Risk and Capital Management 2015

Nykredit Realkredit Group

Foto af Brian Buchard

Nykredit

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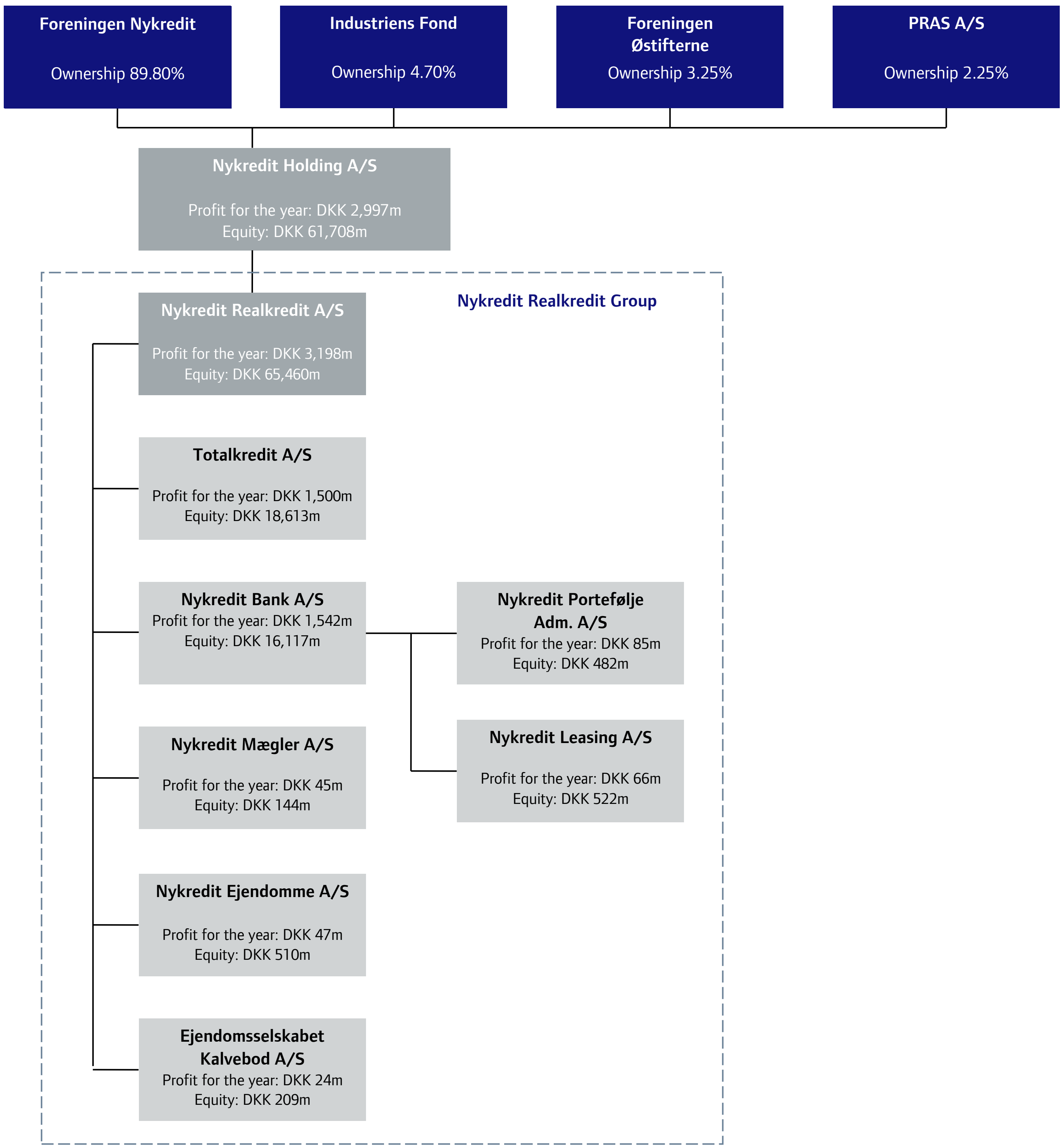
GROUP CHART


Foreningen Nykredit
Ownership 89.80%
Industriens Fond
Ownership 4.70%
Foreningen Østifterne
Ownership 3.25%
PRAS A/S
Ownership 2.25%
Nykredit Holding A/S
Profit for the year: DKK 2,997m
Equity: DKK 61,708m
Nykredit Realkredit Group
Nykredit Realkredit A/S
Profit for the year: DKK 3,198m
Equity: DKK 65,460m
Totalkredit A/S
Profit for the year: DKK 1,500m
Equity: DKK 18,613m
Nykredit Bank A/S
Profit for the year: DKK 1,542m
Equity: DKK 16,117m
Nykredit Portefølje Adm. A/S
Profit for the year: DKK 85m
Equity: DKK 482m
Nykredit Leasing A/S
Profit for the year: DKK 66m
Equity: DKK 522m
Nykredit Mægler A/S
Profit for the year: DKK 45m
Equity: DKK 144m
Nykredit Ejendomme A/S
Profit for the year: DKK 47m
Equity: DKK 510m
Ejendomsselskabet Kalvebod A/S
Profit for the year: DKK 24m
Equity: DKK 209m

2015 IN BRIEF

Introduction
The financial conditions of homeowners and businesses in Denmark generally improved in 2015. Unemployment declined during the year and interest rates remained very low.

This rubbed off on the housing market where prices of both houses and flats rose significantly. As a result, the loan-to-value ratio of the Group's private residential lending dropped from just under 75% at end-2014 to 70% at end-2015.

The positive trends also affected customers' financial leeway. The figures for loan impairments, non-performing loans, acquired properties and incurred losses all show an overall favourable effect on the Group's portfolios from customers' improved ability to pay.

Fall in Nykredit's risk exposures
The total risk exposure amount of the Nykredit Realkredit Group was DKK 311bn at end-2015. At Group level, the risk exposure amount declined by DKK 47bn from end-2014 to end-2015. The decline mainly resulted from two factors.

First, the risk exposure amount declined in relation to Nykredit Markets and Group Treasury, in part because of reduced bond portfolios.

Secondly, bank lending fell as a consequence of the general macroeconomic climate in Denmark with continued household deleveraging. Also, the Group's loan-to-value ratios decreased for both private residential lending and business lending.

Lower impairment losses and low loss ratios
Impairment losses on loans and advances (earnings impact) of the Nykredit Realkredit Group came to DKK 0.9bn in 2015 against DKK 2.3bn in 2014. Impairment losses on loans and advances through profit or loss include changes for the year in individual and collective impairment provisions as well as write-offs. The lower earnings impact mainly reflects a decline in individual impairment provisions in Nykredit Realkredit.

Nykredit's impairment provisions for potential future losses on mortgage and bank lending totalled DKK 8.6bn at end-2015. Total provisions for mortgage loan impairment saw a net increase of DKK 184m to DKK 5.7bn (0.5% of lending). Total provisions for bank loan impairment declined DKK 708m to DKK 2.9bn (5.8% of lending).

Total incurred loan losses on the Group's customers in 2015 were DKK 1.7bn, equal to a loss ratio of 0.1%. The ratio is unchanged from 2014, indicating that the increase in Nykredit's loan losses in the wake of the financial crisis has stabilised. Nykredit's mortgage loan losses amounted to DKK 1.0bn. About 61% of the losses were on private residential lending, while 39% were on business lending. Nykredit Bank's loan losses amounted to DKK 0.7bn.

Nykredit's capital targets 2019
A number of adjustments to Nykredit's models are currently awaiting the approval of the Danish FSA. Upon approval, the risk exposure amount will increase by an estimated DKK 35bn, resulting in a total risk exposure amount of DKK 345bn. The increase primarily relates to the mortgage business.

Business Plan 2018 is expected to increase the risk exposure amount by another DKK 30bn. Altogether, the capital requirement, measured by the risk exposure amount, will total an estimated DKK 375bn in 2019.

To this should be added adjustments to the detailed capital requirement calculations, resulting in part from the loss experience in the wake of the financial crisis. These adjustments are expected to add another DKK 25bn to the risk exposure amount, leading to a total of DKK 400bn.

As part of the annual review of the Group's overall capital policy and risk appetite, the Board of Directors of the Nykredit Realkredit Group has set a Common Equity Tier 1 (CET1) capital ratio target of 17.5% for 2019.

The Board's decision is based on the following:

- In 2019 the statutory requirement for the Nykredit Realkredit Group's CET1 capital ratio will be around 13%, to which should be added requirements resulting from the stress test exercises of the EBA and the Danish FSA
- Nykredit must hold sufficient capital to ensure ratings with the credit rating agencies that are compatible with the Group's business plans
- The capital level must be market-consistent, corresponding to the levels of other large Nordic financial institutions
- In addition to this, especially three Nykredit characteristics must be allowed for in terms of capital:
  - Nykredit is currently not listed and therefore has more restricted access to capital markets than listed companies
  - Nykredit is one of the largest private bond issuers in Europe
  - Nykredit has a sizeable mortgage loan portfolio. The mortgage loans typically have long loan terms and are non-callable by Nykredit.

Risk of changed capital requirements
There is a risk that the capital requirements will change further in the coming years.

First, specific discussions are taking place at the Basel Committee and at the EBA which may result in the introduction of minimum risk weights for home loans and other loans.

Secondly, a new capital floor is in the pipeline for IRB institutions in 2017. This is likely to be based on the Basel Committee's proposal for a new standardised approach for credit risk, which was published in December 2015.

Thirdly, the EBA is working on technical standards on model calculations for IRB institutions.

Each of the said regulatory measures will lead to increased capital requirements for lending with a low risk of loss, including especially mortgage lending.

Nykredit will work to preserve the existing principle of basing capital requirements on the observed risk of loss and thus the proven resilience of the Danish mortgage system.

In overall terms, however, the capital requirements for mortgage lending are likely to increase. How much will depend on the concrete changes proposed by the Basel Committee, the European Commission and the EBA. The increased capital requirements will add an estimated DKK 15bn to the Group's CET1 capital requirement, corresponding to a CET1 capital level around DKK 85bn. This estimate is based on the assumption that Nykredit's CET1 capital ratio target of 17.5% of the risk exposure amount could be lowered to around 15% as a result of reduced cyclicality of the capital requirements.

Totalkredit partnership now also includes business mortgages
Having offered mortgage loans to homeowners for more than 25 years, the Totalkredit partnership has now entered the business mortgage market. In December 2015, the first business customers were offered loans, and from April 2016 all partner banks can offer Totalkredit business mortgages.

Totalkredit business mortgages are offered to the segments office and retail, private rental as well as industry and trades.

GOVERNANCE AND MANAGEMENT OF RISK

NYKREDIT'S CHARACTERISTICS

The Nykredit Realkredit Group is a financial services group with business activities within banking and mortgage lending. In addition, Nykredit's activities include estate agency services, administration and management of investment funds, leasing and insurance mediation.

Nykredit Realkredit A/S and its subsidiaries are referred to collectively as Nykredit in this report.

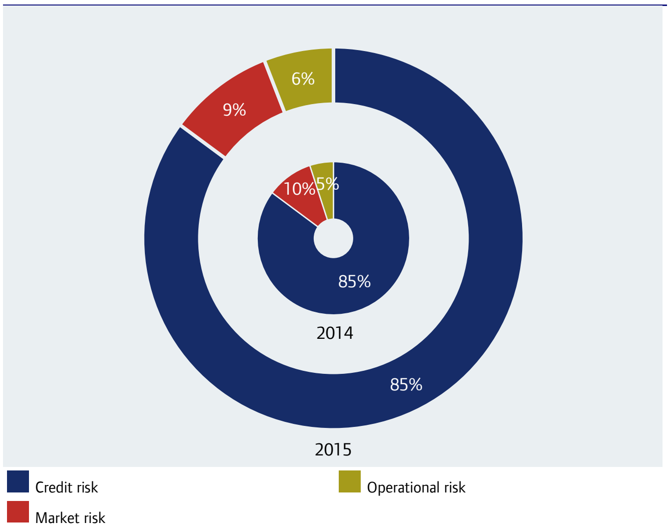
A large portion of the Group's loan portfolio of DKK 1,166bn consists of match-funded mortgage loans secured by mortgages on real estate. Mortgage lending is carried on both under the Nykredit brand and through the subsidiary Totalkredit, which is wholly owned by Nykredit Realkredit. Lending to personal customers is provided only through Totalkredit, while lending to business customers is provided through both Totalkredit and Nykredit Realkredit. At end-2015 total mortgage lending amounted to DKK 1,119bn.

Mortgage lending in Totalkredit is based on a strategic alliance with 58 local and regional banks in Denmark. According to this business concept, the partner banks are responsible for serving customers, and Totalkredit undertakes the financing/funding of the mortgage loans. Totalkredit and the individual partner bank split the risk relating to the loans according to the principles set out in the agreement with the partner banks. The partner banks receive fees for sales and risk hedging. At end-2015 mortgage lending to personal customers in Totalkredit (incl loans originated by Nykredit Realkredit) made up around half of Nykredit's total mortgage lending.

A number of local and regional banks have also entered into an agreement with Totalkredit regarding funding of secured homeowner loans. The transfer of secured homeowner loans for funding in Totalkredit started in 2015. The secured homeowner loans must fulfil a number of criteria in order to be transferred for funding, so that Totalkredit may know the credit quality of the loans beforehand.

The business activities combined with the placing of the investment portfolio involve credit, market, operational and liquidity risks.

Nykredit Realkredit Group
Capital requirement by type of risk



Note: The capital charge for liquidity risk is not quantified.

Mortgage lending and the underlying funding are regulated by the balance principle, which means that Nykredit incurs limited market and liquidity risks on mortgage lending and the underlying funding. Liquidity and market risks are further reduced by the Danish act regulating refinancing risk, which ensures mortgage loan refinancing in special situations. Thus, credit risk is Nykredit's main risk.

RISK APPETITE

The capital and risk policy of the Nykredit Group reflects the Group's overall tolerance for taking risks. The overall risk appetite is determined on the basis of Nykredit's strategy, regulatory and credit rating agency capital requirements and the capital targets set out by the Board of Directors. Nykredit manages its capital requirements by preparing a capital budget annually. The budget should be seen in the context of the overall capital and strategy plan towards 2019. Capital is allocated and prioritised with due consideration for business returns and strategic decisions.

TYPES OF RISK

Nykredit strives to meet best international practice for risk management including disclosure of risk exposures. Risk management is the responsibility of the Board of Directors and the Executive Board and is a key element of Nykredit's day-to-day operations. Through risk management, Nykredit seeks to ensure financially sustainable solutions in the short and long term. Focus is on risk management balanced according to risk type and a strong capital structure. Nykredit's advanced models for quantifying risks are central elements of the Group's risk and capital management.

Nykredit distinguishes between four main types of risk. Each type of risk has its own special features, and risk management is structured accordingly.

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

Market risk reflects the risk of loss as a result of movements in financial markets (interest rate, foreign exchange, equity price, volatility risks, etc).

Operational risk reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk also includes legal and model risks.

Liquidity risk reflects the risk of loss as a result of insufficient liquidity to cover current payment obligations.

Credit, market and operational risks are mitigated by the holding of adequate capital. Liquidity risk is mitigated by the holding of a sufficient stock of liquid assets.

The determination of the risk exposure amount (REA) is to ensure that credit institutions hold adequate capital to withstand potential losses. This is described in more detail in the following sections. New liquidity measures are to ensure that credit institutions hold sufficient liquid assets to fulfil future payment obligations. This is described in more detail under "Liquidity and funding".

ORGANISATION, DELEGATION OF RESPONSIBILITIES AND CORPORATE GOVERNANCE

The Board of Directors of Nykredit Realkredit A/S is responsible for defining limits to and monitoring Group risks as well as approving overall instructions and policies. The Board is responsible for the overall approach to capital and risk management, the capital requirement rules and the internal models. Risk exposures and business performance are reported to the Board of Directors on a current basis.

The Board of Directors of Nykredit Realkredit A/S counts 15 members, of which ten are elected by the General Meeting for a term of one year and five are elected by and among the staff for a term of four years. The Board of Directors is the supreme management body of the Company, which makes decisions of a strategic and fundamental nature and lays down guidelines for the day-to-day management by the Group Executive Board.

Nykredit Realkredit Group
Organisation and delegation of responsibilities

Board of Directors
- Overall governance and strategic management
- Lays down overall policies and guidelines

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

Remuneration Board
- Prepares and recommends remuneration policies

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

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

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

Group committees
- Governance and management within selected fields of business

Credits
- Manages and operationalises the credit policy
- Approves large exposures

Asset/Liability
- Overall capital, asset/liability and liquidity management
- SDO cover pool management

Risk
- Monitors risk profile and capital requirements
- General risk policy
- Approves risk models

Contingency
- Responsible for compliance with contingency plans and related IT security policiy

Products
- Ensures development and maintenance of concepts and products

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

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

- Strategy
- Sector and real estate expertise
- Economics, finance and accounting
- Capital markets, securities and funding
- Politics, public administration and associations
- Financial regulation
- Corporate governance
- Digitisation, IT and processes
- Organisation/HR and processes
- Credit matters.

Further details on the competency profile of the Board of Directors, the special skills and experience of each Board member and the composition, size and diversity of the Board of Directors are available at nykredit.com/organisationuk.

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

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

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

The Audit Board held four meetings in 2015.

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

The Remuneration Board held three meetings in 2015.

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

The Nomination Board held three meetings in 2015.

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

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

The Risk Board held four meetings in 2015.

Committees
Nykredit has appointed five committees which are to perform specific tasks within selected fields. All the committees include at least one member of the Group Executive Board and a management representative from Totalkredit and Nykredit Bank.

Each committee must report to the entire Group Executive Board, and the individual members may request the Group Executive Board to decide on a case.

The Credits Committee is charged with approving credit applications and loan impairments as well as overseeing the management of risks in Nykredit's credits area. The Committee monitors Nykredit's credit portfolio and submits recommendations on credit policies etc to the individual Executive Boards and Boards of Directors. The Committee chiefly considers cases and manages portfolios in the credits area.

The Asset/Liability Committee is charged with monitoring and coordinating the use of Nykredit's resources in the form of capital and liquidity, monitoring profitability at the business level and laying down internal limits.

The *Risk Committee* is charged with overseeing the overall risk profile, capital requirements and risk models of the Nykredit Group. The Committee thereby assists the individual Executive Boards and Boards of Directors of the Nykredit Group in ensuring compliance with current legislation and practice.

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

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

For further information on Nykredit's Board committees and Group committees, please see Nykredit's Annual Report available at nykredit.com.

Risk areas reviewed by the Board of Directors

Annually	
Capital policy and risk appetite	Review of and decision on Nykredit's required own funds, internal capital adequacy requirement as well as the long-term capital requirement, capital policy and risk appetite
Risk policies	Review and approval of policies and guidelines in main risk areas, including ▪ Credit policy ▪ Market risk policy ▪ Liquidity policy ▪ Operational risk policy ▪ Guidelines on the approval of market risk limits ▪ Guidelines on the approval of loans and other credit facilities ▪ Guidelines on operational risk
Return	Review of and decision on current return targets
Risk models	Review of ongoing model development and impact thereof
Stress tests	Review of results of Nykredit's stress tests and scenario analyses
Ongoing	
Risk reporting	Quarterly/semi-annual reporting on key risk areas: ▪ Capital structure, required own funds and internal capital adequacy requirement ▪ Liquidity risk and SDO risk Balance principle and investment rules Liquidity position ▪ Credit risk Development in credit risk and parameters, and ratings Concentration risk Exposures by size, industry, loan type and geography Housing prices and LTV ratios Provisions for guarantees, loan impairment, arrears and incurred losses Counterparty risk ▪ Market risk Interest rate, foreign exchange and equity price risks (conventional measures and Value-at-Risk) Credit risk of investment portfolios Backtests and stress tests ▪ Operational risk ▪ Regulatory risk Monthly reporting on key risk areas: ▪ Market risk Interest rate, foreign exchange and equity price risks (conventional measures and Value-at-Risk) Investment portfolio income and return relative to benchmark ▪ Liquidity risk Liquidity and excess liquidity coverage for the period Stress tests ▪ Leverage ratio
Exposure review	Review, assessment and approval of exposures above a certain limit.

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

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

Further information on organisation and corporate governance is available at nykredit.com/corporategovernanceuk.

REMUNERATION

Material risk takers
At end-2015, the Group had identified a total of 196 risk takers:

- Members of the Board of Directors: 28
- Group Managing Directors: 5
- Subsidiary Managing Directors: 6
- Other material risk takers: 157.

The principles for identifying "Other material risk takers" were set out by the Board of Directors at the beginning of 2015 in accordance with current EU rules.

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

Members of the Board of Directors and Group Managing Directors do not receive variable remuneration, nor bonus awards.

The 2015 bonus provisions in respect of subsidiary Managing Directors and other risk takers amounted to DKK 47m compared with bonus provisions of DKK 14m for 2014. The 2015 bonus provisions corresponded to 24% of their fixed salaries.

Part of the reason for the significant increase in bonus awards for risk takers was that the number of risk takers rose by 142% from 2014 to 2015 as a result of new EU rules for identification in 2015. Moreover, as appears from the financial statements, Nykredit's results have improved markedly from 2014 to 2015, and as several bonus pools are linked to the financial performance of the business areas and/or attainment of strategic targets, the bonus award basis has increased accordingly.

Bonus programmes
Individual bonus programmes apply to Nykredit's top executives who report directly to the Group Executive Board and to specialists in key areas.

Special individual bonus programmes apply to some of the staff of Nykredit Markets, Nykredit Asset Management and Group Treasury who have major earnings responsibility, in line with market standards for such positions. The remuneration of these staff members is chiefly based on their job performance. The 2015 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 56m compared with bonus provisions of DKK 46m for 2014. The 2015 bonus provisions corresponded to 37% of the total salaries of these staff members.

In addition, a limited number of individual bonus programmes apply to selected staff members. The 2015 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 8m compared with bonus provisions of DKK 6m for 2014. The 2015 bonus provisions corresponded to 13% of the total salaries of these staff members.

Management executives and certain senior staff members participate in an individual bonus programme with a potential bonus of up to three months' salary. The 2015 bonus provisions in respect of these staff members (excl risk takers) amounted to DKK 9m compared with bonus provisions of DKK 12m for 2014. The 2015 bonus provisions corresponded to 5% of the total salaries of these staff members.
The bonus programmes do not apply to other management or staff members, but they may receive an individual performance award. For 2015, provisions of DKK 15m were made for performance awards compared with performance awards of DKK 9m for 2014. The performance award provisions for 2015 corresponded to 0.8% of the total salaries of these staff members.

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

Nykredit's internal controls and risk management are designed to efficiently manage, rather than eliminate, the risk of errors and omissions.

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

Risk management
The risk management process is based on internal control and risk management systems, which together ensure that all relevant financial aspects are correctly reflected in the form of risk calculations and reports.

The Risk unit undertakes Nykredit's overall risk management and reporting and is responsible for ensuring that the risk reporting complies with policies laid down and current legislation.

Risk prepares internal quarterly reports for eg the Board of Directors and is responsible for Nykredit's external risk reporting.

A number of working committees have been appointed to ensure compliance with current legislation. They review and comment on new and amended rules and policies for the purpose of adapting reports and calculations.

Control environment
Business procedures have been laid down and controls implemented for all material risk areas, including areas of significance to the determination of risk exposures. Overall principles and requirements for the preparation of business procedures and an annual process for the approval of business procedures in material risk areas have been laid down at Group level.

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

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

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

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

- *Business units* – the management of each unit is responsible for identifying, assessing and handling the risks arising in connection with the performance of the unit's duties and for implementing satisfactory permanent internal controls for the handling of business operations.
- *Risk functions* – comprise a number of cross-functional areas, such as Group Credits, Group Finance, decentralised finance functions, Capital, Risk including the Chief Risk Officer, Compliance and IT Security. These areas may be in charge of providing policies and procedures on behalf of Management. Further, they are responsible for monitoring whether policies and procedures are observed and whether internal controls performed by the business units are satisfactory.
- *Audit* – comprises internal and external audit. On the basis of an audit plan approved by the Board of Directors, Internal Audit is responsible for carrying out an independent audit of internal controls in Nykredit and performing the statutory audit of the Company's financial statements and the consolidated financial statements together with the external auditors. The internal and external auditors endorse the Company's financial statements and the consolidated financial statements and in this connection issue a long-form audit report to the Board of Directors on any matters of which the Board of Directors should be informed.

