investments in associates	1,440	3,499	3,169	5,442	1,529
<b>Profit before tax</b>	<b>1,435</b>	<b>3,488</b>	<b>3,156</b>	<b>5,434</b>	<b>1,515</b>
Tax	(1)	(2)	(3)	(4)	(3)
<b>Profit for the period</b>	<b>1,436</b>	<b>3,491</b>	<b>3,159</b>	<b>5,437</b>	<b>1,518</b>
<b>SUMMARY BALANCE SHEET, END OF PERIOD</b>					
	30.06.2020	30.06.2019	30.06.2018	30.06.2017	30.06.2016
<b>Assets</b>					
Cash balances and receivables from credit institutions and central banks	11	19	50	-	11
Remaining assets	16	19	17	9	12
Investments in Group enterprises	81,957	76,803	73,718	72,647	63,251
<b>Total assets</b>	<b>81,984</b>	<b>76,842</b>	<b>73,786</b>	<b>72,656</b>	<b>63,274</b>
<b>Liabilities and equity</b>					
Payables to credit institutions and central banks	29	33	46	10	-
Remaining liabilities	14	9	8	5	12
Equity	81,942	76,800	73,732	72,641	63,262
<b>Total liabilities and equity</b>	<b>81,984</b>	<b>76,842</b>	<b>73,786</b>	<b>72,656</b>	<b>63,274</b>
<b>FINANCIAL RATIOS<sup>1</sup></b>					
Total capital ratio, %	26.4	26.4	26.4	27.0	27.0
Tier 1 capital ratio, %	26.4	26.4	26.4	27.0	27.0
Return on equity before tax, %	1.8	4.6	4.2	7.8	2.4
Return on equity after tax, %	1.8	4.6	4.2	7.8	2.4
Income:cost ratio	275.1	336.1	266.7	679.0	106.1
Return on capital employed, %	1.8	4.54	4.28	7.48	2.40

<sup>1</sup> Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 56 in the Annual Report for 2019.

**22. GROUP STRUCTURE****Name and registered office**

	Ownership interest as %, 30 June 2020	Profit for the period, 2020	Equity, 30 June 2020	Profit (loss) for 2019	Equity, 31 December 2019
Nykredit A/S (Parent), Copenhagen, g)	-	1,436	81,942	7,194	80,532
Nykredit Realkredit A/S, Copenhagen, a)	100	1,556	85,726	7,443	84,321
Totalkredit A/S, Copenhagen, a)	100	919	31,438	2,573	30,612
Nykredit Bank A/S, Copenhagen, b)	100	528	24,905	1,288	24,377
Nykredit Portefølje Administration A/S, Copenhagen, f)	100	92	1,171	191	1,079
Nykredit Leasing A/S, Gladsaxe, e)	100	31	888	102	858
Sparinvest Holdings SE, Luxembourg, g)	75	65	242	280	233
Nykredit Mægler A/S, Copenhagen, c)	100	37	109	69	138
LR Realkredit A/S, Copenhagen, a)	100	18	3,317	(3)	3,299
Ejendomsselskabet Kalvebod A/S, Copenhagen, g)	100	15	713	28	698
Kalvebod Ejendomme I A/S, Copenhagen, d)	100	10	566	25	556
Kalvebod Ejendomme II A/S, Copenhagen, d)	100	5	113	3	138

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

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

**Geographical distribution of activities**

Denmark: Names and activities appear from the Group structure above

Number of staff	Revenue <sup>1</sup>	Profit before tax	Tax	Government aid received
3,726	14,445	1,770	204	-

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

- a) Mortgage bank
- b) Bank
- c) Estate agency business
- d) Property company
- e) Leasing business
- f) Investment management company
- g) Holding company, no independent activities

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

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

*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.*