The three functional levels are to ensure:

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

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

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

Nykredit's Audit Board and Risk Board regularly receive reports from the Executive Board and internal/external audit on compliance with the guidelines provided, business procedures and rules as well as reviews of model-related initiatives and changes.

CHIEF RISK OFFICER AND RISK REPORTING

Chief Risk Officer
The responsibilities of the Chief Risk Officer extend to all activities involving risk, including also risks relating to outsourced functions. This includes activities involving credit risk, market risk, liquidity risk and operational risk.

The Head of Risk, Nykredit's risk management function, has been appointed Chief Risk Officer. Nykredit's organisational structure, in which Risk has been segregated from all risk-taking entities of the Group, ensures independence between the Chief Risk Officer and the acting entities. Nykredit's central risk management function performs Group-wide controls, monitors Group risks and prepares risk reports for the Boards of Directors on all risk areas.

Risk reporting
The internal models are the core of Nykredit's day-to-day risk management. The models are checked on a continuous basis and validated at least once a year. The results are reported to the Risk Committee for approval once a year.

Internal Audit reviews Nykredit's internal models and their application annually. The review includes an assessment of the organisational structure, the estimation and validation of risk parameters and verification that Nykredit complies with the requirements of the Capital Requirements Regulation (CRR) and the Danish Financial Business Act.

Risk is reported to the Boards of Directors, committees, Executive Boards, the relevant management levels and the business areas.

CREDIT POLICY AND CREDIT APPROVAL AUTHORITY

The credit policy of the individual company lays down the risk profile of the company as determined by the Board of Directors. It is based on Nykredit's strategy and the aim that customers should perceive Nykredit as a reliable and qualified partner. The credit policy should be seen in conjunction with Nykredit's return requirements and the business objectives of growth and profitability. Business activities with customers should thus be based on balanced risk management and the desire for a strong capital structure.

Assessing a customer's creditworthiness is the core element of credit granting. The security provided may support the assessment of a customer's creditworthiness as a supplement. Security provided is determined using a conservative approach based on the market value less a margin.

The credit policy is supplemented with business procedures setting out the practical implementation of the credit policy and with credit approval instructions determining the credit approval authority delegated in Nykredit.

The Board of Directors of Nykredit Realkredit is presented with Nykredit's largest credit applications for approval/granting or briefing on a current basis. The Board of Directors of Nykredit Realkredit is briefed semi-annually about any impairment losses in excess of DKK 30m and annually about any exposures to members of the Board of Directors, the Executive Board, etc.

Nykredit's local customer centres have been authorised to process most credit applications independently. This is in line with Nykredit's aim to process most credit applications locally. To this end, decentralised credit entities have been set up which up to a certain limit process credit applications that exceed the authority assigned to the customer centres. Credit applications exceeding the authority assigned to the decentralised credit entities are processed centrally by Group Credits. The applications received are decided by Group Credits unless they involve exposures of a size requiring the approval of the Credits Committee or the Board of Directors.

The Credits Committee grants or approves loans and/or facilities that, if granted, will bring Nykredit's total exposure to a customer over DKK 50m and, subsequently, when the exposure exceeds multiples of DKK 50m. The Board of Directors grants or approves loans and/or facilities that, if granted, will bring Nykredit's total exposure to a customer over DKK 200m and, subsequently, when the exposure exceeds multiples of DKK 100m. The credit limits are higher if the customer is a bank or mortgage lender.

CREDIT APPROVAL AND MONITORING

Group Credits is responsible for managing and monitoring credit risk in accordance with the guidelines laid down by the Board of Directors and the Group Executive Board. Group Credits is responsible for the reporting on individual credit exposures and the portfolio targets set out in the credit policy. The Risk Committee is responsible for approving credit risk models and receives reports on credit risk at portfolio level.

When processing credit applications, the centres conduct an assessment of the individual customer. The assessment is based on a customer rating which reflects a conversion of a customer's probability of default computed by Nykredit's own credit models. The customer rating is supplemented with an assessment of the customer's financial position and any other relevant matters. In connection with mortgage loan applications, the statutory property valuations are also performed.

All major customers have been assigned to a specific unit which is primarily responsible for serving the customer and for the credit quality of the exposure, including exposure reviews and the valuation of security.

Banking exposures exceeding DKK 2m and mortgage exposures exceeding DKK 20m are reviewed at least once a year. This forms part of the monitoring of credit exposures and is based on updated financial and customer information.

In connection with the review of banking and mortgage exposures exceeding DKK 2m and DKK 20m, respectively, or in connection with a credit event, it will be assessed specifically whether the customers concerned are weak. For exposures below the amount triggering an exposure review, the correctness of the rating will be assessed in case of a credit event or if the rating falls to "weak customer".

All weak exposures are reviewed at least once a year. Banking exposures are reviewed quarterly. The review includes as a minimum assessment of whether the customer category is appropriate and thus whether the customer is still weak. Also, it is checked that the exposure strategy is adhered to. Weak customers are described in detail under "Credit risk".

Risk areas reviewed by Group committees

Risk Committee	
Capital policy and requirement	Review of Nykredit's required own funds and future capital requirements
Models and methodology	Review of analyses and model-related initiatives and changes, including: ▪ New models and risk assessment methods ▪ Sensitivity analyses and stress tests ▪ Validation and backtests
Risk reporting	Review and analysis of: ▪ Credit risk, including LTVs ▪ Market risk ▪ Liquidity risk ▪ Operational risk ▪ Other risks ▪ New products ▪ Rating of bonds and companies
Legislative measures	Assessment of amendments to financial legislation from the Danish FSA and the EU
Asset/Liability Committee	
Liquidity	Liquidity position and leverage of the Group and Group entities Current funding levels (SDOs/ROs, money market and senior capital) Current funding activity (covered bonds and other funding) Stress tests of free liquidity Liquidity Coverage Requirement (LCR)
Capital structure and balance sheet	Capital structure of Group entities Monitoring of employment of capital of the individual business entities Current funding capacity
SDOs (Danish covered bonds)	Assessment of development in prices of mortgaged properties Required supplementary collateral and issuance of senior secured debt (JCB)
Legislative measures	Assessment of amendments to financial legislation from the Danish FSA and the EU
Credits Committee	
Credit policy	Maintenance and development of credit policies
Approval of selected exposures	Approval based on assessment of: ▪ Customer (finances, payment record, rating, etc) ▪ Exposure ▪ Security
Board approval	Recommendation to the Board of Directors concerning approval of special exposures beyond the authority of the Credits Committee
Credit institutions	Review of credit lines granted to credit institutions
Loan impairment	Approval and assessment of loan impairment provisions

CAPITAL AND CAPITAL ADEQUACY

OWN FUNDS
Nykredit's own funds stood at DKK 74.5bn at end-2015 against DKK 65.6bn at end-2014.

Nykredit's Tier 1 capital consists mainly of Common Equity Tier 1 (CET1) capital. As shown in the table, Tier 1 capital totalled DKK 64.0bn. CET1 capital totalled DKK 60.5bn and hybrid capital/ Additional Tier 1 (AT1) capital totalled DKK 3.5bn. CET1 capital will be the most important capital concept as this is the type of capital required to comply with most of the regulatory capital requirements in future.

As part of its capital planning, Nykredit issued EUR 500m of AT1 capital and EUR 850m of Tier 2 capital in 2015, which satisfy the future regulatory capital and rating requirements, cf the section on ratings and liquidity risk.

Nykredit Realkredit Group
Own funds

DKK million	2014	2015
Common Equity Tier 1 (CET1) capital		
CET1 capital before deductions	**58,650**	**61,686**
CET1 primary deductions		
Proposed dividend	-	-
Prudent valuation	(551)	(359)
Intangible assets, including goodwill, and tax on interest accrued	(2,188)	(250)
Deferred tax assets	(23)	(52)
Assets in defined-benefit pension fund	(214)	(227)
Deduction for difference between IRB losses and impairments	(1,433)	(1,116)
Other deductions	-	
Transitional adjustment of deductions	1,318	806
Total CET1 deductions	**(3,091)**	**(1,161)**
Total CET1 capital	**55,559**	**60,525**
Hybrid capital/Additional Tier 1 (AT1) capital		
Hybrid capital/AT1 capital	**6,746**	**3,831**
Transitional adjustment of deductions	(513)	(322)
Hybrid capital/AT1 deductions	(75)	(22)
Total hybrid capital/AT1 deductions	**(588)**	**(343)**
Total hybrid capital/AT1 capital	**6,158**	**3,488**
Total Tier 1 capital	**61,717**	**64,013**
Tier 2 capital		
Subordinated capital	4,463	10,820
Tier 2 capital before deductions	**4,463**	**10,820**
Tier 2 deductions		
Transitional adjustment of deductions	(573)	(335)
Other deductions	-	-
Total Tier 2 deductions	**(573)**	**(335)**
Total Tier 2 capital	**3,890**	**10,485**
Own funds	**65,606**	**74,498**

Nykredit Realkredit Group
Loan capital 2015

	Interest rate	Call option	Maturity	Capital
Nykredit Realkredit A/S				
Additional Tier 1 capital	6.25%	26 October 2020	Perpetual	EUR 500m
Tier 2 capital (CoCo)	4.0%	3 June 2021	3 June 2036	EUR 600m
Tier 2 capital	4% until 28 October 2017, then 6M Euribor 1.71%	-	28 October 2030	EUR 50m
Tier 2 capital	2.75%	17 November 2022	17 November 2027	EUR 800m
Total				**EUR 1,950m**
Nykredit Bank A/S				
Hybrid capital	3M Cibor +1.7% until 1 May 2016, then floating	1 May 2016	Perpetual	DKK 100m
Total				**DKK 100m**

DETERMINATION METHODS

Credit risk

Nykredit has been authorised by the Danish FSA to use the advanced IRB approach to determine the risk exposure amount (REA) for credit risk in relation to:

- Retail and business exposures of Nykredit Realkredit A/S
- Retail exposures of Totalkredit A/S and Nykredit Bank A/S.

The foundation IRB approach is applied to determine REA for credit risk in relation to:

- Business exposures of Nykredit Bank A/S.

Nykredit has developed models in order that the part of the portfolio that is currently subject to the foundation IRB approach can be determined by means of the advanced IRB approach. Nykredit Bank has submitted an application to the Danish FSA and is awaiting its approval.

The standardised approach is applied to determine REA for credit risk in relation to:

- Sovereign and credit institution exposures
- A few minor portfolios.

Market risk

For the determination of REA for market risk, Nykredit Realkredit A/S has obtained FSA approval to apply a Value-at-Risk (VaR) model to estimate the general risk related to equities, debt instruments and foreign exchange. Only assets in the trading book are included. Empirical correlations across risk groups are applied.

Nykredit Bank A/S has obtained FSA approval to apply a VaR model to estimate the general risk related to debt instruments and foreign exchange.

For market risk in Totalkredit A/S and the parts of the portfolio for which REA is not determined using VaR, the standardised approach is applied.

Operational risk

All Group companies apply the basic indicator approach to determine REA for operational risk.

Transitional rules

REA is subject to a transitional rule and must constitute at least 80% of REA determined under Basel I.

CONSOLIDATION METHODS

REA is determined according to the rules of the Danish Financial Business Act and the Capital Requirements Regulation (CRR). The determination comprises Nykredit Realkredit A/S (the Parent Company) and the enterprises in which Nykredit Realkredit A/S exercises direct or indirect control of the enterprises' financial and operational management.
The consolidated risk exposures include:

- Nykredit Realkredit A/S
- Totalkredit A/S
- Nykredit Bank Group

Together with other enterprises, Nykredit controls an enterprise which is not included in the consolidated financial statements. This enterprise, JN Data, is recognised according to the equity method.

CRR PHASE-IN AND NEW MODELS

Going forward, the CET1 capital ratio will depend on two factors in particular. First, the impact on the Group's risk exposures of new risk models and secondly, the impact of statutory deductions being deducted from CET1 capital when the CRR is fully phased in.

The risk models submitted for approval will increase the Group's REA by an aggregate estimated DKK 35bn in the coming period.

Nykredit Realkredit Group
Breakdown of exposures by different credit risk approaches

2015	Advanced IRB approach %	Foundation IRB approach %	Standardised approach %	Total %	Total exposures DKK million
Retail exposures	99.9	-	0.1	100	736,839
Of which					
- mortgages on real estate	*99.9*	-	*0.1*	*100*	*721,654*
- other retail exposures	*100.0*	-	-	*100*	*15,185*
Business exposures	76.3	21.6	2.1	100	500,026
Credit institution exposures[1]	-	-	100.0	100	42,964
Sovereign exposures	-	-	100.0	100	43,857
Equity exposures [2]	96.7	-	3.3	100	4,407
Assets with no counterparty	100.0	-	-	100	3,637
Credit value adjustments (CVA)	-	-	100.0	100	2,647
Default fund contribution	-	-	100.0	100	394
Total 2015	**83.7**	**8.1**	**7.4**	**100**	**1,334,771**
Total 2014	81.1	8.6	9.5	100	1,410,507

1) Credit institution exposures include guarantees issued by banks of a total of DKK 32bn.
2) REA for equity exposures in the banking book has been determined using the simple risk weight approach. Of the total exposure of DKK 4.4bn, DKK 1.6bn is unlisted equities and is assigned a risk weight of 370%.

DIFFERENCES COMPARED WITH FINANCIAL STATEMENTS

Unexercised loan offers, credit and loan commitments, and potential future credit exposures in financial instruments are included in exposures used for the determination of REA. The same applies to guarantees. REA for securities is calculated at ISIN level.

This means that the figures in this report are not directly comparable with the determination of exposures in the Annual Report of Nykredit Realkredit A/S.

RISK EXPOSURE AMOUNT

At end-2015 Nykredit's REA totalled DKK 311bn. With own funds at DKK 74.5bn, this corresponds to a total capital ratio of 23.9% against 18.2% at end-2014. CET1 capital came to DKK 60.5bn, corresponding to a CET1 capital ratio of 19.4% against 15.4% at end-2014.

It should be noted that changes to the capital adequacy rules in the coming years are being considered by the Basel Committee and at EU level, cf "Risk of changed capital requirements".

At Group level, REA declined by DKK 47bn in 2015. The decline mainly resulted from two factors.

First, REA declined in relation to Nykredit Markets and Group Treasury, in part because of reduced bond portfolios.

Secondly, bank lending fell as a consequence of the general macroeconomic climate in Denmark with continued household deleveraging. Also, the Group's loan-to-value ratios decreased for both private residential lending and business lending.

Nykredit's REA subject to the transitional rule came to DKK 603bn at end-2015. The current transitional rule has been extended and so far applies until end-2017.

Required own funds stood at DKK 36.7bn at end-2015, equal to an internal capital adequacy requirement of 11.8%. The determination of the internal capital adequacy requirement is described further under "Capital management".

OWN FUNDS AND RISK EXPOSURE AMOUNTS OF GROUP COMPANIES

All companies of the Nykredit Group have capital ratios at comfortable levels above the statutory requirement.

At end-2015 Nykredit Realkredit A/S's REA amounted to DKK 367bn and own funds stood at DKK 74.1bn. Totalkredit A/S's REA amounted to DKK 88bn and own funds DKK 20.7bn, corresponding to a total capital ratio of 23.5% and a CET1 capital ratio of 21.1%. The Nykredit Bank Group's REA amounted to DKK 76.3bn and own funds DKK 16.1bn, corresponding to a total capital ratio of 21.1% and a CET1 capital ratio of 20.6%.

Nykredit Realkredit Group
Risk exposure amount and capital adequacy

DKK million	2014	2015
Credit risk		
Standardised approach	20,115	13,274
IRB approach	283,501	249,814
Default fund contribution	313	394
Credit value adjustment (CVA)	1,394	1,383
Total credit risk	**305,321**	**264,865**
Market risk		
Internal models	26,272	16,364
Standardised approach	9,063	11,594
Total market risk	**35,335**	**27,958**
Operational risk		
Basic indicator approach	17,933	18,397
Total operational risk	**17,933**	**18,397**
Total REA	**358,589**	**311,220**
Own funds	65,606	74,498
Total capital ratio, %	18.2	23.9
CET1 capital ratio, %	15.4	19.4
Internal capital adequacy requirement, %	11.3	11.8
Basel II transitional rule		
REA subject to transitional rule[1]	**629,817**	**603,354**

1) REA subject to transitional rule has been determined in accordance with the transitional provisions of the CRR. REA must constitute at least 80% of REA determined under Basel I.

Nykredit Realkredit Group
Own funds and risk exposure amounts of Group companies

2015 DKK million	Nykredit Realkredit A/S	Totalkredit A/S	Nykredit Bank Group	Nykredit Realkredit Group
Credit risk[1]	338,483	80,761	63,004	264,865
Market risk	17,736	3,331	8,666	27,958
Operational risk	11,266	3,775	4,640	18,397
Total REA not subject to transitional rule	**367,484**	**87,867**	**76,311**	**311,220**
Total REA subject to transitional rule[2]	**390,471**	**224,978**	**60,294**	**603,354**
Own funds	**74,129**	**20,711**	**16,145**	**74,498**

1) Including intercompany exposures, for which reason the credit risk is greater for the company than for the Group.
2) REA subject to transitional rule has been determined in accordance with the transitional provisions of the CRR. REA must constitute at least 80% of REA determined under Basel I.

CAPITAL MANAGEMENT

NYKREDIT'S CAPITAL AND RISK POLICY

In 2015, the Board of Directors revised the Group's capital and risk policy, which contains an explicit formulation of its capital policy and risk appetite.

The overall risk appetite is determined on the basis of Nykredit's strategy, regulatory and credit rating agency capital requirements and the capital targets set out by the Board of Directors. The risk appetite reflects Nykredit's overall tolerance for taking risks. In some areas, it is directly measurable through credit policies, targets, limits or restrictions, while in other areas the risk appetite is expressed through overall objectives.

Nykredit's overall risk appetite is to ensure an efficient market for Nykredit's bonds in issue, regardless of the economic climate. Nykredits capital targets reflect this objective. Nykredit's capital policy is described under "Capital targets 2019" below.

Nykredit's overall risk appetite

The objective is to be able to maintain active lending to the Group's full-service customers, also in a challenging economic climate.

This is to be achieved as follows:

Capital:	by having CET1 capital at 17.5% of REA (target for 2019).
Credit:	by having a credit policy that regulates the level of large exposures as well as the composition of the loan portfolio across mortgage/bank lending, lending to personal customers and special lending segments. Credit risk is measured, for example, through the loss risk during a mild macroeconomic stress and during stress conditions with high unemployment and relatively high interest rates.
Market risk:	by having a market risk policy according to which the market risk in ordinary stress tests does not result in a net loss at Group level measured four quarters ahead – and which specifies limits to all significant market risks.
Liquidity:	by having a liquidity policy that sets out targets for relevant stress scenarios, including both market and credit institution-specific stress factors. The liquidity policy must provide a very high probability that Nykredit maintains a strong position in the stress scenarios outlined.
Leverage:	by limiting financial leverage so that Tier 1 capital after deductions relative to lending does not exceed the regulatory maximum limit applicable at any time, currently expected to be 3%.
Operational risk:	by having operational risks which are low relative to other risks and which are assessed on the basis of the probability of a given event and the loss resulting from such event.

REQUIRED OWN FUNDS

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

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

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

Pillar I

Pillar I capital covers credit, market and operational risks. The Pillar I requirement is identical to the statutory capital requirement.

Pillar II

Pillar II capital covers other risks as well as an increased capital requirement during an economic downturn. The capital requirement during a slight economic downturn is determined by means of stress tests, cf "Stress tests and capital projections". No deductions are made from required own funds for any diversification effects between risk types, business areas or countries.

The determination of Pillar II capital involves a number of assessments.

The calculation methods support the aim of maintaining a stable capital level even if the economic climate deteriorates.

Slightly weaker economic climate

In its Pillar II assessment, Nykredit assumes that a slightly weaker economic climate will set in, which is compared with the forecasts of economic trends from various recognised sources.

In a slightly weaker economic climate, the need for capital will grow concurrently with falling property prices and increasing arrears. The calculations also factor in any operating losses due to higher impairment losses etc.

Other risks
The determination of other risks includes assessments of reputation risk, control risk, strategic risk, external risk, concentration risk, validation and backtest results, interest rate risk on swaps and credit value adjustments (CVA) etc, as well as a general capital charge for uncertainties related to the models that Nykredit applies for calculating capital requirements. Furthermore, capital has been provided for the effects of new models. The new IRB models are described in detail under "Credit risk models".

Model and calculation uncertainties
Nykredit applies various models to calculate the capital requirements under both Pillar I and Pillar II.

The determination of the internal capital adequacy requirement includes a capital charge for uncertainties that serves as a buffer, as the calculations depend on statistical methods, choice of model, model properties, etc. Nykredit Bank has updated the models over a long period, whereas the models for Nykredit Realkredit and Totalkredit are currently being worked on.

The uncertainty buffer amounts to 5% for Nykredit Bank, 7.5% for Nykredit Realkredit and the Nykredit Realkredit Group and 10% for Totalkredit. The buffer is calculated on the basis of the sum of all other risks.

Nykredit has considered the other future requirements for assessing the internal capital adequacy requirement. They are covered by the existing determination method.

Increasing CET1 capital requirements
As a designated systemically important financial institution (SIFI), Nykredit is subject to a special SIFI buffer requirement to be met with CET1 capital. The requirement of 2% will be phased in gradually from 2015 to 2019. In 2015, the SIFI buffer requirement was 0.4%.

A capital conservation buffer, applicable to all financial institutions, will be phased in from 2016. This buffer will increase the statutory CET1 capital requirement. It will be phased in by about 0.6 percentage point per year and will be fully phased in by 2019. In addition to this, around half of the Pillar II capital requirement must be met with CET1 capital from 2019 onwards. Lastly, Nykredit must reserve CET1 capital for lending in countries where the countercyclical buffer has been implemented. However, lending to those countries (in the Nordic region) is very limited.

Besides these requirements of a more technical nature, further requirements result from the stress tests of the EBA and the Danish FSA.

Nykredit's capital policy, which is described in detail in "Capital targets 2019", allows for the capital requirement on a fully loaded basis.

Nykredit Realkredit Group
Minimum CET1 capital requirement

% of REA	2016	2019
Pillar I	4.5%	4.5%
Pillar II	-	~ 1.5%
SIFI	0.8%	2%
Capital conservation buffer	0.6%	2.5%
Countercyclical buffer in Denmark	0.0%	0-2.5%
Minimum CET1 capital requirement	**5.9%**	**10.5-13.0%**

Nykredit Realkredit Group
CET1 capital for countercyclical buffer

2015 DKK million	Sweden	Norway	Total
Credit risk			
- Exposure (standardised approach)	1,714	346	2,060
- Exposure (IRB)	22,650	1,171	23,821
Trading book			
- Sum of short and long positions	9,092	3,017	12,110
Capital requirement			
Capital requirement for credit exposures	596	83	678
Capital requirement for trading book	119	23	142
Total capital requirement	**714**	**142**	**820**

Note: The capital conservation buffer for Norway and Sweden has been set at 1% of REA.

Nykredit Realkredit Group
Required own funds

2015 DKK million	Nykredit Realkredit A/S[1]	Totalkredit A/S	Nykredit Bank Group	Nykredit Realkredit Group
Credit risk	27,106	6,461	5,040	21,189
Market risk	1,392	266	693	2,237
Operational risk	901	302	371	1,472
Total Pillar I	**29,399**	**7,029**	**6,105**	**24,898**
Slightly weaker economic climate (stress tests, etc)	1,569	1,416	820	3,731
Other risks[2]	2,930	566	1,800	5,243
Model and calculation uncertainties	2,826	898	436	2,852
Total Pillar II	**7,325**	**2,880**	**3,056**	**11,826**
Total required own funds	**36,724**	**9,909**	**9,161**	**36,724**

1) The credit risk of Nykredit Realkredit A/S includes the capital charge for intercompany exposures, including investments in subsidiaries and joint funding with Totalkredit A/S. Intercompany exposures are eliminated in the determination for the Nykredit Realkredit Group, for which reason the credit risk is higher for Nykredit Realkredit A/S than for the Nykredit Realkredit Group.
2) Other risks include assessment of reputation risk, control risk, strategic risk, external risk, concentration risk, validation and backtest results, interest rate risk, etc.

Nykredit Realkredit Group
Internal capital adequacy requirement

2015 % of REA	Nykredit Realkredit A/S	Totalkredit A/S	Nykredit Bank Group	Nykredit Realkredit Group
Credit risk	7.4	7.4	6.6	6.8
Market risk	0.4	0.3	0.9	0.7
Operational risk	0.2	0.3	0.5	0.5
Total Pillar I	**8.0**	**8.0**	**8.0**	**8.0**
Credit risk	1.1	2.2	1.4	2.3
Market risk	0.0	0.0	1.4	0.4
Operational risk	0.1	0.0	0.7	0.2
Other risks[1]	0.8	1.0	0.6	0.9
Total Pillar II	**2.0**	**3.3**	**4.0**	**3.8**
Total internal capital adequacy requirement	**10.0**	**11.3**	**12.0**	**11.8**
SIFI requirement (2016)	0.8	0.8	0.8	0.8
Capital conservation buffer (2016)	0.6	0.6	0.6	0.6
Total capital requirement	**11.4**	**12.7**	**13.4**	**13.2**

1) Other risks include assessment of reputation risk, control risk, strategic risk, external risk, concentration risk, validation and backtest results, interest rate risk, etc.

STRESS TESTS AND CAPITAL PROJECTIONS

Nykredit conducts a large number of model-based stress tests and capital projections to determine the required own funds in the current economic climate and in a severe recession scenario. The results are applied at both Group and company level and are included in the annual assessment by the individual Boards of Directors of the internal capital adequacy requirement as well as in the future capital planning. In the determination of the capital requirements, the stress tests are not the only element, but are included in an overall assessment along with the company's capital policy, risk profile and capital structure.

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

The most important macroeconomic factors identified are:

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

Nykredit generally operates with three scenarios for the macroeconomic development: a base case scenario, a slightly weaker economic climate and a severe recession. Both in a slightly weaker economic climate and during a severe recession, the capital requirement for credit risk builds on correlations between the macroeconomic factors, customer default rates (PD) and the size of the loss in case of customer default (LGD). These correlations are an essential element of the capital projection model. Operating losses in stress tests increase the capital requirement, while operating profits are not included. Other scenarios are used as required for Nykredit Bank and Totalkredit, and/or the scenarios are supplemented with assessments that may have an adverse impact on the companies' risk exposures or capital.

Base case scenario

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

Scenario: Slightly weaker economic climate in 2016-2018

This scenario is designed to illustrate a slightly weaker economic climate relative to the base case scenario. The capital charge reflects how much Nykredit's capital requirement would increase if this scenario occurred.

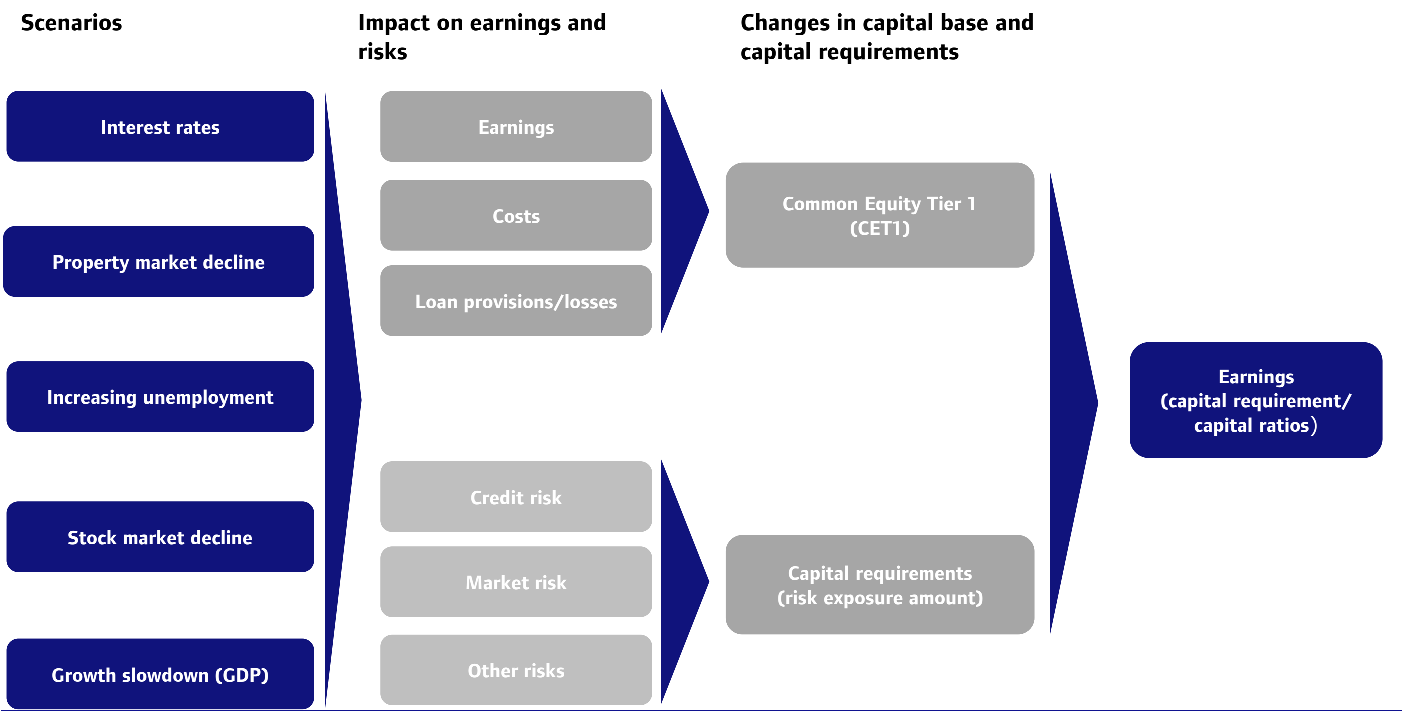
The capital charge for a slightly weaker economic climate came to DKK 3.7bn at 31 December 2015.

Nykredit Realkredit Group
Stress scenarios for determination of capital requirement

%	2016	2017	2018
Base case			
GDP growth	1.2	1.5	1.7
Interest rates[1]	0.4	0.8	1.0
Property prices, growth	5.6	2.9	2.9
Unemployment	4.0	3.8	3.7
Danish equity index, growth	2.0	2.0	2.0
Slightly weaker economic climate (scenario applied under Pillar II)			
GDP growth	0.0	0.0	0.0
Interest rates[1]	1.4	2.2	3.0
Property prices, growth	(2.0)	(2.0)	(1.0)
Unemployment	5.0	5.8	6.0
Danish equity index, growth	(5.0)	(5.0)	0.0
Severe recession (scenario applied for capital targets)			
GDP growth	(3.0)	(2.0)	0.0
Interest rates[1]	5.5	6.5	7.0
Property prices, growth	(12.0)	(10.0)	(5.0)
Unemployment	6.5	9.0	10.0
Danish equity index, growth	(10.0)	(10.0)	(5.0)

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

Structure of stress tests and capital projections



Scenario: Severe recession
A central element of Nykredit's capital policy is to have sufficient own funds, also in the long term. The assessments are also factored into the current assessment of equity targets going forward.
Nykredit continually calculates the impact of severe recession combined with a relatively high interest rate level. When determining the size of the internal countercyclical buffer, it is assumed that the current lending volume is maintained regardless of the economic downturn. Nykredit's severe recession scenario reflects an unusual, but not unlikely, situation.

According to Nykredit's stress calculations, REA may increase by over DKK 100bn in a severe recession. The rise reflects the increased capital requirement in case of plunging housing prices, high interest rate levels and high unemployment. It should be noted, however, that Management may make decisions that can reduce such rise.

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

The FSA stress scenarios, which cover mortgage banks as well, have not given rise to adjustments of Nykredit's own capital targets.

Nykredit also participates in the stress test exercises of the European Banking Authority (EBA), most recently in 2015. Further, Nykredit regularly participates in European studies of capital issues and releases of lending and risk data. The results have confirmed Nykredit's current strong capital position. The stress test does not assess the required future capital needed to meet the increasing capital requirements.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS
On the basis of an internal capital adequacy assessment process (ICAAP), the Boards of Directors of the individual Group companies determine the required own funds and internal capital adequacy requirement (ICAAP result) of their respective companies during a slightly weaker economic climate at least once a year. In addition, the Board of Directors of Nykredit determines an internal countercyclical buffer, which is an element of Nykredit's capital planning.

The Boards of Directors will reassess the ICAAP results if any major unexpected events occur.

The determination of the internal capital adequacy requirements by the individual Boards of Directors is based on a number of stress tests as well as an assessment of the company's business model, risk profile and capital structure.

Furthermore, the Risk Committee monitors the development in the internal capital adequacy requirements of the individual companies closely and is briefed at least quarterly. The Asset/Liability Committee monitors and coordinates the capital, funding and liquidity of the Group and the individual Group companies.

CAPITAL TARGETS 2019
As part of the annual review of the Group's overall capital policy and risk appetite, the Board of Directors of the Nykredit Realkredit Group has set a Common Equity Tier 1 (CET1) capital ratio target of 17.5% for 2019.

The Board's decision is based on the following:

- In 2019 the statutory requirement for the Nykredit Realkredit Group's CET1 capital ratio will be around 13%, to which should be added requirements resulting from the stress test exercises of the EBA and the Danish FSA
- Nykredit must hold sufficient capital to ensure ratings with the credit rating agencies that are compatible with the Group's business plans
- The capital level must be market-consistent, corresponding to the levels of other large Nordic financial institutions
- In addition to this, especially three Nykredit characteristics must be allowed for in terms of capital:
  - Nykredit is currently not listed and therefore has more restricted access to capital markets than listed companies
  - Nykredit is one of the largest private bond issuers in Europe
  - Nykredit has a sizeable mortgage loan portfolio. The mortgage loans typically have long loan terms and are non-callable by Nykredit.

Nykredit's capital targets include a total capital ratio of at least 20% of REA. This target is motivated by the same factors as the CET1 capital target.

The Nykredit Group's total REA amounted to DKK 311bn at end-2015.

A number of adjustments to Nykredit's models are currently awaiting the approval of the Danish FSA. Upon approval, REA will increase by an estimated DKK 35bn, resulting in total REA of DKK 345bn. The increase primarily relates to the mortgage business.

Business Plan 2018 is expected to increase REA by another DKK 30bn towards 2019. Altogether, the capital requirement, measured by REA, will amount to an estimated DKK 375bn in 2019.

To this should be added adjustments to the detailed capital requirement calculations, resulting in part from the loss experience in the wake of the financial crisis. These adjustments are expected to add another DKK 25bn to REA, leading to a total of DKK 400bn.

The target for CET1 capital in 2019, based on the known capital rules, is DKK 70bn, corresponding to 17.5% of DKK 400bn.

Risk of changed capital requirements
There is a risk that the capital requirements will change further in the coming years.

First, specific discussions are taking place at the Basel Committee and at the EBA which may result in the introduction of minimum risk weights for home loans and other loans.

Secondly, a new capital floor is in the pipeline for IRB institutions in 2017. This is likely to be based on the Basel Committee's proposal for a new standardised approach for credit risk, which was published in December 2015.

Thirdly, the EBA is working on technical standards on model calculations for IRB institutions.

Each of the said regulatory measures will lead to increased capital requirements for lending with a low risk of loss, including especially mortgage lending.

Nykredit will work to preserve the existing principle of basing capital requirements on the observed risk of loss and thus the proven resilience of the Danish mortgage system.

In overall terms, however, the capital requirements for mortgage lending are likely to increase. How much will depend on the concrete rules prepared by the Basel Committee, the European Commission and the EBA. The increased capital requirements will add an estimated DKK 15bn to the Group's CET1 capital requirement, corresponding to a CET1 capital level around DKK 85bn. This estimate is based on the assumption that Nykredit's CET1 capital ratio target of 17.5% of the risk exposure amount could be lowered to around 15% as a result of reduced cyclicality of the capital requirements.

LEVERAGE RATIO REQUIREMENT UP TO 2019

It is still uncertain whether a harmonised leverage requirement will be introduced at EU level as of 2018. The situation so far is that the EBA wants to introduce a leverage ratio as a supplement to the risk-based capital requirements. The intention is to reduce the risk of excessive leverage and to allow for the potential uncertainty resulting from the internal models or the standardised approach.

The leverage ratio is defined as the relationship between Tier 1 capital and the balance sheet total (incl off-balance sheet items). The ratio does not factor in any collateral.

84% of the Nykredit Realkredit Group's assets are made up of mortgage lending with very low risk. At end-2015 the leverage ratio of the Nykredit Group was 4.4%, which was higher than the recommended ratio of 3%.

Nykredit monitors developments with respect to the leverage ratio, which is a central element of Nykredit's long-term capital and issuance policy.

Nykredit Realkredit Group

Leverage ratio

DKK million	2015
On-balance sheet exposures (excl derivatives and securities financing transaction exposures)	
On-balance sheet items (excl derivatives and securities financing transaction exposures, but incl collateral)	1,341,589
Asset amounts deducted in determining Tier 1 capital	(1,514)
Total on-balance sheet exposures	**1,340,074**
Exposure amount of derivatives transactions	
Replacement cost associated with derivatives transactions	19,645
Add-on amount for potential future exposure associated with derivatives transactions	5,471
Total exposure amount of derivatives	**25,115**
Total exposure amount of securities financing transactions	**38,849**
Other off-balance sheet exposures	
Off-balance sheet exposure at gross notional amount	48,869
Adjustments for conversion to credit equivalent amounts	(7)
Total off-balance sheet exposures	**48,863**
Total leverage ratio exposure amount	**1,452,901**
Tier 1 capital	**64,013**
Leverage ratio	**4.41%**

CREDIT RISK

Credit risk denotes the risk of loss following the non-performance of payment obligations by counterparties. This applies to counterparties in the form of the Group's borrowers and counterparties under financial contracts.

Total credit exposures (EAD) of the Nykredit Realkredit Group came to DKK 1,335bn at end-2015 against DKK 1,411bn at end-2014.

To capture the credit exposure risk, the risk exposure amount (REA) is calculated.

The calculation of REA includes Probability of Default (PD) and Loss Given Default (LGD) in the weighting of credit exposures.

In the period end-2014 to end-2015, total REA declined by 13% from DKK 305bn to DKK 265bn. The main reason was the lower credit exposure, but the declining loan-to-value (LTV) ratios resulting from rising prices of private residential property also had a downward impact.

The vast majority of guarantees received in connection with mortgage lending were issued by banks and are recognised as credit institution exposures. At end-2015, guarantees received in connection with mortgage lending amounted to DKK 8.5bn.

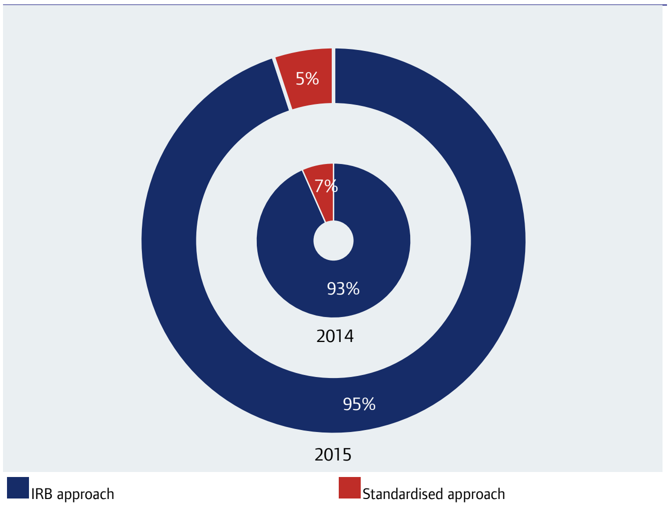
Similarly, guarantees issued by the government are recognised as sovereign exposures under mortgage lending. They amounted to just under DKK 32bn at end-2015.

Elements of credit risk determination

PD	Probability of Default is the probability of a customer defaulting on an obligation to Nykredit.
LGD	Loss Given Default is the loss rate of an exposure in case of a customer's default.
EAD	Exposure At Default is the total estimated exposure to a customer in DKK at the time of default, including any drawn part of a credit commitment.
REA	Risk Exposure Amount is credit exposures factoring in the risk relating to the individual customer. REA is calculated by risk-weighting credit exposures. The risk weighting is calculated on the basis of PD and LGD levels.
Default	An exposure is in default where it is deemed improbable that the customer will repay all debt in full, or where a significant amount has been in arrears for 90 days. For mortgage products, Nykredit considers 75 days past due to be a clear sign that a customer is unable to repay its debt in full, while for bank products the third reminder will constitute such a sign (typically 25 days past due). Exposures for which individual impairment provisions have been made or a direct loss has been incurred are also considered in default.

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

Nykredit Realkredit Group
Breakdown of REA for credit risk



Nykredit Realkredit Group
Credit exposures and REA

2015 DKK million/%	Mortgage exposures	Bank exposures	Guarantees issued[1]	Other	Total credit exposure	*Of which undrawn commitments*	Exposure-weighted average risk weight, %	REA
Retail exposures	705,912	12,496	6,838	11,592	736,839	*8,335*	14.3	105,481
Of which								
- mortgages on real estate	*705,912*	*10,069*	*1,110[1]*	*4,564*	*721,654*	*4,532*	*13.6*	*97,919*
- other retail exposures	-	*2,428*	*5,729[2]*	*7,029*	*15,185*	*3,803*	*49.8*	*7,561*
Business exposures	380,378	40,854	5,312	73,482	500,026	*16,137*	26.5	132,663
Credit institution exposures	8,496	-	905	33,562	42,964	-	19.5	8,360
Sovereign exposures	32,418	-	-	11,440	43,857	-	-	0
Equity exposures	-	-	-	4,407	4,407	-	294	12,947
Assets with no counterparty	-	-	-	3,637	3,637	-	100	3,637
Credit value adjustments (CVA)	-	-	-	2,647	2,647	-	52.2	1,383
Default fund contribution	-	-	-	394	394	-	100	394
Total 2015	**1,127,204**	**53,350**	**13,062**	**141,161**	**1,334,771**	***24,472***	**19.8**	**264,865**
Total 2014	1,145,735	52,194	21,135	191,444	1,410,507	25,730	21.6	305,321

1) The guarantees include interim loans and buyer's certificates.
2) The guarantees exclusively comprise mortgage registration guarantees.

Nykredit Realkredit Group
Credit exposures by maturity

2015 DKK million	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total
Retail exposures	31,812	7,019	698,008	736,839
Of which				
- mortgages on real estate	*16,627*	*7,019*	*698,008*	*721,654*
- other retail exposures	*15,185*	-	-	*15,185*
Business exposures	51,188	44,031	407,807	500,026
Credit institution exposures	33,562	905	8,496	42,964
Sovereign exposures	11,440	-	32,418	43,857
Equity exposures	4,262	-	145	4,407
Assets with no counterparty	3,637	-	-	3,637
Credit value adjustments (CVA)	-	2,647	-	2,647
Default fund contribution	-	-	394	394
Total 2015	**135,900**	**54,609**	**1,144,268**	**1,334,771**
Total 2014	180,713	47,914	1,181,880	1,410,507

Nykredit Realkredit Group
Credit exposures by counterparty

2015 DKK million	Personal	Trade	Finance and insurance	Industry	Agriculture	Rental	Other	Total
Retail exposures	677,416	7,923	2,260	2,619	15,335	15,024	16,262	736,839
Of which								
- mortgages on real estate	*663,832*	*7,384*	*1,968*	*2,481*	*15,190*	*14,538*	*16,261*	*721,654*
- other retail exposures	*13,584*	*540*	*292*	*138*	*145*	*486*	*1*	*15,185*
Business exposures	3,383	58,983	51,801	40,280	77,934	224,895	42,750	500,026
Of which								
- SMEs	*585*	*30,886*	*15,010*	*13,002*	*75,199*	*188,788*	*26,869*	*350,611*
Credit institution exposures	-	-	-	-	-	-	42,964	42,964
Sovereign exposures	-	-	-	-	-	-	43,857	43,857
Equity exposures	-	-	-	-	-	-	4,407	4,407
Securitisations	-	-	-	-	-	-	3,637	3,637
Assets with no counterparty	-	-	-	-	-	-	2,647	2,647
Default fund contribution	-	-	-	-	-	-	394	394
Total 2015	**680,799**	**66,906**	**54,060**	**42,900**	**93,269**	**239,920**	**156,917**	**1,334,771**
Total 2014	698,219	65,002	60,709	45,454	97,975	256,235	186,912	1,410,507

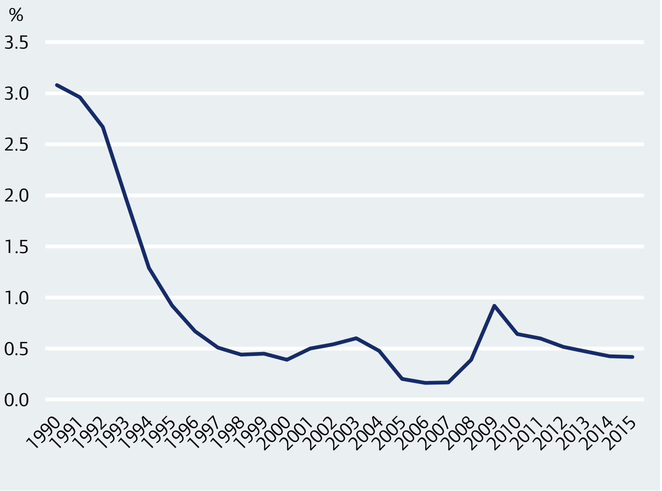
FINANCIAL HEALTH OF CUSTOMERS

Customers' financial circumstances generally improved in 2015 as a result of mainly two macroeconomic factors – the labour market and the interest rate level. Gross unemployment declined from 4.8% in 2014 to 4.2% at end-2015, while mortgage rates remained historically low.

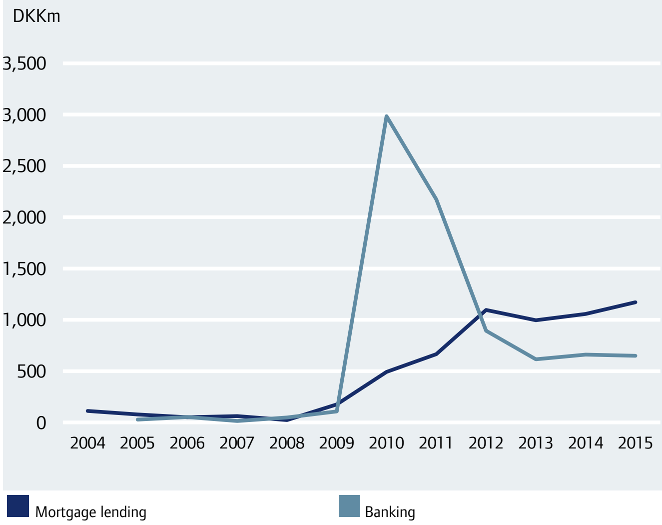
As a result, customers' ability to pay improved, and several observable indicators such as loan impairment losses, loans in default, acquired properties and incurred losses show that this had a positive overall effect on the Group's portfolio.

However, despite the stable development in the credit risk relating to most of the Group's portfolios, certain minor portfolios involve elevated credit risk. These customers are found mainly in the cooperative housing and agricultural segments. See Counterparty risk for more details on the cooperative risk segment.

Nykredit Realkredit Group – mortgage lending
Arrears ratio – 75 days past due

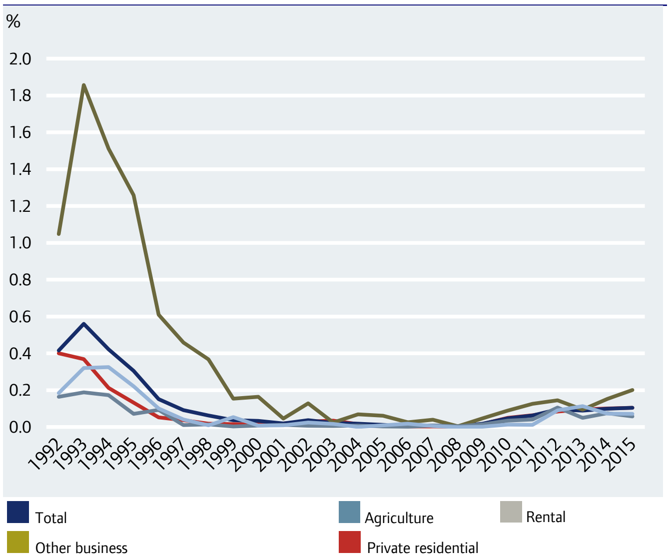


Nykredit Realkredit Group
Incurred losses



Note: Including losses incurred on acquired properties

Nykredit Realkredit Group – mortgage lending
Loss ratios



Customers' credit quality

As a result of the generally favourable macroeconomic trends, 76% of Nykredit's customers are characterised by timely payments and solid financial strength. For Nykredit's personal customers, the percentage is 79%, and for business, excluding agricultural, customers 77%. For agricultural customers, the percentage is 49%. Nykredit denotes these customers as "ordinary customers" (rating categories 6-10).

Overall, 17% of Nykredit's customers are considered "ordinary customers without significant signs of weakness" (rating categories 3-5). These customers also make timely payments, but their financial strength is lower than that of "ordinary customers". For personal customers, the percentage is 14%, and for business, excluding agricultural, customers it is 16%. For Nykredit's agricultural customers, "ordinary customers without significant signs of weakness" represent 38%.

The remaining share of Nykredit's customers are "weak customers" (rating categories 0-2) or customers having defaulted on their obligations. This group comprises customers with and without objective evidence of impairment (OEI). 4% of Nykredit's customers show OEI.

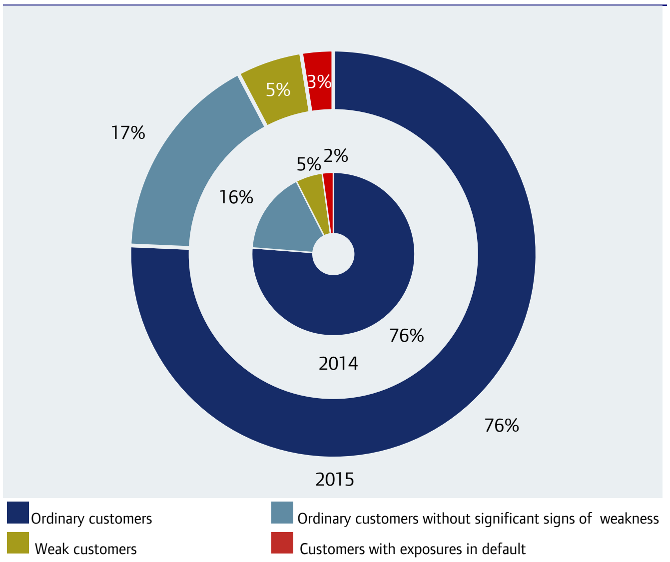
Arrears

At the September due date in 2015, the Group's 75-day arrears on total mortgage lending were 0.39% against 0.42% at the same time the year before.

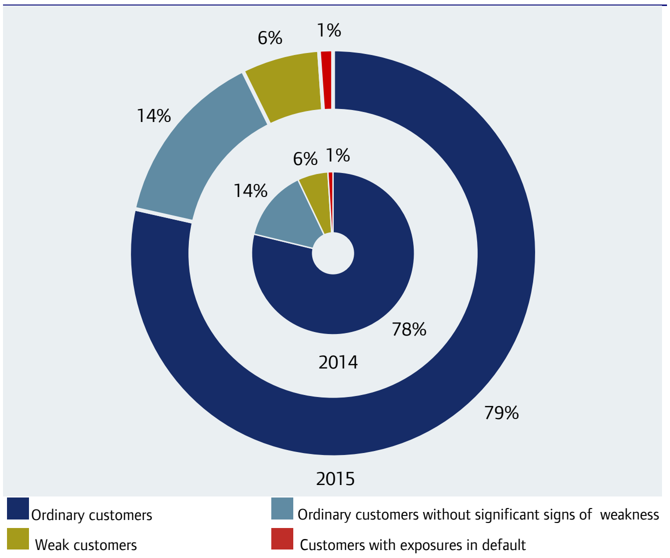
Arrears peaked in 2009; since then the arrears ratios for Nykredit Realkredit's private residential lending and Totalkredit's lending have more than halved. However, the 75-day arrears ratio for Nykredit Realkredit's private residential lending rose from 0.49% in 2014 to 0.57% in 2015, while arrears in Totalkredit reduced from 0.23% to 0.20%.

The 75-day arrears ratio for business lending dropped from 0.65% in 2014 to 0.59% in 2015. In the business segment, arrears ratios declined for Corporate & Institutional Banking clients in particular. The arrears ratio for SMEs also declined, but remained relatively high.

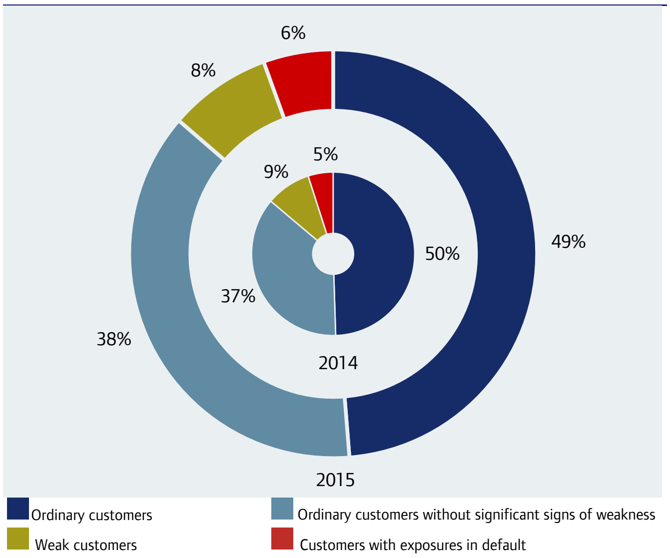
Nykredit Realkredit Group
Credit exposures by customer credit quality



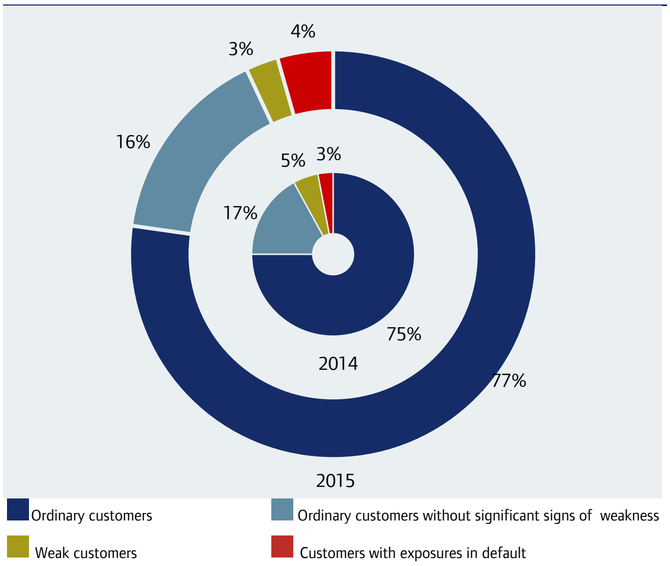
Nykredit Realkredit Group
Credit exposures by customer credit quality – personal customers



Nykredit Realkredit Group
Credit exposures by customer credit quality – agricultural customers



Nykredit Realkredit Group
Credit exposures by customer credit quality – business excl agriculture



Loan impairment
Regular individual reviews and risk assessments are conducted of all mortgage and bank exposures of a certain size with a view to uncovering any OEI and an expected adverse effect on future cash flows from an exposure. If necessary, impairment provisions are subsequently made for individual exposures.

Where OEI is identified for private residential mortgage lending, individual impairment provisions are calculated using a statistical model. Bank exposures are reviewed manually to identify any need for individual provisioning in case of OEI. Exposures with OEI not subject to individual provisioning are subject to collective assessment.

Collective impairment provisions are made for groups of loans involving uniform credit risk. Mortgage loans subject to collective provisioning include loans with PDs between 3% and 100% as well as loans in default for which no individual provisions have been made. All bank loans not provided for individually are included in the calculation of collective impairment provisions.

Impairment losses on loans and advances (earnings impact) of the Nykredit Realkredit Group came to DKK 0.9bn in 2015 against DKK 2.3bn in 2014. Impairment losses on loans and advances through profit or loss include changes for the year in individual and collective impairment provisions as well as write-offs. The lower earnings impact mainly reflects a decline in individual impairment provisions at Nykredit Realkredit.

Nykredit's total impairment provisions for potential losses on mortgage and bank lending totalled DKK 8.6bn at end-2015. Total provisions for mortgage loan impairment saw a net increase of DKK 184m to DKK 5.7bn (0.5% of lending). Total provisions for bank loan impairment declined by DKK 708m to DKK 2.9bn (5.8% of lending).

Impairment losses on Group lending are described in detail in the Annual Report of the Nykredit Realkredit Group available at nykredit.com/reports.

Exposures in default
For Nykredit as a whole, 2.5% of the exposures were in default. For mortgage lending, the ratio was about 2.3% and for banking about 3%. The proportion of exposures provided for relative to exposures in default is considerably lower for Nykredit Realkredit and Totalkredit than for Nykredit Bank, as their exposures are fully secured by mortgages on real estate.

Loan losses
Total incurred loan losses on the Group's customers in 2015 were DKK 1.7bn, equal to a loss ratio of 0.1%. The ratio is unchanged from 2014, indicating that the increase in Nykredit's loan losses in the wake of the financial crisis has stabilised. Nykredit's mortgage loan losses amounted to DKK 1.0bn. About 61% of the losses were on private residential lending, while 39% were on business lending. Nykredit Bank's loan losses amounted to DKK 0.7bn.

Losses on the Group's mortgage lending decreased relative to 2014. The fall was mainly attributable to lower losses in the business segment. Losses on Totalkredit loans increased, but losses on Nykredit Realkredit's private residential lending declined. In the private residential segment, South and West Sealand as well as Lolland-Falster still account for the majority of incurred losses. The lower losses on business exposures mainly reflected lower losses in the residential rental and office segments.

Considering the size of Group mortgage lending, the level of losses is relatively low. This is due to the combination of low interest rates and relatively low unemployment, which supports the ability to pay, especially of personal customers.

Totalkredit's business concept is distribution of mortgage loans through its partner banks – Danish local and regional banks. The partner banks are responsible for serving customers and hedging the loan portfolio risk. Risk is hedged by agreement with the partner banks. Under the agreement, realised losses corresponding to the cash part of a loan exceeding 60% of the mortgageable value of the property at the time of granting are offset against future commission payments from Totalkredit to the partner banks. Since June 2014 a minor part of this right of set-off has been replaced by a loss guarantee provided by the partner bank. Through the set-off agreements with the partner banks, Totalkredit offset losses in the amount of DKK 277m in 2015.

The overall picture of Nykredit's bank loan losses is quite positive. At end-2015 the loss ratio was 1.3% (excluding reverse repurchase lending). 91% of the Bank's losses related to business lending.

Acquired properties
During 2015 the Group acquired 221 properties and sold 300. The property portfolio counted 159 properties at end-2015. The number of acquired properties thus stabilised at a low level significantly below the level observed in the years following the financial crisis. It is also far below the some 1,500 acquired properties in Nykredit's portfolio during the housing market crisis in the early 1990s.

Nykredit Realkredit Group
Properties acquired/sold

	2011	2012	2013	2014	2015
Addition of properties	529	551	356	375	221
Of which private residential	*342*	*373*	*311*	*257*	*154*
Disposal of properties	455	542	477	459	300
Of which private residential	*283*	*378*	*352*	*339*	*195*
Property portfolio, year-end	347	356	322	238	159
Of which private residential	*242*	*237*	*196*	*126*	*85*

Nykredit Realkredit Group
Total individual and collective impairment provisions for loans and advances

2015 DKK million	Individual impairment and other provisions	Collective impairment provisions	Total impairment provisions	Total impairment provisions 2014
Impairment provisions, beginning of year	6,616	2,602	9,218	8,484
Additions acquired	-	-		-
Impairment provisions for the year	2,151	-	2,151	3,159
Impairment provisions reversed	(1,223)	(278)	(1,501)	(1,132)
Value adjustment of acquired properties	(90)	-	(90)	(160)
Impairment provisions written off	(1,087)	-	(1,087)	(1,134)
Impairment provisions, year-end	**6,366**	**2,324**	**8,690**	**9,217**
Loans and advances before provisions	**21,784**	**116,156**	**137,940**	**137,300**
Provisions	6,366	2,324	8,690	9,217
Loans and advances after provisions	**15,518**	**113,832**	**129,350**	**128,083**

Nykredit Realkredit Group
Total individual and collective impairment provisions for loans and advances

2015 DKK million	Individual impairment and other provisions	Collective impairment provisions	Total impairment provisions	Total claims in default
Retail exposures	1,752	1,231	2,984	8,930
Of which				
- mortgages on real estate	*1,464*	*1,214*	*2,678*	*8,407*
- other retail exposures	*288*	*18*	*305*	*523*
Business exposures	4,570	1,092	5,663	22,465
Credit institution exposures	44	0	44	44
Sovereign exposures	0	0	0	0
Total	**6,366**	**2,324**	**8,690**	**31,438**

Nykredit Realkredit Group
Loans, advances, guarantees and counterparty exposure as well as impairment losses on loans and advances

2015 DKK million	Exposure		Exposure in default		Total provisions for loan impairment and guarantees		Impairment losses on loans and advances, earnings impact	
	2015	2014	2015	2014	2015	2014	2015	2014
Mortgage lending	**1,172,274**	**1,219,775**	**26,273**	**24,646**	**5,715**	**5,506**	**1,032**	**2,132**
Bank lending	**162,497**	**190,732**	**5,165**	**6,735**	**2,974**	**3,711**	**(121)**	**219**
- Guarantees	*13,062*	*21,135*			*100*	*107*	*(7)*	*4*
Total	**1,334,771**	**1,410,507**	**31,438**	**31,380**	**8,690**	**9,217**	**920**	**2,351**

Nykredit Realkredit Group – Mortgage lending
Arrears by property category and due date

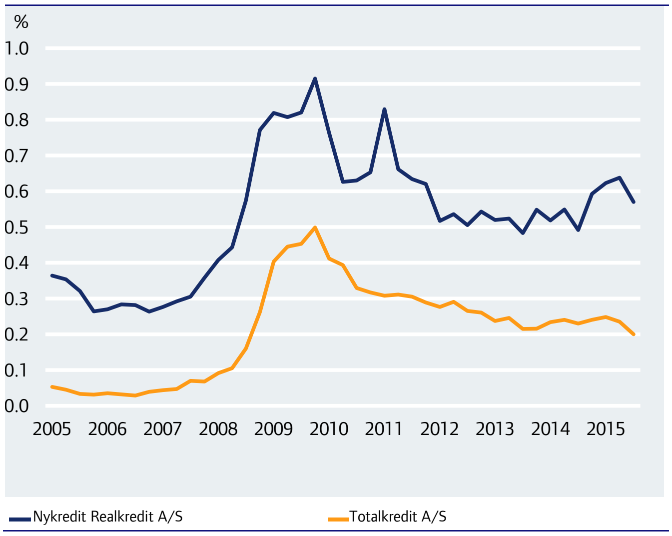
DKK million	Loans and advances at fair value end-2015	Loans and advances with individual provisioning	Total arrears	Arrears Q4/2015	Arrears Q3/2015	Arrears Q2/2015	Arrears Q1/2015	Arrears pre-2015
Private residential property	678,993	6,141	100	70	15	8	4	4
Private residential rental	87,522	1,782	22	13	3	2	2	2
Industry and trades	22,960	568	22	11	3	2	1	4
Office and retail	111,425	1,757	43	21	6	3	3	10
Agriculture	96,737	3,511	41	24	9	4	3	2
Public housing	65,551	339	2	1	0	1	-	0
Cooperative housing	38,566	3,429	2	1	0	0	-	1
Other	17,347	182	3	2	1	0	0	0
Total	**1,119,101**	**17,710**	**236**	**141**	**37**	**21**	**13**	**16**

Nykredit Bank Group
Total loans, advances and guarantees by sector

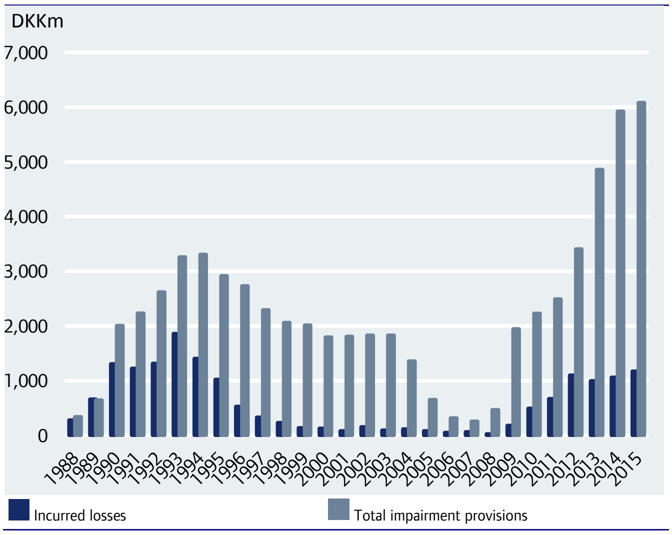
DKK million	Loans, advances and guarantees		Provisions for loan impairment and guarantees	
	2015	2014	2015	2014
Public sector	**296**	**596**	**0**	**0**
Agriculture, hunting, forestry and fishing	2,384	3,230	102	138
Manufacturing, mining and quarrying	4,733	4,782	225	269
Energy supply	936	1,055	3	9
Construction	2,234	2,087	232	236
Trade	2,946	3,309	88	119
Transport, accommodation and food service activities	3,444	2,930	104	91
Information and communication	999	1,027	17	62
Finance and insurance[1]	45,416	40,420	224	350
Real estate	10,431	13,071	1,140	1,540
Other	7,481	9,643	231	305
Total business customers	**81,004**	**81,554**	**2,366**	**3,074**
Personal customers	**20,094**	**24,465**	**586**	**592**
Total	**101,394**	**106,615**	**2,952**	**3,666**
Total, incl impairment provisions for banks	**-**	**-**	**2,975**	**3,687**

Note: The breakdown is based on public sector statistics and is therefore not directly comparable with Nykredit Bank's business areas.
1) A significant part of lending for financial and insurance activities is based on lending with bonds serving as collateral (repo transactions and reverse repurchase lending).

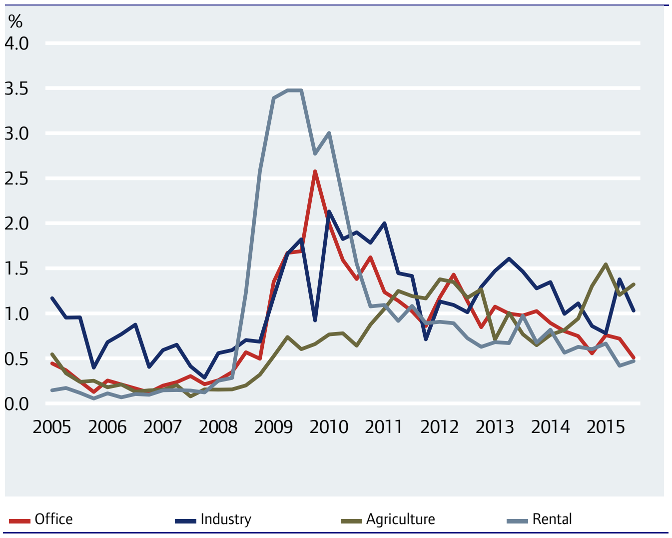
Nykredit Realkredit Group – personal mortgage lending
Arrears ratio – 75 days past due



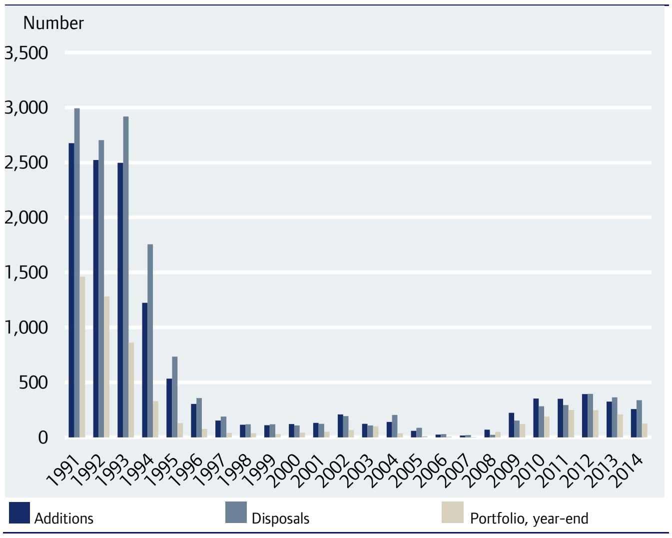
Nykredit Realkredit Group – mortgage lending
Incurred losses and total impairment provisions



Nykredit Realkredit Group – business mortgage lending
Arrears ratio by sector – 75 days past due



Nykredit Realkredit Group – mortgage lending
Private residential properties acquired/sold



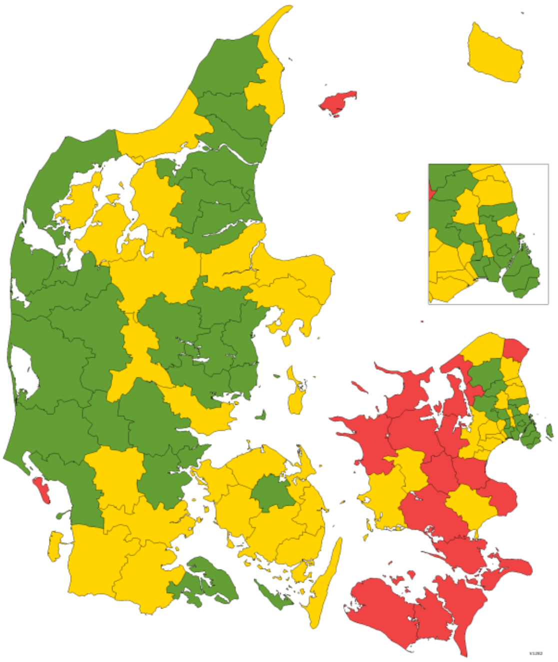
GEOGRAPHY AND CREDIT RISK

The current growth upturn in Denmark is mainly observed in the Copenhagen and Aarhus areas. Following a crisis, it is natural for growth to resume in and around a country's cities. In recent years, migration to Danish cities has been high.

Nykredit grants loans to creditworthy customers all over Denmark and has seen lending growth in the vast majority of Danish municipalities. But lending growth is highest in the cities, cf the demographic development.

Nykredit's arrears declined in 2015. Arrears are still concentrated around South and West Sealand, while they are significantly lower in the capital region and most of Jutland. Nykredit's losses on residential lending tend to be lowest in the cities and highest on loans secured on properties the values of which are relatively low.

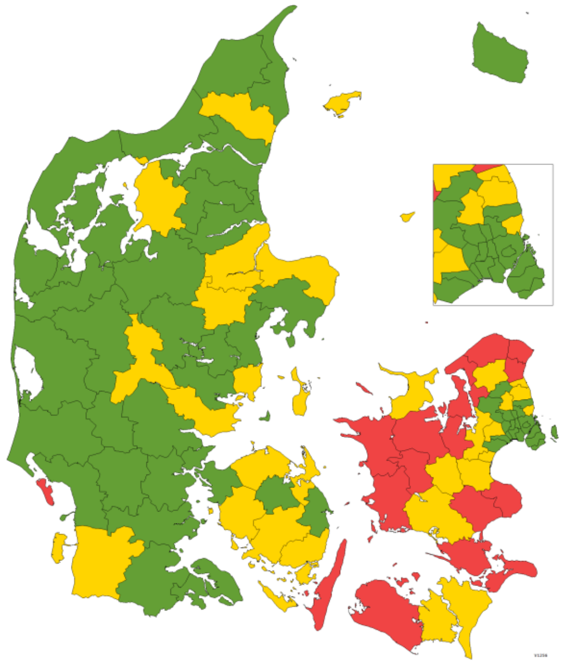
Nykredit Realkredit Group
Private residential property – arrears 2014



• The 75-day arrears ratio for private residential property was 0.28% at national level in 2014 (September due date).

Arrears ratio 0 – 0.25 0.25 – 0.5 0.5 +

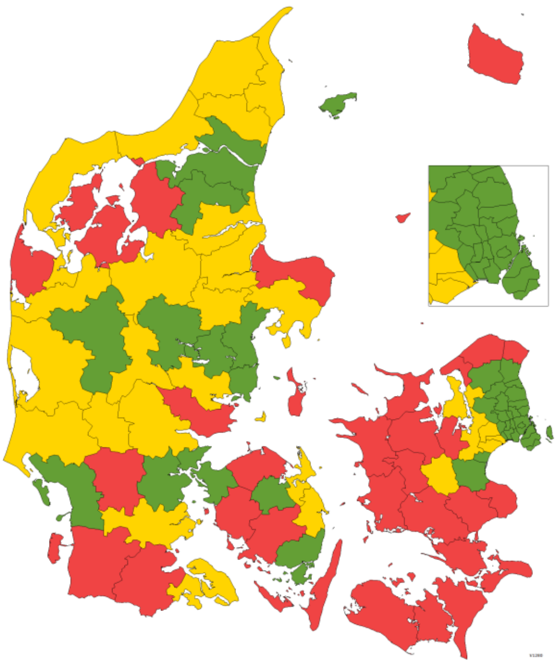
Nykredit Realkredit Group
Private residential property – arrears 2015



• The 75-day arrears ratio for private residential property was 0.25% at national level in 2015 (September due date).

Arrears ratio 0 – 0.25 0.25 – 0.5 0.5 +

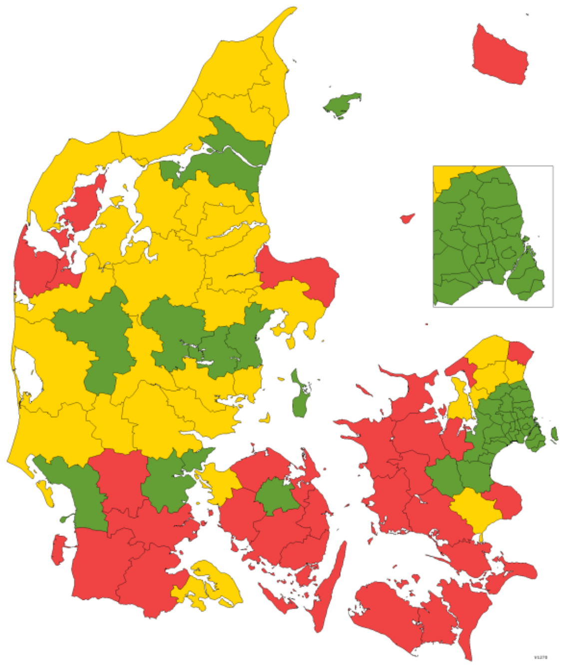
Nykredit Realkredit Group
Private residential property – losses relative to total lending 2014



• At end-2014, the loss ratio (before set-off) for private residential property was 0.14% at national level.

Loss as % of total lending 0 – 0.25 0.25 – 0.5 0.5 +

Nykredit Realkredit Group
Private residential property – losses relative to total lending 2015



• At end-2015, the loss ratio (before set-off) for private residential property was 0.12% at national level.

Loss as % of total lending 0 – 0.25 0.25 – 0.5 0.5 +

MORTGAGE LENDING

Group mortgage lending at fair value was DKK 1,119bn at end-2015, which was slightly down on end-2014.

The portfolio is highly diversified in terms of loan type, geography, loan term and size of debt outstanding. A majority of the mortgage loans (61%) were granted to homeowners. Nykredit's lending to industry and trades and to office and retail amounted to 12%, while lending to agricultural customers accounted for 9%. Nykredit's lending to residential rental customers (public housing and private residential rental) and housing cooperatives amounted to 14% and 3%, respectively.

The Group's portfolio of fixed-rate loans grew by almost DKK 32bn during 2015. The rise derived from fixed-rate loans with and without interest-only (IO) periods. The portfolio of IO loans increased by DKK 6bn, while fixed-rate repayment loans rose by DKK 26bn.

55% of all private residential mortgage loans have an optional IO period. In 2015 the IO periods of private residential mortgage lending corresponding to DKK 8bn expired. Most of the homeowners started making principal payments on their loans when the IO periods ended, indicating that they could afford to also make principal payments on their housing debt. The IO periods of loans totalling about DKK 23bn will expire in 2016.

Concentration risk

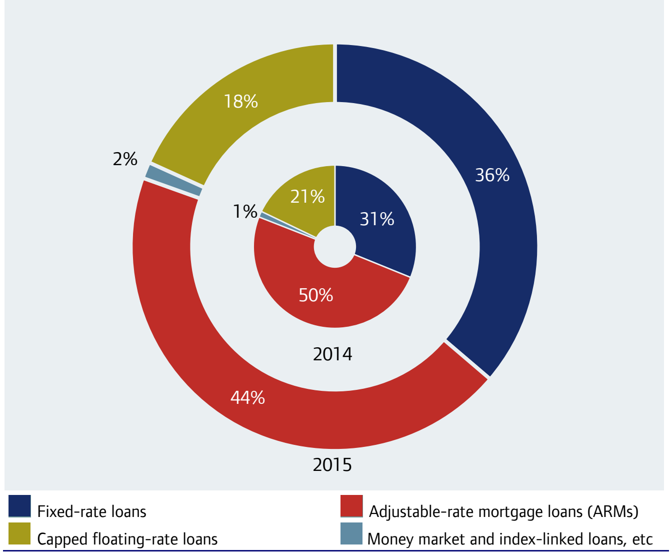
Based on indicators (geography, property type and sector) from the Danish FSA, Nykredit's business lending is not deemed to be concentrated in specific sectors. Nykredit has a high share of private residential lending, but considering the high geographical diversification, Nykredit is not deemed to have any concentration risk.

Nykredit's international credit exposures represent about 5% of the total portfolio. Nykredit has no lending for activities outside Europe.

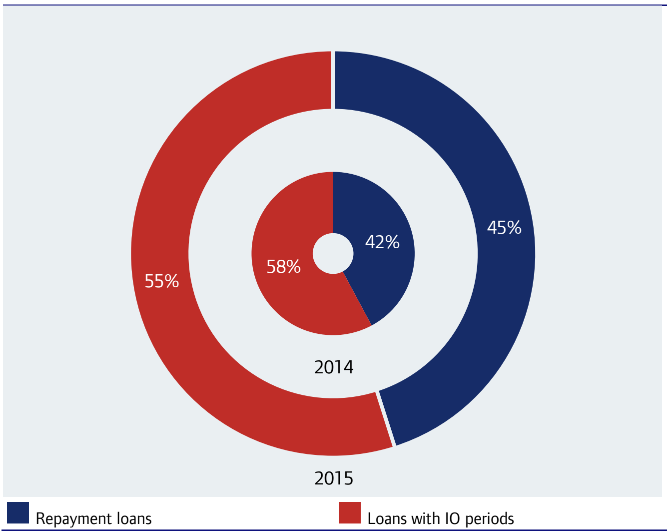
Nykredit Realkredit Group
International lending at fair value

DKK million	2015	2014
Poland	874	958
Sweden	23,307	21,266
Germany	17,300	15,978
United Kingdom	2,407	4,136
France	4,673	4,542
Spain	5,441	5,112
Other	5,685	7,575
Total international lending	**59,994**	**58,609**
Total lending	**1,119,101**	**1,137,983**

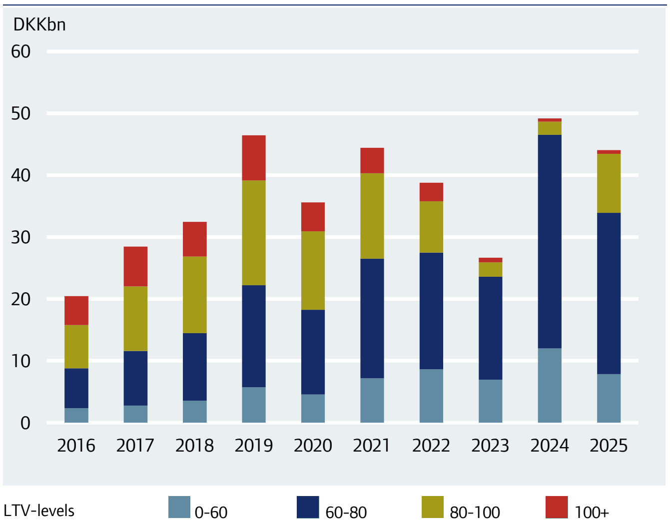
Nykredit Realkredit Group
Private residential lending by loan type



Nykredit Realkredit Group
Private residential lending with/without IO periods



Nykredit Realkredit Group
Private residential lending with expiry of IO periods



Nykredit Realkredit Group
Mortgage lending

Fair value at end-2015 DKK million	Private residential property	Public housing	Cooperative housing	Private residential rental	Office and retail	Agriculture	Industry and trades	Other	Total
Bond debt outstanding by property type									
- Bond debt outstanding	678,993	65,551	38,566	87,522	111,425	96,737	22,960	17,347	1,119,101
- Number of loans	687,088	16,415	5,512	27,550	22,501	37,420	3,289	2,771	802,546
Bond debt outstanding by loans involving:									
- Public authority guarantees	0	50,867	2,423	17	4	231	0	115	53,657
- Bank guarantees[1]	17,514	0	0	0	0	0	0	0	17,514
- Set-off agreement with partner banks	552,806	0	0	0	0	0	0	0	552,806
- No guarantee	108,673	14,685	36,143	87,505	111,421	96,506	22,960	17,232	495,124
Total	**678,993**	**65,551**	**38,566**	**87,522**	**111,425**	**96,737**	**22,960**	**17,347**	**1,119,101**
Bond debt outstanding by loan type									
Fixed-rate loans									
- repayment loans	164,946	22,273	8,225	5,728	10,086	6,698	1,563	3,632	223,150
- loans with IO period	81,132	11	1,894	4,748	2,917	4,148	28	213	95,092
Adjustable-rate mortgage loans (ARMs)									
- repayment loans, 1-year funding	24,966	209	449	3,018	4,331	5,278	1,037	658	39,946
- other repayment loans	62,570	19,888	1,441	7,544	11,707	7,718	2,803	1,319	114,990
- loans with IO period, 1-year funding	65,718	1	574	6,042	3,018	7,095	180	95	82,723
- other loans with IO period	147,059	81	6,296	18,233	13,680	12,258	3,228	335	201,170
Money market-linked loans									
Loans with interest rate cap									
- repayment loans	52,824	73	398	836	938	2,495	159	525	58,250
- loans with IO period	70,941	7	228	495	468	1,815	11	25	73,990
Loans without interest rate cap									
- repayment loans	854	263	882	8,604	23,271	13,575	8,057	6,046	61,553
- loans with IO period	7,982	206	16,082	32,129	40,996	35,449	5,894	4,331	143,068
Index-linked loans	1	22,539	2,098	145	12	207	1	167	25,170
Total	**678,993**	**65,551**	**38,566**	**87,522**	**111,425**	**96,737**	**22,960**	**17,347**	**1,119,101**
Bond debt outstanding by region									
- Capital Region of Denmark	161,519	23,507	20,472	22,482	27,695	2,438	1,310	5,682	265,105
- Sealand Region	91,757	7,526	3,634	4,760	10,822	14,459	2,525	1,714	137,197
- North Denmark Region	94,943	6,995	3,683	9,196	9,640	24,702	3,172	1,489	153,820
- Central Denmark Region	168,986	12,827	5,236	20,401	21,633	29,467	7,041	5,043	270,633
- South Denmark Region	148,636	14,695	5,422	12,397	17,998	25,593	4,525	3,085	232,351
- International	13,152	0	120	18,286	23,637	78	4,387	333	59,994
Total	**678,993**	**65,551**	**38,566**	**87,522**	**111,425**	**96,737**	**22,960**	**17,347**	**1,119,101**
Bond debt outstanding by debt outstanding									
0-2	509,483	5,492	1,607	16,853	12,691	19,657	1,712	1,050	568,545
2-5	153,217	7,235	5,671	14,263	13,871	29,530	2,139	1,836	227,763
5-20	15,276	25,230	18,047	21,739	24,641	41,140	4,527	5,670	156,270
20-50	967	17,970	7,912	10,464	13,781	5,405	2,249	3,702	62,450
50-100	50	6,185	1,766	5,278	10,055	901	1,323	1,397	26,955
100-…	0	3,438	3,563	18,925	36,386	104	11,010	3,691	77,118
Total	**678,993**	**65,551**	**38,566**	**87,522**	**111,425**	**96,737**	**22,960**	**17,347**	**1,119,101**
Bond debt outstanding by remaining loan term									
0-10	22,140	4,160	547	11,984	30,799	2,020	3,457	1,370	76,477
10-15	23,711	7,358	804	11,731	28,814	3,446	10,350	1,746	87,959
15-20	94,623	10,095	5,354	11,488	27,856	11,707	4,390	4,740	170,252
20-25	234,573	9,804	18,380	22,731	12,808	43,399	4,743	5,739	352,178
25-30	303,946	25,013	12,737	29,573	11,148	36,165	20	3,750	422,352
30-35	0	9,096	743	14	0	0	0	0	9,853
35-…	0	27	1	1	0	0	0	2	30
Total	**678,993**	**65,551**	**38,566**	**87,522**	**111,425**	**96,737**	**22,960**	**17,347**	**1,119,101**

Note: Excl lending to Nykredit Ejendomme.
1) Bank guarantees denote debt outstanding covered by loss guarantee.

Housing prices
Housing market prices continued the growth from 2014. The positive trend was particularly pronounced for prices of owner-occupied flats, which were up almost 9% at national level at end-Q3/2015 compared with a year earlier. For detached houses the rise was about 8% and for holiday homes it was 5%.

The rise in prices of detached houses in the Copenhagen area continued in 2015. House prices in Copenhagen city increased by almost 10% over the first nine months of 2015.

Unlike in 2014, South and West Sealand saw sizeable price rises in 2015. In this region, detached house prices rose by 11% over the first nine months of 2015, a significant change from the years 2012, 2013 and 2014 when prices overall dropped by almost 5%.

Flat prices continued their favourable development from 2014, and with a 10% rise at national level, prices accelerated further in 2015. Prices were up 13% in Copenhagen city, which led to speculation about a local price bubble in central Copenhagen.

In Nykredit's opinion, the growing supply of owner-occupied flats following the price rises reduces the risk of a price bubble significantly, and the price rises should be seen against the backdrop of sharp price declines in the years 2009-2011.

LTV development
The loan-to-value (LTV) ratio expresses the debt outstanding relative to the estimated property value. LTV ratios are determined quarterly. The LTV ratios referred to below are average LTVs.

At end-2015, the LTV level of the Group's total loan portfolio was 65%, down 4 percentage points on end-2014.

The LTV level of the Group's private residential lending has dropped by 5 percentage points since end-2014. At end-2015, it was just under 70%.

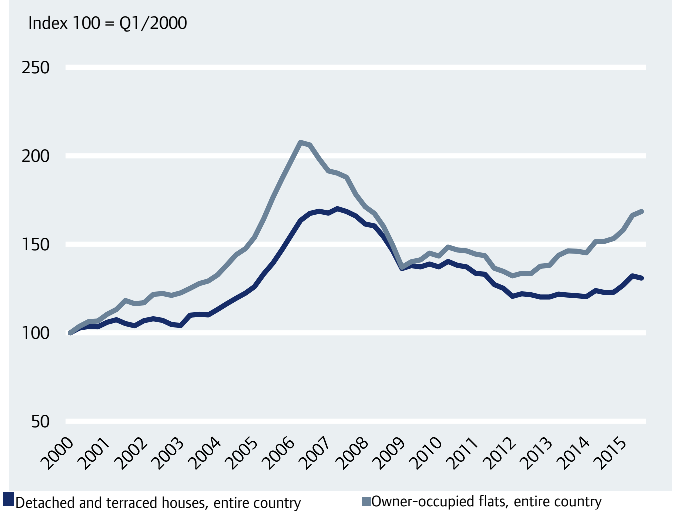
The LTV level of sectors comprised in total business lending was in the range of 49-67% at end-2015, which was a small decline on end-2014.

At end-2015, 0.6% of the Group's private residential mortgage lending had LTVs over 100%. The bulk of the Group's loans with LTVs over 100% were granted to homeowners in South and West Sealand.

Stress testing of homeowners' LTV levels
To ensure that the credit and capital policies are sustainable in the long term, Nykredit is stress testing housing prices and interest rate levels. The results of these stress tests are submitted quarterly to an internal monitoring forum charged with overseeing property market developments.

Further information on the Group's mortgage loan portfolio is available under "Cover pool disclosure" at nykredit.com/ir.

Housing prices in Denmark



Note: Prices are deflated by the consumer price index (constant 2000 prices)
Source: Association of Danish Mortgage Banks

Housing cost burden – fixed-rate repayment mortgage loans

Note: The housing cost burden is defined as housing-related expenses (mortgage payments, insurance, user costs, etc) relative to disposable income.

Nykredit Realkredit Group
Private residential mortgage debt outstanding relative to estimated property values and customer credit quality

Fair value 2015				LTV			
DKK million	0-40	40-60	60-80	80-90	90-100	> 100	Total
Ordinary customers (rating categories 6-10)	331,129	121,022	64,664	8,389	3,562	2,722	531,488
Ordinary customers without significant signs of weakness (rating categories 3-5)	51,159	23,255	16,149	1,938	848	770	94,120
Weak customers (rating categories 0-2)	28,648	13,142	9,120	1,154	599	723	53,386
Total	**410,936**	**157,419**	**89,933**	**11,481**	**5,009**	**4,216**	**678,993**

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

Nykredit Realkredit Group
Debt outstanding relative to estimated property values

Fair value 2015				LTV				LTV
DKK million	0-40	40-60	60-80	80-90	90-100	>100	Total	average, %[1]
Private residential property	410,936	157,419	89,933	11,481	5,009	4,216	678,993	70
Private residential rental[2]	77,926	28,097	13,618	1,870	1,018	1,195	123,725	67
Industry and trades	18,948	3,340	424	92	56	100	22,960	49
Office and retail	81,467	23,844	4,419	681	381	633	111,425	56
Agriculture	69,437	18,079	6,789	1,122	541	769	96,737	58
Public housing[2]	-	-	-	-	-	-	67,913	-
Other	13,320	3,009	875	43	25	74	17,347	52
Total 2015	**672,034**	**233,789**	**116,058**	**15,289**	**7,031**	**6,987**	**1,119,101**	**65**
Total 2014	653,815	235,800	134,014	23,945	10,883	10,648	1,137,983	69

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.
In the table, debt outstanding is distributed continuously by LTV category. Loans with security covering for example between 0% and 60% of the mortgageable value are distributed with two thirds of the debt outstanding in the LTV category 0-40% and one third in the LTV category 40-60%.
1) Determined as the top part of the debt outstanding relative to estimated property values.
2) Lending for cooperative housing is distributed between "Private residential rental" and "Public housing". Lending for subsidised cooperative housing is included in "Public housing".

Nykredit Realkredit Group
Debt outstanding relative to estimated property values

Fair value 2015			LTV			
%	0-40	40-60	60-80	80-90	90-100	>100
Private residential property	61	23	13	2	1	1
Private residential rental	63	23	11	2	1	1
Industry and trades	83	15	2	0	0	0
Office and retail	73	21	4	1	0	1
Agriculture	72	19	7	1	1	1
Public housing	-	-	-	-	-	-
Other	77	17	5	0	0	0
Total 2015[1]	**64**	**22**	**11**	**1**	**1**	**1**
Total 2014[1]	61	22	12	2	1	1

Note: In the table, debt outstanding is distributed continuously by LTV category. Loans with security covering for example between 0% and 60% of the mortgageable value are distributed with two thirds of the debt outstanding in the LTV category 0-40% and one third in the LTV category 40-60%. For example, the table shows that where private residential property is concerned, 61% of mortgage lending falls within 40% of the property values.
1) Calculated on the basis of debt outstanding excluding public housing, for which reason the totals do not add up to 100%.

Nykredit Realkredit Group
Change in debt outstanding relative to property values in 2015

Fair value 2015			LTV			
Percentage points	0-40	40-60	60-80	80-90	90-100	>100
Private residential property	3	0	-2	-1	-1	-1
Private residential rental	1	0	-1	0	0	0
Industry and trades	9	-4	-4	-1	0	0
Office and retail	2	0	-1	0	0	0
Agriculture	0	0	0	0	0	0
Public housing	-	-	-	-	-	-
Other	2	0	-2	0	0	0
Total change	**3**	**0**	**-2**	**-1**	**0**	**0**

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

BANK LENDING

The credit exposures of the Nykredit Bank Group totalled DKK 163bn at end-2015, down almost DKK 30bn compared with end-2014. Of the total credit exposure, repo transactions and reverse repurchase lending accounted for 44%.

A characteristic of repo transactions and reverse repurchase lending is that the risk of the loan is hedged by bonds of extremely high credit quality. The credit risk of repo transactions and reverse repurchase lending is consequently limited. The credit risk relating to the Bank's lending thus derives from its traditional banking activities. For the purpose of this section, the Bank's credit exposures are therefore exclusive of repo transactions and reverse repurchase lending.

Traditional banking activities

The Nykredit Bank Group's total credit exposures to traditional banking activities amounted to DKK 66bn, a drop of DKK 7bn. The decrease related to guarantees issued in connection with the refinancing activity in late 2014 and reduced lending. Business exposures accounted for DKK 46.7bn and retail exposures for DKK 19.3bn, equal to 70% and 30%, respectively, of total bank exposures.

Compared with the banking sector in general, the Nykredit Bank Group has a limited exposure to the agricultural segment. At end-2015, only 3% of business exposures related to agricultural customers.

Guarantees issued amounted to DKK 13bn, or 8% of total exposures at end-2015, and undrawn commitments amounted to DKK 22bn.

Concentration risk

Pursuant to the CRR, individual exposures may not exceed 25% of eligible capital after credit risk mitigation. The Bank had no exposures exceeding this limit in 2015.

The Bank's largest single exposure to a non-financial counterparty was DKK 1.6bn at end-2015, equal to 9.9% of eligible capital. Nykredit Bank has no large exposures exceeding 10% of eligible capital.

The Bank's 20 largest exposures to non-financial counterparties amounted to an aggregate DKK 15.3bn, equivalent to 95% of eligible capital at end-2015. In 2014 the Bank's 20 largest exposures to non-financial counterparties amounted to DKK 15.9bn, equivalent to 128.9% of eligible capital.

Nykredit Realkredit Group – banking activities
Credit exposures and REA

2015 DKK million/%	Bank lending	Guarantees issued	Other	Total exposures	*Of which undrawn commitments*	Exposure-weighted average risk weight, %	REA
Retail exposures	12,496	6,838	11,459	30,793	*8,147*	52.9	16,480
Of which							
- mortgages on real estate	*10,069*	*1,110*	*4,430*	*15,608*	*4,344*	*57.1*	*8,918*
- other retail exposures	*2,428*	*5,729*	*7,029*	*15,185*	*3,803*	*48.5*	*7,561*
Business exposures	40,854	5,321	*71,872*	*118,038*	*13,975*	34.8	41,112
Credit institution exposures	-	905	6,546	7,452	-	38.8	2,891
Sovereign exposures	-	-	2,959	2,959	-	0	0
Equity exposures	-	-	108	108	-	370	400
Assets with no counterparty	-	-	684	684	-	100	684
Credit value adjustments (CVA)[1]	-	-	2,068	2,068	-	50.4	1,043
Default fund contribution	-	-	394	394	-	100	394
Total 2015	**53,350**	**13,056**	**96,085**	**162,497**	**22,123**	**38.7**	**63,004**
Total 2014	52,194	21,135	117,404	190,732	21,430	40.2	76,729

1) The capital charge for credit value adjustment (CVA) risk covers fluctuations in the adjustment of carrying amounts of derivative financial instruments due to changes in customer credit quality.

Nykredit Realkredit Group – banking activities
Credit exposures by maturity

2015 DKK million	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total exposures
Retail exposures	-	-	30,793	30,793
Of which				
- mortgages on real estate	-	-	*15,608*	*15,608*
- other retail exposures	-	-	*15,185*	*15,185*
Business exposures	46,195	11,994	59,849	118,038
Credit institution exposures	6,546	905	-	7,452
Sovereign exposures	2,959	-	-	2,959
Equity exposures	-	-	108	108
Assets with no counterparty	-	-	684	684
Credit value adjustments (CVA)[1]	-	2,068	-	2,068
Default fund contribution	-	-	394	394
Total 2015	**55,701**	**14,968**	**91,828**	**162,497**
Total 2014	69,961	21,063	99,708	190,732

1) The capital charge for credit value adjustment (CVA) risk covers fluctuations in the adjustment of carrying amounts of derivative financial instruments due to changes in customer credit quality.

COUNTERPARTY RISK

Nykredit applies financial instruments, such as derivatives and repurchase agreements (repo transactions), for serving customers and for managing liquidity and market risk. In addition, repo transactions are applied in the day-to-day liquidity management.

Counterparty risk is a measure of the size of the loss which Nykredit may sustain in case of non-payment by a counterparty. For the purpose of calculating the capital requirement, counterparty risk exposures are calculated according to the mark-to-market method, ie as any positive market value of the transaction plus the potential future credit exposure.

The counterparty risk exposure after netting and collateral was DKK 17.8bn at end-2015. Of this amount, derivatives represented DKK 15.5bn and repo transactions DKK 2.2bn. REA totalled DKK 9bn.

Nykredit mitigates its counterparty risk through financial netting agreements as well as agreements on financial collateral. The contractual framework is based on market standards such as ISDA or GRMA agreements.

The use of derivative instruments is governed by the ordinary credit approval rules and credit policies, supplemented with a number of restrictions and policy rules. In addition to limits to amounts and maturities, examples are requirements related to the type, size and creditworthiness of customers.

Nykredit uses central counterparties for professional derivatives clearing. Interest rate swaps, FRAs and repo transactions are cleared through direct membership of NASDAQ OMX Clearing; interest rate swaps are cleared through indirect membership of the London Clearing House.

Value adjustment of derivatives

The market value of a financial instrument changes according to the underlying market parameters, such as interest rates and exchange rates, which may lead to high market values in favour of both Nykredit and its counterparties.

Nykredit makes fair value adjustments of financial instruments in accordance with the International Financial Reporting Standards (IFRS). This includes credit value adjustments (CVA) based on the customer's current credit quality as well as individual value adjustments in respect of customers showing OEI.

Nykredit Realkredit Group
Market value, fixed-rate swaps and step-up interest rate instruments

DKK billion/% 2015	Negative market value	Total impairment provisions[1]	Total impairment provisions as % of market value
Housing cooperatives	7.0	3.8	54
Agriculture	1.3	0.3	23
Other	8.1	0.9	11
Total	**16.4**	**5.0**	**30**

1) Individual value adjustments, management judgement and CVA.

Fixed-rate swaps

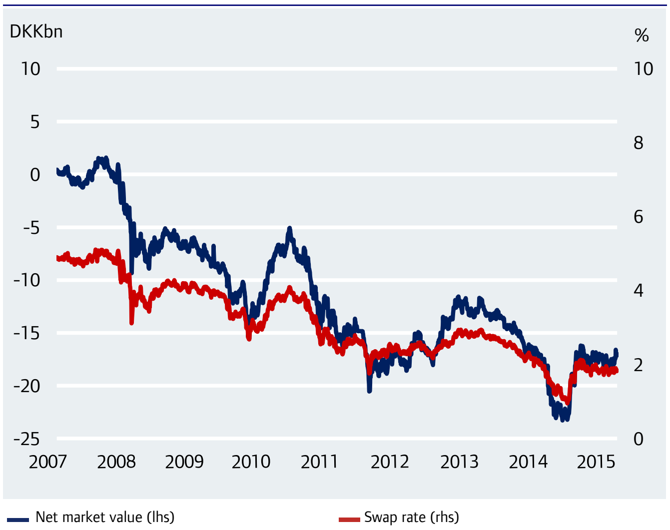
A number of business customers with variable-rate mortgage loans have hedged their interest rate risk through swaps with Nykredit Bank. The main part of Nykredit's swap portfolio was established in the period 2005-2008 to allow customers to hedge the risk of rising interest rates on their underlying floating-rate mortgage loans. From the perspective of the customers, the interest rate declines in the ensuing years caused the market value of Nykredit's swap portfolio to become negative.

At end-2015 the negative market value of interest rate derivatives relating to customer exposures was about DKK 16.4bn. This value mainly tracks the development in the long-term swap rate, which was 1.9% at year-end. The negative market value of swap contracts with housing cooperatives amounted to 43% of the total negative market value of interest rate derivatives relating to customer exposures. Of this market value of DKK 7bn, 53%, or about DKK 3.8bn, has been value adjusted.

Nykredit's counterparty risk exposure relating to swaps is value adjusted on a current basis. Nykredit uses three types of value adjustment. The first is applied to customers in default and customers rated 0. For these customers, swaps are fully value adjusted through Nykredit Bank's profit or loss to reflect changes in market value.

The second method is applied to other customers and is divided into value adjustment of weak customers with ratings 1 and 2 and customers with ratings 3 to 10. The lower a customer's rating, the larger the proportion that is value adjusted. The third value adjustment method is based on management judgement. Under this method, the entire portfolio in a specific segment is reviewed and value adjusted based on the financial position of the customers.

Nykredit Realkredit Group
Net market value of derivatives contracts with business customers



Nykredit Realkredit Group
Counterparty risk

	2015			2014		
DKK million	Derivatives	Repos	Total	Derivatives	Repos	Total
Exposure before netting	69,831	71,549	141,380	89,403	41,809	131,212
Netting	50,317	-	50,317	61,436	-	61,436
Exposure after netting	19,514	71,549	91,063	27,967	41,809	69,776
Collateral received	3,965	69,314	73,279	3,057	39,109	42,166
Exposure after netting and collateral	**15,549**	**2,235**	**17,784**	**24,910**	**2,700**	**27,610**

At end-2015, total value adjustments (recognised as impairment provisions) came to DKK 5.0bn. Management judgement accounted for DKK 1.4bn of total value adjustments.

The provisions were to a significant extent made to cover the risk that some judicial decisions related to the cooperative housing segment will go against Nykredit's interests. However, the decisions are expected to be in Nykredit's favour. In that case, the provisions will be reversed in full or in part, as no losses will have been incurred.

ENCUMBERED AND UNENCUMBERED ASSETS

The Nykredit Group's core business is offering mortgage loans to Danish households and businesses. All loans are secured by mortgages on real estate and funded through the issuance of bonds. The loans remain in Nykredit's balance sheet and in special capital centres until they mature, and they are "ring-fenced" to ensure timely payments to bond investors in the event that Nykredit should become failing. Ring-fencing assets for creditors/investors is referred to in European legislation as "asset encumbrance".

Other cover pool assets, such as bonds or other liquid assets providing overcollateralisation in favour of bond investors, are also encumbered in special capital centres. Moreover, the Nykredit Realkredit Group provides collateral in connection with derivatives trading and repo transactions. Any encumbrance relating to these transactions will be on ordinary market terms and will change according to trading volumes and current fair values. Other types of assets eligible for encumbrance are eg bonds received by Nykredit as collateral in connection with reverse repurchase lending.

Over the past few years, the level of asset encumbrance has increasingly attracted the attention of regulators, credit rating agencies and investors, particularly at EU level. One reason is that where a failing credit institution must be resolved, unsecured creditors, including depositors, are generally less protected when a larger share of assets are encumbered in favour of specific creditors/investors. However, this problem is not relevant to Nykredit, as our loan portfolio mainly consists of mortgage loans issued by the Group's mortgage lenders, which can only fund loans through bond issuance and are not allowed to accept deposits.

In 2015 Nykredit's encumbered assets etc totalled DKK 1,218bn. Nykredit's total assets etc amounted to DKK 1,456bn. The Nykredit Group's asset encumbrance ratio was 84%. It is natural that Nykredit should have a relatively high asset encumbrance ratio.

It follows from the Danish mortgage model under which mortgage loans serve as collateral in favour of bondholders in the individual capital centres. Nykredit may increase the overcollateralisation of a capital centre by issuing senior secured debt (junior covered bonds). It is possible for investors to assess their risk in case of issuer default based on the detailed descriptions of loans and collateral released quarterly for each capital centre. Senior secured debt is subordinate to covered bonds.

Nykredit's asset encumbrance is monitored and reported to the Danish FSA on a quarterly basis. The level of asset encumbrance is very stable over time.

Nykredit Realkredit Group
Encumbered and unencumbered assets

2015[1]	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
DKK million				
Balance sheet assets				
Total assets	**1,213,225**		**214,282**	
Mortgage loans	1,125,405	1,125,405		
Equity instruments				3,837
Debt instruments	65,723	65,723	43,472	41,729
Other assets[2]	1,883		49,087	
Collateral		Fair value of repledged collateral from counterparties, or pledged self-issued debt instruments		Fair value of collateral from counterparties, or self-issued debt instruments eligible for encumbrance
Collateral received by Nykredit		**4,933**		**28,605**
Equity instruments		0		0
Debt instruments		4,933		28,605
Other collateral received		0		0
Self-issued debt instruments excluding self-issued covered bonds and ABS's		**149**		**2,739**
Encumbered assets		Corresponding liabilities		Assets, collateral received and self-issued debt instruments
Carrying amount of selected financial liabilities		1,184,513		1,218,308
Assets and collateral	Encumbered and unencumbered assets		Encumbered and unencumbered collateral from counterparties, or self-issued debt instruments	Total
Total assets and collateral	**1,427,507**		**28,605**	**1,456,112**

1) Determination is based on Q4/2014-Q3/2015 data.
2) Most other unencumbered assets are not eligible as collateral. These are mainly derivatives, properties and other non-current assets as well as deferred tax assets.

CREDIT RISK MODELS

Credit risk is determined using three key parameters: Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

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. However, personal customers have two PDs, one assigned by Nykredit Bank and one assigned by Nykredit Realkredit/Totalkredit.

Modelling principles

According to the Capital Requirements Regulation (CRR), PDs must be estimated on the basis of long-term averages of one-year default rates, while LGD estimates must reflect an economic downturn.

In the early 1990s, the Danish economy suffered a deep crisis, and the financial sector saw a large number of borrower defaults and increased losses. PDs are calibrated by weighting current data against data dating back to the early 1990s at a 40:60 ratio. LGDs are calibrated so that the parameters reflect an economic downturn equal to the early 1990s. However, for Nykredit Bank's personal lending, some models use a gross unemployment rate of 10% to indicate an economic downturn, which is almost twice as high as the current level.

The modelling principles are of great importance when comparing PD and LGD estimates with current, observed values of default and loss rates. During an economic upturn, the PD and LGD estimates applied to calculate REA will on an aggregate basis be higher than the observed values. This is due to the fact that, contrary to the risk parameters, the observed values mirror only the current economic climate.

The principles applied to estimate the risk parameters ensure that the Group's REA remains more stable throughout an economic cycle than if the estimation were based exclusively on current data.

Probability of Default (PD)

PD expresses the probability of a customer defaulting on an obligation to the Nykredit Group. Nykredit calculates a PD for each individual customer. This method is called direct estimation.

The PDs of personal customers and SMEs are determined using credit scoring models. The credit score denotes the creditworthiness of a customer, and the calculation includes data on the customer's financial position and payment behaviour as well as any loan impairment.

Statistical models have been developed for Corporate & Institutional Banking clients and production farming businesses based on conditional probabilities estimating PDs on the basis of financial data on the business as well as data on payment behaviour and any loan impairment.

External credit ratings are used to a very limited extent for a few types of counterparty. External credit ratings are translated into PDs. PDs are updated as Nykredit receives new information about the customer or the customer's financial circumstances. Updates are made at least once every three months.

The accuracy of the estimated PDs can be assessed by comparing the expected default rates at the beginning of the year (the estimates) with the default rates observed for the year. The observed default rates reflect the current economic situation, and to obtain an accurate comparison, it is therefore necessary to recalculate the PDs estimated at the beginning of the year into estimates which reflect only the current economic trends (point-in-time estimates).

The PD estimates applied for calculating REA are estimated on the basis of data covering economic upturns as well as downturns. Therefore, they are not directly comparable with the observed default rates or the point-in-time estimates.

From PD to rating

The PDs of individual customers are converted into ratings from 0 to 10, 10 being the highest rating. The individual rating categories have been defined based on fixed PD ranges. This means that, in periods of high business activity, a high rating will be assigned to relatively more customers, while the opposite will apply during an economic downturn.

Customer ratings are an important element of the credit policy and customer assessment. Ratings are also applied to increase the efficiency of credit approval procedures and to monitor exposures of low credit quality. If the calculated rating is deemed not to reflect the customer's real credit quality, the account manager may adjust the rating – possibly following a recommendation to Group Credits. This is referred to as an override.

Nykredit Realkredit Group
Rating scale and marginal Probabilities of Default (PD)

2015 Rating category	PD floor %	PD ceiling %	Average applied PD %
10	> 0.00	≤ 0.15	0.10
9	> 0.15	≤ 0.25	0.20
8	> 0.25	≤ 0.40	0.33
7	> 0.40	≤ 0.60	0.49
6	> 0.60	≤ 0.90	0.73
5	> 0.90	≤ 1.30	1.07
4	> 1.30	≤ 2.00	1.61
3	> 2.00	≤ 3.00	2.42
2	> 3.00	≤ 7.00	4.58
1	> 7.00	≤ 25.00	13.68
0	> 25.00	< 100,00	43.15
Exposures in default	100.00	100.00	100.00

Note: Average applied PD has been weighted by exposure.

PD: Example of mortgage exposures

The calculation of REA is based on "applied PD", which reflects current as well as historical data. Nykredit's REA determination assumed that 1.8% of Nykredit's customers would default on their loans.

To enable a comparison of the "applied PD" with the actual share of loans in default, "observed PD", the applied PD was recalculated into a point-in-time PD. The recalculation eliminates the historical element, and the point-in-time PD reflects only the economic trends prevailing at the beginning of the period.

The actual default rate, observed PD, was 1.1%. The levels of Nykredit's REA calculation were thus higher than the actual levels for the period.

Nykredit Realkredit Group
Probability of Default (PD)

%	Point-in-time PD Beginning of 2015	Observed PD End-2015	Applied PD End-2015	Point-in-time PD Beginning of 2014	Observed PD End-2014	Applied PD End-2014
Mortgage exposures						
Retail exposures	1.2	0.7	1.4	1.3	0.8	1.4
Of which:						
- mortgages on real estate	1.4	0.7	1.4	*1.3*	*0.8*	*1.4*
- other retail exposures	-			-	-	-
Business exposures	2.8	1.8	2.4	2.3	1.9	2.7
Total mortgage exposures	**1.8**	**1.1**	**1.8**	**1.6**	**1.2**	**1.8**
Bank exposures						
Retail exposures	1.5	0.9	1.4	1.5	1.2	1.5
Of which:						
- mortgages on real estate	1.5	1.1	1.4	*1.5*	*1.4*	*1.5*
- other retail exposures	1.5	0.8	1.4	*1.5*	*1.0*	*1.5*
Business exposures	1.8	1.2	1.3	2.6	0.9	1.8
Total bank exposures	**1.7**	**1.1**	**1.4**	**2.2**	**1.0**	**1.7**
Total exposures						
Retail exposures	1.3	0.7	1.4	1.3	0.8	1.4
Of which:						
- mortgages on real estate	1.2	0.7	1.4	*1.3*	*0.8*	*1.4*
- other retail exposures	1.5	0.8	1.4	*1.3*	*1.0*	*1.5*
Business exposures	2.7	1.7	2.3	2.4	1.8	2.6
Total exposures, total	**1.8**	**1.1**	**1.7**	**1.6**	**1.2**	**1.8**

Note: Exposure-weighted and excl exposures in default. Includes exposures determined subject to the advanced as well as the foundation IRB approaches not using internal LGD estimates.

Nykredit Realkredit Group – mortgage exposures
Retail exposures covered by IRB

2015 Rating category	Total credit exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD[1] %	Exposure-weighted average risk weight %	REA for credit risk DKKm
10	50,416	9	4.3	1.2	580
9	83,077	9	6.1	2.6	2,181
8	165,199	15	8.5	5.2	8,608
7	148,505	19	11.6	9.3	13,818
6	104,878	19	13.2	14.1	14,760
5	47,256	18	12.8	17.2	8,149
4	33,807	5	12.9	22.8	7,693
3	19,183	16	11.9	26.6	5,109
2	20,073	70	10.5	34.5	6,922
1	20,157	3	11.7	61.4	12,380
0	4,727	4	14.3	78.2	3,694
Exposures in default[2]	7,928	0	16.3	62.7	4,974
Total	**705,207**	**188**	**10.1**	**12.6**	**88,869**

1) Pursuant to Article 164 of the CRR, the exposure-weighted average LGD must be at least 10% for retail exposures secured by residential property and at least 15% for retail exposures secured by commercial property for the purpose of REA determination. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the capital floor requirements.
2) The determination of REA for exposures in default is based on the difference between LGDs and individual impairment provisions.

Nykredit Realkredit Group – mortgage exposures
Business exposures covered by IRB

2015 Rating category	Total credit exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD[1] %	Exposure-weighted average risk weight %	REA for credit risk DKKm
10	19,288	52	10.8	10.4	1,999
9	48,499	61	13.2	17.9	8,682
8	73,840	922	11.7	19.1	14,132
7	80,128	476	12.4	23.1	18,490
6	53,822	125	11.4	21.8	11,707
5	32,262	213	11.7	25.0	8,053
4	16,916	83	15.0	33.4	5,642
3	24,349	123	12.4	30.2	7,349
2	790	44	16.7	47.1	372
1	4,345	15	14.6	62.3	2,706
0	9,521	7	15.3	57.6	5,486
Exposures in default[2]	17,912	41	20.7	41.6	7,460
Total	**381,673**	**2,162**	**12.7**	**24.1**	**92,079**

1) Pursuant to Article 164 of the CRR, the exposure-weighted average LGD must be at least 10% for retail exposures secured by residential property and at least 15% for retail exposures secured by commercial property for the purpose of REA determination. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the capital floor requirements.
2) The determination of REA for exposures in default is based on the difference between LGDs and individual impairment provisions.

Nykredit Realkredit Group – bank exposures
Retail exposures covered by IRB

2015 Rating category	Total credit exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD[1] %	Exposure-weighted average risk weight %	REA for credit risk DKKm
10	6,549	2,721	43.9	8.6	562
9	2,791	997	42.5	18.2	507
8	2,749	868	40.6	24.0	661
7	2,507	700	40.5	31.8	798
6	2,678	635	40.3	40.7	1,090
5	3,811	833	39.6	51.1	1,946
4	4,706	743	40.1	62.1	2,922
3	2,266	344	40.6	74.8	1,694
2	862	164	41.0	96.2	829
1	524	61	40.9	146.9	770
0	145	21	48.1	144.7	210
Exposures in default[2]	950	61	42.1	452.8	4,301
Total	**30,538**	**8,147**	**41.3**	**53.3**	**16,289**

1) Pursuant to Article 164 of the CRR, the exposure-weighted average LGD must be at least 10% for retail exposures secured by residential property and at least 15% for retail exposures secured by commercial property for the purpose of REA determination. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the capital floor requirements.
2) The determination of REA for exposures in default is based on the difference between LGDs and individual impairment provisions.

Nykredit Realkredit Group – bank exposures
Business exposures covered by IRB

2015 Rating category	Total credit exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	REA for credit risk DKKm
10	14,769	2,571	18.9	12.1	1,788
9	18,477	2,057	15.9	14.5	2,682
8	11,107	3,287	40.6	48.0	5,331
7	12,645	3,476	42.5	61.4	7,765
6	31,643	1,269	12.9	20.7	6,561
5	3,882	328	43.0	70.7	2,745
4	4,395	268	44.0	89.6	3,938
3	5,235	471	34.8	79.0	4,135
2	270	67	44.5	108.3	292
1	747	24	44.3	174.5	1,303
0	552	43	31.5	109.1	603
Exposures in default[1]	4,200	114	44.6	0.0	-
Total	**107,922**	**13,975**	**25.6**	**34.4**	**37,143**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
1) The determination of REA for exposures in default is based on the difference between LGDs and individual impairment provisions. The low risk weight of the Nykredit Realkredit Group's exposures in default results from the fact that REA of the Nykredit Bank Group's business exposures in default is calculated using the foundation IRB approach, under which the risk weight is nil.

Nykredit Realkredit Group – total exposures
Retail exposures covered by IRB

2015 Rating category	Total credit exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD[1] %	Exposure-weighted average risk weight %	REA for credit risk DKKm
10	56,966	2,730	8.8	2.0	1,142
9	85,868	1,006	7.3	3.1	2,688
8	167,948	883	9.0	5.5	9,269
7	151,012	719	12.0	9.7	14,616
6	107,556	654	13.9	14.7	15,849
5	51,067	851	14.8	19.8	10,095
4	38,513	748	16.2	27.6	10,615
3	21,449	360	15.0	31.7	6,803
2	20,935	234	11.7	37.0	7,751
1	20,681	63	12.5	63.6	13,150
0	4,873	25	15.3	80.1	3,905
Exposures in default[2]	8,878	61	19.0	104.5	9,275
Total	**735,745**	**8,335**	**11.4**	**14.3**	**105,158**

1) Pursuant to Article 164 of the CRR, the exposure-weighted average LGD must be at least 10% for retail exposures secured by residential property and at least 15% for retail exposures secured by commercial property for the purpose of REA determination. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the capital floor requirements.
2) The determination of REA for exposures in default is based on the difference between LGDs and individual impairment provisions.

Nykredit Realkredit Group – total exposures
Business exposures covered by IRB

2015 Rating category	Total credit exposure DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD %	Exposure-weighted average risk weight %	REA for credit risk DKKm
10	34,058	2,623	14.3	11.1	3,787
9	66,976	2,118	13.9	17.0	11,364
8	84,947	4,209	15.5	22.9	19,463
7	92,772	3,952	16.5	28.3	26,255
6	85,465	1,394	12.0	21.4	18,268
5	36,144	541	15.1	29.9	10,798
4	21,310	351	21.0	45.0	9,580
3	29,584	594	16.3	38.8	11,485
2	1,060	111	23.8	62.7	664
1	5,092	39	19.0	78.8	4,010
0	14,919	50	10.9	40.8	6,089
Exposures in default[1]	22,113	154	25.2	33.7	7,460
Total	**494,441**	**16,137**	**15.4**	**26.1**	**129,222**

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.
1) The determination of REA for exposures in default is based on the difference between LGDs and individual impairment provisions. The low risk weight of the Nykredit Realkredit Group's exposures in default results from the fact that REA of the Nykredit Bank Group's business exposures in default is calculated using the foundation IRB approach, under which the risk weight is nil.

Loss Given Default (LGD)
For each customer exposure, Nykredit calculates an LGD, reflecting the percentage share of the exposure which is expected to be lost in case of customer default.

The LGD calculations factor in any security, including the type of security (typically mortgages on real estate), its quality, and its ranking in the order of priority.

Nykredit determines losses as the part of the Group's claims at the time of realisation which is not subsequently covered by security provided, payments from customers, etc. Furthermore, costs incidental to debt collection are included.

LGD: Example of mortgage exposures

The calculation of REA for mortgage lending is based on "applied LGD", which reflects an entire business cycle, plus a so-called downturn adjustment based on data from the economic downturn in 1991-1993. Nykredit's REA determination at end-2014 assumed a loss of 11.8% of lending in case of default. For bank lending, applied LGD reflects the current macroeconomic levels, but with an elevated level of unemployment.

To enable a comparison of the applied LGD with the actual share of losses on loans in default, "observed LGD", the applied LGD was recalculated into a point-in-time LGD. The recalculation eliminates the historical element, and the point-in-time LGD reflects only the current economic trends.

The actual loss ratio, observed LGD, was 10.7%. The levels of REA calculation were thus lower than the actual levels for the period.

The loss on a defaulting borrower cannot be determined until the case has been finally settled. This may take several years. In cases involving security in the form of a mortgage on a property, for example, the loss cannot be determined until Nykredit has sold the acquired property. The determination of losses therefore includes estimates of the final losses in cases not yet settled.

LGDs vary with economic trends. In periods of high business activity, default will often not lead to any loss, as the value of the security will typically exceed the value of the loan. This applies in particular to loans secured by mortgages on real estate. Conversely, the Group would expect more and greater losses during an economic downturn.

The accuracy of the estimated LGDs can be assessed by comparing the estimates at the beginning of the year with the LGDs observed for the year. Observed LGDs are determined on the basis of actual losses for the year plus individual impairment provisions at year-end. Observed LGDs reflect the current economic climate. To obtain an accurate comparison, it is therefore necessary to recalculate the LGDs estimated at the beginning of the year into point-in-time estimates.

Observed LGD for Nykredit Bank is relatively high compared with point-in-time LGDs for retail exposures secured on real estate and for business exposures. Observed LGD for business exposures is boosted by one single observation, as the exposure is relatively large and the losses very high. Excluding that particular observation, the observed LGD for total bank exposures is 40.7% against 56.9% as shown in the table.

Mortgage banking is characterised by low LGDs as the security provided by way of mortgages on real estate offers good protection against losses. The use of security is described in more detail under "Security".

Nykredit Realkredit Group
Loss Given Default (LGD)

%	Point-in-time LGD Beginning of 2015	Observed LGD End-2015	Applied LGD End-2015	Point-in-time LGD Beginning of 2014	Observed LGD End-2014	Applied LGD End-2014
Mortgage exposures						
Retail exposures	17.8	13.5	10.1	15.3	13.3	10.7
Of which						
- mortgages on real estate	17.8	13.5	10.1	15.3	13.3	10.7
- other retail exposures	-		-	-		-
Business exposures	8.1	7.5	12.3	8.0	11.7	13.8
Total mortgage exposures	**11.0**	**10.7**	**10.8**	**10.5**	**12.6**	**11.8**
Bank exposures						
Retail exposures	32.1	50.0	41.3	31.1	53.6	43.1
Of which						
- mortgages on real estate	27.9	58.6	35.4	26.5	58.0	37.9
- other retail exposures	35.6	36.4	47.6	37.4	41.6	47.5
Business exposures[1]	48.6	56.9	41.9	49.4	35.1	43.4
Total bank exposures	**40.8**	**54.8**	**41.7**	**40.5**	**43.2**	**43.3**
Total exposures						
Retail exposures	18.2	15.2	11.3	15.9	15.1	12.3
Of which			-			
- mortgages on real estate	17.9	14.8	10.6	15.5	14.7	11.4
- other retail exposures	*35.8*	36.4	47.6	37.4	41.6	47.5
Business exposures	*12.7*	13.2	15.7	12.6	13.2	17.3
Total exposures, total	**13.1**	**14.2**	**12.9**	**12.5**	**14.2**	**14.1**

Note: Pursuant to Article 164 of the CRR, the exposure-weighted average LGD must be at least 10% for retail exposures secured by residential property and at least 15% for retail exposures secured by commercial property for the purpose of REA determination. Applied LGDs for the Bank's business exposures are excl repo transactions.
1) LGD after credit risk hedging. Nykredit Bank's business lending is determined using the foundation IRB approach.

Exposure at Default (EAD)
Nykredit estimates an EAD for all exposures relating to a customer, reflecting the total expected exposure to the customer at the time of default, including any drawn part of approved credit commitments. The latter is factored in using conversion factors (CF).

Conversion factors are estimated for banking products subject to flexible utilisation, such as revolving exposures and credit lines offered. In respect of exposures in default subject to flexible utilisation, the credit maximum has often been reached or exceeded at the time of default. This applies to revolving exposures and similar credit facilities, where Nykredit applies a conversion factor above 1.

The table below shows observed and applied CFs for exposures to customers with undrawn credit. Observed CF is the average utilisation rate for exposures and other credit commitments at the time of default. Applied CF at year-end is the parameter for the utilisation rates applied to determine REA.

New LGD and CF models at Nykredit Bank
Nykredit's approval from 2007 to apply the advanced IRB approach does not include Nykredit Bank's business exposures, as Nykredit did not have sufficient loss data on business customers at the time to be able to develop internal LGD and CF models. Instead, Nykredit was authorised to apply the foundation IRB approach to Nykredit Bank's business exposures. Since then Nykredit has compiled and analysed loss data on Nykredit Bank's business customers.

In 2014 Nykredit applied to the Danish FSA for approval to apply the advanced IRB approach and internal LGD and CF estimates to Nykredit Bank's business exposures. The application also concerned new CF models to be applied to Nykredit Bank's personal customer exposures and an adjustment of Nykredit's method of calculating REA for exposures in default. The new models are expected to be approved and implemented in 2016.

The total application is expected to lead to a rise in Nykredit's REA of just under DKK 20bn. The rise will result from the changed capital requirements relating to loans in default and the fact that the Bank's estimated LGD levels are higher than the standard value of 45% under the approach used so far.

Nykredit Realkredit Group
Utilisation of commitments and credit lines at default, conversion factor (CF)

	Observed CF End-2015	Applied CF End-2015	Observed CF End-2014	Applied CF End-2014
Bank exposures[1]				
Retail exposures	0.4	1.1	0.4	1.1
Of which				
- mortgages on real estate[2]	0.6	1.0	0.4	1.1
- other retail exposures	0.3	1.1	0.4	1.1
Total bank exposures	**0.4**	**1.1**	**0.4**	**1.1**

Note: Exposure-weighted. Includes only exposures subject to the advanced IRB approach using internal CF estimates with undrawn credit.
1) Covers only exposures of Nykredit Bank subject to the advanced IRB approach.
2) Including exposures such as equity release and equity withdrawal credits.

Property valuation model and LTVs
Nykredit continually monitors the loan-to-value (LTV) ratios of its customers, which express the debt outstanding relative to the value of the property. For that purpose, statistical models approved by the Danish FSA are applied. The statistical valuations are performed centrally and supplemented with local valuations. In the determination of LTVs, the proportion of lending covered by guarantees provided by public authorities is deducted. 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.

Besides being a central element of the monitoring of the Group's mortgage loans, LTVs are an important factor in the credit risk models for determining a customer's credit quality. Other things being equal, customers with low LTVs have better ratings than customers with high LTVs. Also, LTVs are included in the calculations of customer LGDs.

IRB losses
The IRB loss, also referred to as the expected loss (EL), is a concept applied for regulatory purposes which is calculated on the basis of loss ratios in a severe recession scenario. IRB losses express the expected losses on all exposures, including exposures in default.

The IRB losses of DKK 10.2bn are currently somewhat higher than the Group's total impairment provisions of DKK 8.6bn. The main reason is that the calculations of IRB losses apply mortgage exposure LGDs estimated on the basis of data for an economic downturn.

The level of incurred losses remained low in 2015. Total incurred losses including losses on acquired properties amounted to DKK 1.9bn in 2015 against DKK 1.8bn in 2014. Losses incurred in 2015 were thus substantially lower than the current total impairment provisions of DKK 8.6bn.

Nykredit Realkredit Group
Impairment provisions, IRB losses and incurred losses

DKK million	Total impairment provisions[1] end-2015	IRB losses[2] end-2015	Total incurred losses[3] 2015
Mortgage exposures			
Retail exposures	2,379	2,421	802
Of which			
- mortgages on real estate	2,379	2,421	802
- other retail exposures	0	0	
Business exposures	3,306	4,990	457
Total mortgage exposures	**5,685**	**7,411**	**1,260**
Bank exposures			
Retail exposures	595	574	57
Of which			
- mortgages on real estate	290	222	28
- other retail exposures	305	352	29
Business exposures	2,357	2,213	592
Total bank exposures	**2,952**	**2,787**	**649**
Total exposures			
Retail exposures	2,974	2,995	859
Of which			
- mortgages on real estate	2,669	2,643	830
- other retail exposures	305	352	29
Business exposures	5,663	7,203	1,049
Total exposures, total	**8,637**	**10,198**	**1,909**

Note: Includes exposures determined subject to the advanced as well as the foundation IRB approaches. Pursuant to Article 164 of the CRR, the exposure-weighted average LGD must be at least 10% for retail exposures secured by residential property and at least 15% for retail exposures secured by commercial property for the purpose of REA determination. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the capital floor requirements. The difference between IRB losses and impairment provisions is not directly comparable with the deduction from own funds due to adjustments for prudent valuation.
1) Individual and collective loan impairment provisions and provisions for guarantees.
2) Including losses incurred on acquired properties.
3) IRB losses express the model-based expected losses for the coming year. IRB losses have been determined using LGDs for 1991-1993 as required pursuant to legislation (CRR).

Validation and control of models
Nykredit develops and improves its credit risk models on an ongoing basis. As the parameter estimates are used both in the determination of REA and for many internal business purposes, it is decisive that the models work as intended and provide consistent results.

The models are developed by the Capital unit, which is independent of Nykredit's credit approval and operations in general. To ensure a good forecasting ability and consistent estimates, all credit risk models are validated at the development stage and are then subject to regular validation and at least one annual backtest. Model development and model validation are separate functions, and validation is performed by the Risk unit. The validation results are used in the ongoing ICAAP process and to determine the internal capital adequacy requirement.

The Parameters and Models Board approves the results of the validation activities on a current basis, while the overall validation results are reported to the Risk Committee and the Risk Board. The Parameters and Models Board reports to the Risk Committee.

The ongoing validation includes:

- *Quarterly monitoring*: Monitoring of the models' customer ranking, comparison of the observed and the actual number of defaults, rating distributions and migration, etc. Significant observations are reported to the Parameters and Models Board.
- *Annual backtest:* Comparison of the expected and the actual number of defaults, as well as the loss rates within and across rating categories. Analysis of changes in ratings during the year and the forecasting ability of the models.
- *Annual analysis of qualitative credit assessments*: As an integral part of the credit process, a qualitative assessment is made regularly of the ratings of the individual exposures. Overrides are made with respect to individual customers as required. Overrides and the qualitative assessments are reviewed annually.
- *Expert forums*: Nykredit's experienced credits and case officers and analysts compile and analyse any discrepancies between model estimates and internal assessments of business risks.
- *Validation of sub-elements*: At least every three years, the sub-elements of the individual models are assessed. It is assessed whether the model's input factors are still significant and representative and thereby contribute to correct customer ranking by the model.
- *Quality assurance and data input checks*: Data used for calculating the risk parameters are subject to a number of automatic controls. This applies to both internal data and data from external suppliers. Data entered manually are subject to random sampling at least once a year by the controller function of Group Credits.
- *Case processing and data entry control:* Nykredit's controls consist of three elements – sampling, in-depth investigation and thematic surveys. Random sampling is performed every month across all customer centres. In-depth investigation of individual customer centres is performed according to a fixed rotation plan, while thematic surveys are carried out on an ad-hoc basis.

Internal estimates
For a number of years, Nykredit has applied credit risk models for risk management, capital management, customer assessments, collective impairment provisions and pricing. The credit risk models have become an integral part of business and are used in several areas:

- *Capital management:* Nykredit's risk and capital management is based on projections of the statutory minimum requirement for own funds, also in stressed scenarios.
- *Loan approval*: A uniform approach to credit assessment is taken, albeit with due regard for the characteristics of the individual customer. Credit assessment comprises the customer's creditworthiness, valuation of the security provided and the nature of the transaction concerned.

The credit assessment of customers and the approval of facilities are typically based on an overall assessment of the risk elements of the individual case and take into consideration the size of the total exposure to the customer concerned. Creditworthiness is determined on the basis of financial strength, stability in relation to external factors and managerial strength (businesses).

When approving loans to personal customers, customer ratings are applied. The rating may be supplemented with policy rules based on key ratios on customers' personal finances and behaviour. Furthermore, the assessment includes the quality of the security provided.

The assessment of business customers includes an assessment of the customer's financial position, payment history and rating as well as the stability of value and transferability of the security provided etc. The lower the customer rating, the greater the importance of the security to the overall assessment. Overrides allow case officers to adjust a rating, possibly following a recommendation to Group Credits, if the customer's current financial position or actual creditworthiness is not considered to be reflected in its financial statements etc.

The approval of financial products is based on a customer's creditworthiness, delimitation of the life of each product, contractual basis, an assessment of the quality of the security, etc.

Nykredit Realkredit Group
Validation and control of models

	Personal customers			Business customers		
2015 Number	Total number of customers	Expected defaults	Actual defaults	Total number of customers	Expected defaults	Actual defaults
Ordinary customers (rating categories 6-10)	744,038	2,465	2,621	43,640	159	188
Ordinary customers without significant signs of weakness (rating categories 3-5)	125,506	1,291	1,056	15,195	196	238
Weak customers (rating categories 0-2)	48,386	4,792	2,378	4,090	386	380
Total	**917,930**	**8,548**	**6,055**	**62,925**	**741**	**806**

SECURITY

The decision to grant a loan is usually based on a customer's creditworthiness and a valuation of the security provided. The greater part of Nykredit's lending is secured by mortgages on real estate. Other types of security are guarantees and financial collateral.

Real estate

Mortgages on real estate reduce the credit risk substantially. The mortgageable value of a property is determined at the time of loan granting and is subsequently monitored on a continuous basis. Valuations are based on the marketability, stability of value, alternative use, letting potential, etc of a property. Typically, no losses will be incurred on mortgage loans secured on properties with a high homeowner's equity at the time of loan granting. Nykredit has FSA approval to apply a statistical model in setting lending limits for private residential property. The model-based valuation is applied to detached and terraced houses as well as owner-occupied flats that meet specific requirements for the mortgageable value and risk classification. Such valuations are subject to approval by the valuer in the relevant geographical area and are monitored centrally.

Following the initial valuation, the market value of a property is monitored regularly. Nykredit uses a statistical model for the monitoring of detached and terraced houses, owner-occupied flats and holiday homes. The statistical valuations are performed centrally and supplemented with local valuations as required. The current valuation is also included in the LGD estimate.

The Property Prices Board monitors market conditions and identifies areas and properties which should be checked separately. The Board may also propose adjustments to the statistical models and policies etc. Its members are experienced staff with in-depth knowledge of the housing market and solid valuation skills. The Property Prices Board reports to the Risk Committee.

Guarantees

Nykredit mainly receives guarantees from public authorities and banks. Guarantees issued by public authorities mitigate the credit risk mainly within mortgage lending to subsidised housing. Public authority guarantees are guarantees whereby the guarantor assumes primary liability. This means that Nykredit may enforce a guarantee as soon as a loan falls into arrears.

Bank guarantees include guarantees for registration of mortgages free from any adverse endorsements, guarantees for interim loans and loss guarantees.

Guarantees are widely applied in the day-to-day management of Nykredit's credit risk, particularly in customer relationships where a parent company contributes capital to Group companies. The determination of Nykredit's REA and required own funds includes guarantees whereby limited liability companies, production farming businesses and large privately owned enterprises assume primary liability. Guarantees provided by small privately owned enterprises and private individuals are not included. On inclusion of a guarantee, the customer's rating is replaced by the guarantor's rating if the latter is better.

Under Nykredit's partnership agreement with the banks behind Totalkredit, mortgage loans to personal customers granted by the banks are covered by a set-off agreement for incurred losses. Under this agreement, any losses incurred up to a certain level are offset against the current commission paid by Nykredit.

Financial collateral

Financial collateral includes deposits in DKK or other currencies, positions in listed Danish government and covered bonds, other high-rated liquid Danish and foreign bonds, and listed equities.

Nykredit assigns an internal collateral value to the different types of financial collateral depending on the risk involved. For the purpose of calculating REA, Nykredit assigns a regulatory security value based on the rules of the CRR to the different types of financial collateral.

Nykredit Realkredit Group
Types of security and credit exposures

2015 DKK million	Real estate[1]	Guarantees received	Financial collateral	Total security value	Total exposure
Retail exposures	698,139	8,496	102	706,737	736,839
Of which					
- mortgages on real estate	698,139	8,496	11	706,647	721,654
- other retail exposures	-	-	91	91	15,185
Business exposures	366,482	32,418	46,747	445,373	500,026
Credit institution exposures	-	-	-	-	42,964
Sovereign exposures	-	-	-	-	43,857
Equity exposures	-	-	-	-	4,407
Assets with no counterparty	-	-	-	-	3,637
Credit value adjustments (CVA)	-	-	-	-	2,647
Default fund contribution	-	-	-	-	394
Total 2015	**1,064,621**	**40,914**	**46,575**	**1,152,110**	**1,334,771**
Total 2014	1,063,774	41,382	49,252	1,154,408	1,410,507

Note: Exposures also include guarantees issued by banks (DKK 8.5bn), which have been recognised under credit institution exposures, and government guarantees (DKK 32bn), which have been recognised under sovereign exposures.
1) The collateral value of real estate has been measured at nominal value. The part of the exposure for which security has been provided is shown.

When establishing limits for financial products, Nykredit will also often require that a contractual basis be established providing Group companies with a netting option. The contractual framework is based on market standards such as ISDA or GRMA agreements. In addition to a netting agreement, an agreement on financial collateral is typically concluded following an individual assessment. In the determination of the need for collateral from the individual counterparty or customer, all the financial contracts of a customer governed by the contractual basis are netted. Netting means that the potential obligations of each customer are determined as the sum of potential obligations under all the contracts of a customer less the sum of potential claims.

SUPERVISORY DIAMOND FOR BANKS

In the wake of the financial crisis, the Danish FSA launched the Supervisory Diamond for banks in June 2010 applicable to all banks. The Supervisory Diamond is a strictly Danish initiative and does not stem from EU legislation.

The Supervisory Diamond model sets out the following limit values for five benchmarks that indicate when a bank is operating at an elevated risk:

- The sum of large exposures must be less than 125% of own funds.
- Lending growth must be less than 20% year-on-year. The limit value is determined exclusive of reverse repurchase lending and after impairments.
- Commercial property exposure must be less than 25% of total lending.
- The funding ratio must be less than 1.00. The ratio is calculated as loans and advances at amortised cost relative to broad working capital less bonds in issue with times-to-maturity of less than 1 year.
- The excess liquidity coverage must be greater than 50%. The excess liquidity coverage is the excess liquidity after fulfilment of the minimum statutory requirement.

Nykredit Bank still complies with the limit values of the Supervisory Diamond. The current limit values of the Supervisory Diamond model are shown in the table below. Nykredit Bank is comfortably within the limit values.

Lending exclusive of repo transactions and reverse repurchase lending shows negative growth of 7.5%. The funding and liquidity ratios are also well above the limit values, as Nykredit Bank's internal requirements are considerably stricter than the limit values of the Supervisory Diamond.

SUPERVISORY DIAMOND FOR MORTGAGE LENDERS

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

The Supervisory Diamond model sets out the following limit values for five benchmarks that indicate when a mortgage lender is operating at an elevated risk:

- The sum of the 20 largest exposures must be less than equity.
- Annual lending growth may not exceed 15% in each of the segments personal customers, commercial residential property, agriculture and other commercial.
- Borrower's interest rate risk relating to residential properties: The proportion of lending where the LTV ratio exceeds 75% of the LTV limit and where the loan rate is fixed for up to 2 years only may not exceed 25% of the total loan portfolio.
- Interest-only (IO) loans to personal customers: The proportion of IO loans for all-year and holiday housing in the LTV band above 75% of the statutory LTV limit may not exceed 10% of total loans and advances.
- Limitation of short-term funding: The proportion of loans to be refinanced must be below 12.5% per quarter and 25% per year.

Nykredit today meets the requirements relating to large exposures, lending growth and borrower's interest rate risk relating to residential properties as well as the limitation of short-term funding. Nykredit is undertaking any necessary adjustments to its loan portfolio so as to meet all requirements.

Repayment loans and loans with longer-dated funding have become more attractive than before, and the prices of the previously very popular IO ARMs with 1-year interest reset are no longer attractive to our customers, partly due to the increased refinancing costs. The amount of ARMs with 1-year interest reset was thus reduced by DKK 115bn in 2015. Furthermore, a significant share of personal customers started making principal payments on their loans when the IO periods ended.

Nykredit Bank A/S
Supervisory Diamond for banks

	2015	2014
Lending growth (limit value <20%)	(7.5%)	6.8%
Large exposures (limit value <125%)	11.1%	33.9%
Property exposure (limit value <25%)	11.4%	13.6%
Funding ratio (limit value <1.0)	0.53	0.56
Excess liquidity coverage (limit value 50%)	346.5%	281.6%

Nykredit Realkredit Group
Supervisory Diamond for mortgage lenders

	Commencement
Lending growth	2018
Large exposures	2018
Borrower's interest rate risk relating to residential properties	2018
IO loans to personal customers	2020
Limitation of short-term funding	2020

MARKET RISK

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

Risk exposures involving market risk account for 8.8% of the total risk exposure amount (REA).

NYKREDIT'S INVESTMENT POLICY

Nykredit's market risk is determined for two purposes:

- Internal management of all positions involving market risk
- Determination of REA for market risk, cf "Capital and capital adequacy".

For the internal management, a wide variety of key figures are applied to determine market risk, including a Value-at-Risk model, and the Board of Directors lays down limits to Nykredit's market risk appetite.

The determination of REA for market risk takes place in accordance with various statutory methods, including a Value-at-Risk model. The model is combined with a number of other methods to determine one aggregate risk exposure amount. The model has been approved by the Danish FSA for determination of a large part of Nykredit's general market risk.

Nykredit's market risk policy

The Board of Directors has adopted a policy of having an appropriate market risk appetite in order to prevent any major losses on market risk exposures that would keep Nykredit from generating a profit for the coming four quarters.

The Parent Company undertakes the most risky investments, and the subsidiaries undertake other investments involving market risk.

Investments are mainly made in government bonds and Danish and European covered bonds. Other investments include high-rated bank bonds. The interest rate risk involved is reduced by offsetting selling of government bonds and the use of interest rate derivatives. This creates an exposure to spreads between covered bond/credit bond yields and swap rates. This exposure is not hedged, cf "Spread risk" below.

By far the greater part of Nykredit's lending is mortgage lending. In practice, Nykredit incurs only negligible market and liquidity risks on these loans – regardless of financial market trends. This is because mortgage lending is governed by a statutory balance principle and match-funded, cf the description under "Liquidity and funding".

Nykredit's market risk relates mainly to the placing of equity and liquidity reserves. In addition, Nykredit Bank and Nykredit Realkredit incur market risk in connection with trading in bonds, swaps and other financial products with customers. The trading activities imply that the Bank quotes bid and ask prices for a large number of products, thereby temporarily entering into long and short positions for the Bank's own account.

Nykredit's market risk guidelines

Nykredit's Board of Directors lays down market risk limits which are applied in the day-to-day management. Through the Asset/Liability Committee and within the limits provided by the Board of Directors, the Executive Board approves and delegates market risk limits to the Group companies. The Boards of Directors of the individual companies then prescribe limits to their activities.

The limits provided by the Boards of Directors restrict the scope for assuming interest rate, equity price, foreign exchange, volatility, commodity and credit risks. The limits permit the use of financial instruments if the risk involved can be measured and managed. The limit for a specific asset includes financial instruments.

The Products Committee coordinates the implementation of new products, thereby ensuring that the risks can be determined and managed correctly.

Compliance with risk limits is monitored daily and independently of the acting entities of the Group. Any breaches are reported to the Asset/Liability Committee, the Board of Directors of Nykredit Realkredit or other Boards of Directors depending on the nature of such non-compliance.

Determination, management and reporting of market risk require a range of different tools in the form of statistical models, measures and limits.

Nykredit Realkredit Group
The Board of Directors' principal market risk limits at Group level, end-2015

Key figure	Definition	Limit
Value-at-Risk	Maximum loss in one day at a 99% confidence level	DKK 300m
Interest rate risk	Loss on general rise in interest rates of 1 percentage point	DKK (800)m to 1,200m
Equities	Measured at book value	DKK (2,000)m DKK 6,000m
Foreign exchange risk, EUR	Measured at market value	DKK (4,000)m to 4,000m
Foreign exchange risk, main currency	Measured at market value	DKK (1,000)m to 1,000m
Foreign exchange risk, other currencies	Measured at market value	DKK (200)m to 200m
Spread risk, covered bonds	Loss on yield spread widening of 1 percentage point	DKK 0m to 5,000m
Spread risk, government bonds	Loss on yield spread widening of 1 percentage point	DKK (1,500)m to 1,500m
Spread risk, credit bonds	Loss on yield spread widening of 1 percentage point	DKK (200)m to 700m
Credit bonds	Measured at book value	DKK (2,000)m to 7,500m
- Up to A1/A+	*Measured at book value*	*DKK (2,000)m to 5,000m*
- Up to –Ba1/BB+ and not rated	*Measured at book value*	*DKK (1,000)m to 2,000m*
Volatility risk	Measured as losses on a general rise in interest rate volatility of 1 percentage point	DKK (100)m to 100m

MARKET RISK MEASURES

Market risk cannot be assessed adequately on the basis of a single risk measure. To obtain a full overview of the Group's market risk, Nykredit combines various measures that express sensitivity to movements in financial markets. The market risk measures are supplemented with an overall assessment of market risk based on Nykredit's current risk situation.

Value-at-Risk

Value-at-Risk (VaR) is applied to calculate the maximum value decrease of a given portfolio over a given period and at a given probability.

VaR is calculated by describing all portfolios by means of approximately 500 risk factors across equity price, interest rate, foreign exchange, volatility and spread risks.

As opposed to the traditional risk measures, VaR captures the probability of a loss occurring. However, VaR is based on historical observations and should therefore be supplemented with other risk assessments to ensure a sufficiently comprehensive risk overview.

Advantages of VaR

One of the advantages of using VaR is that the probability of a given outcome is included in the model. Nykredit's VaR figures thus show the maximum loss which the Group, at a 99% probability, may sustain in one day.

The calculation of VaR factors in the covariance between the traditional risk measures. In other words, the VaR model factors in that Nykredit would normally not lose the maximum amount in all asset classes at the same time.

Moreover, VaR covers all risks in a single number, which makes it manageable to communicate compared with a number of sensitivities of traditional risk measures.

The accuracy of the VaR model can be backtested using the recognised daily gain/loss.

Disadvantages of VaR

VaR is based on historical observations and even a brief period of minor market fluctuations may reduce VaR quite considerably. Also, covariation is often different in periods of financial turmoil than in calmer periods.

The calculation of VaR is based on the assumption that the financial markets are normally distributed. In reality, there are typically several extreme observations, which means that VaR may tend to reduce the risk.

Nykredit's VaR model is a parametric model, which means that it assumes a linear correlation between changes in market data and changes in gain/loss. The VaR model is therefore less accurate in respect of instruments involving option risk.

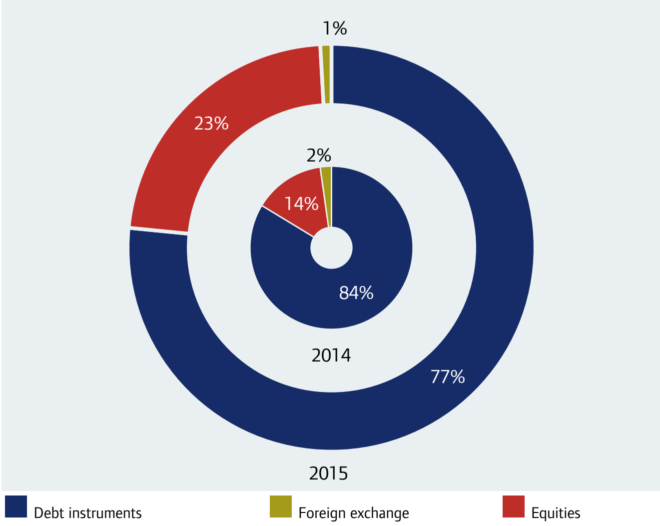
Moreover, market risk management should not be based on VaR alone and requires a detailed assessment of the individual exposures.

Internal management

VaR is applied in the day-to-day internal management and in the determination of the required own funds. VaR is calculated and reported on a daily basis, and the model is incorporated in Nykredit's securities systems. VaR limits exist at Group, company and organisational entity levels.
The confidence level of the VaR model is 99%, while the choice of time horizon depends on the specific purpose of the calculations. For the day-to-day internal management, a time horizon of one day is applied in the VaR model, while a time horizon of 10 days is applied for determinations of REA.

The Group's internal VaR totalled DKK 126m at end-2015 against DKK 128m at end-2014. This means that, according to the internal model, Nykredit would, at a 99% probability, lose a maximum of DKK 126m in one day in consequence of market fluctuations.

Nykredit Realkredit Group
Breakdown of market risk determined using VaR model



Note: The capital charge for liquidity risk is not quantified.

The Nykredit Realkredit Group
REA for market risk

2015 DKK million	Specific risk	General risk	Total REA	Total REA 2014
Internal models (VaR):				
Value-at-Risk (99%, 10 days)	-	4,562	4,562	7,701
Stressed Value-at-Risk (99%, 10 days)	-	11,802	11,802	18,572
Standardised approach:				
Debt instruments	7,037	1,650	8,687	6,975
Equities	2,023	183	2,206	1,639
Foreign exchange risk	-	-	-	-
Collective investment schemes	701	-	701	449
Total market risk	**9,761**	**18,197**	**27,958**	**35,335**

Capital adequacy determination
Nykredit has the approval of the Danish FSA to apply VaR in determining REA for the market risk of Nykredit Realkredit A/S and Nykredit Bank A/S.

The VaR model for determining REA applies a statutory confidence level of 99% and a time horizon of 10 days. For the purpose of determining REA, Nykredit Realkredit A/S only calculates VaR in respect of the trading book, whereas Nykredit Bank A/S calculates VaR for the trading book as well as the banking book excluding equities – together a slightly smaller portfolio than the one used for the internal management.

Parameters used to determine Value-at-Risk

Value-at-Risk is a statistical measure of the maximum loss on a portfolio at a given probability within a given time horizon. Risk is determined using a Value-at-Risk model that includes the risk relating to spreads between covered bond yields and swap rates for selected government and credit bonds as well as covered bonds in Nykredit Realkredit.

The parameters used in the calculation of Value-at-Risk are:

Risk factors:	All portfolios are described by means of approximately 500 risk factors across equity price, interest rate, volatility and foreign exchange risks.
Volatilities and correlations:	Daily volatilities and correlations for the above-mentioned risk factors. In calculating the volatilities, last-dated observations have the highest weight. Volatilities and correlations are calculated on the basis of data for the last 250 banking days.
Time horizon:	Value-at-Risk is calculated at a time horizon of one day, but the figure may be scaled to other time horizons. The following time horizons are applied: ▪ REA for market risk: 10 days ▪ Day-to-day business management: 1 day
Confidence level:	Value-at-Risk is determined at a 99% confidence level.

Nykredit Realkredit Group
Internal Value-at-Risk (99%, 1 day)

DKK million	Average	Min	Max	Year-end
2015	147	93	363	126
2014	109	60	248	128

Nykredit Realkredit Group
Value-at-Risk (99%, 1 day)

DKK million	Average	Min	Max	Year-end
2015	42	23	69	44
2014	47	25	80	56

Nykredit Realkredit Group
Stressed Value-at-Risk

DKK million	Average	Min	Max	Year-end
2015	96	71	133	129
2014	145	108	186	136

Note: Contrary to VaR for REA, internal VaR includes strategic equities, unlisted equities and assets in the subsidiaries of Nykredit Realkredit A/S.
Capital requirements for VaR are determined as VaR (99%, 10 days) x statutory FSA spread, the latter depending on the number of backtest breaches within the past year.
Stressed VaR is calculated using volatilities and correlations from a period of significant stress.

The calculations are mechanistic and based on historical data on financial market trends. During a financial crisis, however, the current conditions in financial markets may not always correspond to the historical conditions. The maximum expected loss calculated using a VaR model may therefore during the first stages of a crisis present an overly optimistic view of the risk of loss.

Danish legislation therefore requires Nykredit Realkredit A/S and Nykredit Bank A/S to calculate a stressed VaR in addition to the current VaR. Stressed VaR and VaR together make up total REA.

Stressed VaR is calculated by means of the VaR model used to calculate REA. VaR must be calculated for the current portfolio, but using volatilities and correlations (market data) from a period of significant stress. This period is determined annually on the basis of the current portfolios of Nykredit Realkredit A/S and Nykredit Bank A/S, respectively.

Nykredit uses two different periods for calculating stressed VaR for Nykredit Realkredit A/S and Nykredit Bank A/S. Both periods fall between September 2008 and September 2009. These periods are characterised by very substantial fluctuations in the model parameters and cover the period after the collapse of Lehman Brothers in September 2008.

Nykredit's total REA for VaR amounted to DKK 16.4bn at end-2015 against DKK 26.3bn at end-2014. Of this amount, stressed VaR amounted to DKK 11.8bn at end-2015 against DKK 18.6bn at end-2014. The main reason was VaR, which declines in case of a reduced portfolio of bonds.

Backtests and daily stress tests
It is essential that the VaR models are reliable. The model results are therefore tested on a daily basis against realised returns on the portfolios through backtests. The daily earnings (gain/loss) are compared with the models' estimates of the maximum loss. Because of the statistical properties of the models, the actual losses are expected to exceed the maximum loss predicted by the VaR model two or three times a year.

If the actual losses exceed the model's estimates five or more times within one year, REA will be adjusted upwards. VaR backtests for Nykredit Realkredit A/S and Nykredit Bank A/S are shown in the charts.

Neither Nykredit Realkredit A/S nor Nykredit Bank A/S recorded breaches in the backtest of the model for calculating REA in 2015. By comparison, Nykredit Realkredit A/S had two breaches in 2014 and Nykredit Bank had none.

As a supplement to VaR, systematic stress tests are performed daily to measure the risk of loss during turbulent market conditions. The tests are based on simulated market movements and events. Stress testing is an attempt to assess the sensitivity of the portfolios to probable events.

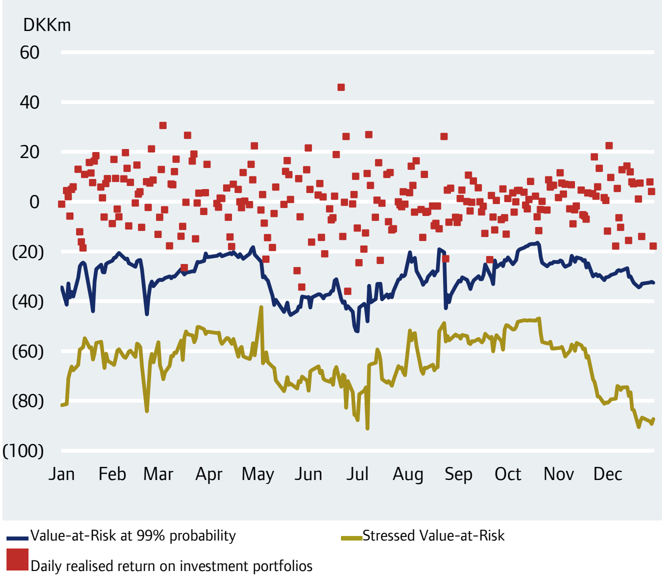
The main focus of the daily stress tests is the market risks to which the individual companies are exposed. The scenarios applied for the individual companies are therefore different and reflect their respective risk profiles. The tests are adjusted in line with business developments. In 2015 the stress tests did not give rise to a change in the view of Nykredit's risk profile.

In calculating the required own funds, further stress tests are applied, cf "Capital management". The stress tests applied to determine the required own funds also contain elements relating to market risk, but they are less detailed than the daily stress tests of the VaR models.

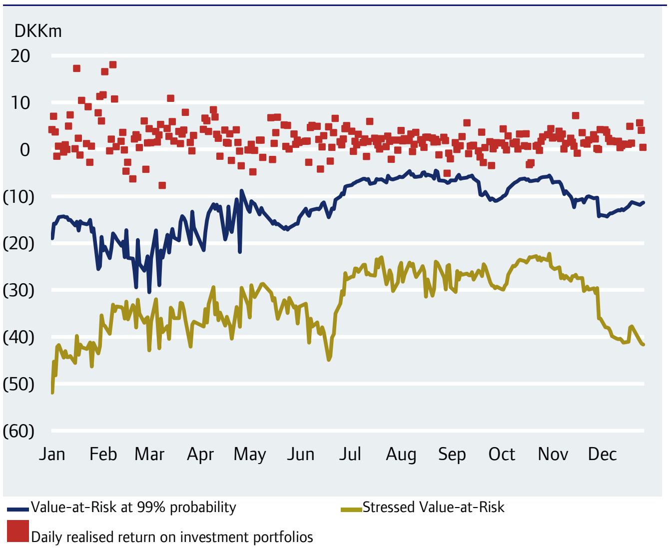
Traditional risk measures
The traditional risk measures, such as interest rate, equity price, volatility and foreign exchange risks, are portfolio sensitivity tests. They are used to calculate the effect on the value of a portfolio in case of changing market conditions, for example a rise or fall in interest rates, equity prices or volatilities. Calculations are only made for one type of risk at a time.

The traditional risk measures do not indicate the probability of a particular event, but rather how much it would affect the value of a portfolio.

Nykredit Realkredit A/S
Backtest of VaR (99%, 1 day) 2015



Nykredit Bank A/S
Backtest of VaR (99%, 1 day) 2015



Interest rate risk
Interest rate risk is the risk of loss as a result of interest rate changes, and the Group's interest rate risk is measured as the change in market value caused by a general interest rate increase of 1 percentage point in respect of bonds and financial instruments.

The Group's interest rate exposure was DKK 403m at end-2015.

Spread risk
Spread risk is the risk of spread widening between covered bond yields and swap rates. The spread risk of the Group's portfolio of covered bonds amounted to DKK 3.2bn at end-2015. This means that the Group would lose DKK 3.2bn on its investments in covered bonds if the spread between covered bond yields and swap rates widened by 1 percentage point.

Equity price risk
Equity price risk is the risk of loss as a result of changes in equity prices, and it is calculated as the loss in case of a general equity market decrease of 10%. The Group's equity price exposure amounted to DKK 415m at end-2015.

Foreign exchange risk
Foreign exchange risk is measured as the gain/loss in a given currency resulting from the DKK strengthening by 10%. Foreign exchange risk is thus the risk of loss as a result of changes in exchange rates.

Foreign exchange risk is measured by foreign exchange positions excluding EUR and individual limits at currency level.

The Group hedges its foreign exchange risk except for some minor tactical foreign exchange positions held to achieve a gain. Therefore, the Group had only minor foreign exchange positions in currencies other than EUR in 2015.

Volatility risk
Volatility is a measure of the variation in the price of an asset, such as the movement in the price of a bond. The market value of options and financial instruments with embedded options such as callable covered bonds partly depends on the expected market volatility. Volatility risk is the risk of loss of market value as a result of changes in market expectations for future volatility.

Volatility risk is measured as the change in market value resulting from an increase in volatility of 1 percentage point, increased volatility implying a loss on Nykredit's part.

This risk is determined for all financial instruments with embedded options and is managed by means of limits.

TRADING BOOK AND BANKING BOOK

Nykredit classifies the trading and banking books at portfolio level on the basis of the purpose of the portfolio concerned.

Portfolios with positions held for trading are placed in the trading book. Positions forming part of Nykredit's lending business and strategic positions are placed in the banking book. Furthermore, portfolios not unambiguously classifiable under the trading book are placed in the banking book.

Interest rate risk in the banking book is limited and derives mainly from the following sources:

- Prepaid funds and proceeds from borrowers with fixed-price agreements and borrowers prepaying their loans. Other funds relate to refinancing of the loan types Tilpasningslån, BoligXlån and RenteMax as well as accumulated interest and principal payments on certain types of ARMs.
- Subordinated capital hedged with interest rate swaps.

Nykredit Realkredit Group
Market risk

2015 DKK million	Interest rate risk (100bp change)	Spread risk[1] (100bp change)	Interest rate volatility risk (Vega)	Equity price risk (10% change)	Equity volatility risk (Vega)
Money market instruments	(17)	-	-	-	-
Government bonds	208	(25)	-	-	-
Danish covered bonds	2,035	2,818	21	-	-
Swedish covered bonds	208	208	-	-	-
Other covered bonds	162	210	-	-	-
Senior secured debt	(325)	(328)	-	-	-
Bank issues	(114)	(227)	-	-	-
Other bonds, loans and advances	116	(12)	0	-	-
Equities	-	-	-	407	-
Derivative financial instruments	(1,943)	263	0	8	(1)
Securitisations	-	-	-	-	-
Total	**403**	**2,908**	**22**	**415**	**(1)**

Note: Repo transactions and reverse repurchase lending are included in money market instruments.
1) Spread risk is determined inclusive of government bonds and bank issues.

Nykredit Realkredit Group
Market risk

DKK million	2015				2014			
	Average	Min	Max	Year-end	Average	Min	Max	Year-end
Interest rate exposure (1pp change)	275	51	517	403	106	(223)	460	366
– of which outside trading book	*107*	*(48)*	*293*	*55*	*55*	*(69)*	*139*	*103*
– of which from mortgage activities	*68*	*12*	*190*	*93*	*33*	*(95)*	*139*	*84*
Spread risk[1] (OAS)	2,393	2,108	3,276	3,151	2,518	2,144	3,312	2,707
Equity price risk (10% change)	417	346	497	415	369	215	471	344
Foreign exchange risk:								
– Foreign exchange positions, EUR	*(73)*	*(1,368)*	*773*	*152*	*(156)*	*(1,068)*	*759*	*70*
– Foreign exchange positions, other currencies	*(0.5)*	*(77)*	*209*	*46*	*215*	*23*	*624*	*369*
Interest rate volatility risk (Vega)	12	(4)	23	22	11	(1)	20	10

Note: Calculation of market risk covers both the trading book and the banking book. As some of the mortgage activities have been classified as belonging to the banking book, interest rate risk outside the trading book and interest rate risk from mortgage activities overlap.
1)Spread risk is determined exclusive of government bonds and bank issues.

Nykredit Bank A/S and Nykredit Realkredit A/S
Losses in stress scenarios

2015 DKK million	Min	Max	Average	Year-end
Nykredit Bank	**63**	**500**	**290**	**355**
Shock to short-term interest rates (scenario 1)	(8)	136	48	39
20bp rise in DKK rates and 5% devaluation (scenario 2)	(20)	85	25	19
20bp spread widening between govt and swap (scenario 3)	(16)	31	8	22
Credit crunch similar to Lehman collapse (scenario 4)	139	348	213	275
Nykredit Realkredit and Totalkredit[1]	**1,904**	**3,114**	**2,551**	**2,991**
Interest rate rise of 65bp	49	312	167	233
Spread widening as during sovereign debt crisis	5	108	59	40
Equity, credit and volatility crisis similar to Lehman collapse	1,661	2,742	2,325	2,718

1) A scenario in which the impact on interest rates and equities is specified.

Equity price risk in the banking book
Equities in the banking book comprise Nykredit's strategic equities and private equity.

Strategic equities comprise equities in regional banks with which Nykredit has business relationships, equities in certain property companies and equities in VP Securities. They are classified as available for sale in accordance with IAS 39 and are therefore value-adjusted directly against equity.

Strategic equity exposures ranged between DKK 1.9bn and DKK 2.4bn in 2015. At end-2015, the portfolio amounted to DKK 2.1bn. The entire exposure is to Danish financial counterparties.

Bonds in the trading book
The securities portfolio mainly comprises short-term Danish government and covered bonds. Investments are also made in North and Central European government and covered bonds and, to a smaller extent, in high-rated credit bonds.

At end-2015, Nykredit had a government bond exposure of DKK 14.4bn.

Of Nykredit's total exposure in Danish and other covered bonds and credit bonds of an aggregate DKK 89.4bn, the exposure to securities rated Aa3/AA- or higher amounted to DKK 88.6bn.

Nykredit Realkredit Group
REA for equities in the banking book

DKK million	Risk weight	2015	2014
Private equity	190%	0	0
Listed equities	290%	1,560	1,002
Other equities	370%	5,959	9,075
Equity exposures subject to risk weighting	250%	5,282	2,130
Total		**12,802**	**12,208**

Note: Nykredit's private equity portfolio is included with a risk weighting of 370%.

Nykredit Realkredit Group
Bond portfolio by type and country

2015 DKK million	Government bonds	Covered bonds	Senior secured debt (JCB)	Credit bonds (excl subordinated capital)	Subordinated capital	Total
EU institutions	1,580	-	-	-	-	1,580
Denmark	9,428	78,515	220	118	538	88,819
Sweden	2,514	4,987	-	37	70	7,608
Norway	48	3,196	-	-	-	3,245
Finland	-	-	-	-	0	0
Germany	577	-	-	244	278	1,100
Netherlands	-	366	-	-	542	909
France	370	239	-	1,507	372	2,488
United Kingdom	-	-	-	-	277	277
Switzerland	-	-	-	-	148	148
Italy	-	-	-	-	9	9
United States	(81)	-	-	-	0	(81)
Other	-	1	-	0	3	4
Total	**14,437**	**87,305**	**220**	**1,906**	**2,238**	**106,107**

Note: Calculation of market risk covers both the trading book and the banking book. As some of the mortgage activities have been classified as belonging to the banking book, interest rate risk outside the trading book and interest rate risk from mortgage activities overlap.

Nykredit Realkredit Group
Bond portfolio by type and external rating category

2015 DKK million	Government bonds	Covered bonds	Senior secured debt (JCB)	Credit bonds (excl subordinated capital)	Subordinated capital	Total
Aaa/AAA	11,188	86,406	-	244	-	97,838
Aa1/AA+ - Aa3/AA-	3,236	198	219	1,507	-	5,160
A1/A+ - Baa3/BBB-	-	1,003	1	-	1,467	2,471
Ba1/BB+ or below	-	-	-	-	652	653
Not rated	13	(303)	-	156	119	(15)
Total	**14,437**	**87,305**	**220**	**1,906**	**2,238**	**106,107**

Note: Calculation of market risk covers both the trading book and the banking book. As some of the mortgage activities have been classified as belonging to the banking book, interest rate risk outside the trading book and interest rate risk from mortgage activities overlap.

LIQUIDITY AND FUNDING

Nykredit's liquidity risk is particularly related to whether the portfolio of liquid bonds is sufficient to cover current payment obligations.

The greater part of Nykredit's lending consists of mortgage loans funded by covered bonds (ROs and SDOs) according to the match-funding principle. Nykredit's customers make their mortgage payments on or before the date when the bondholders receive interest and principal payments. Therefore, mortgage lending and the funding thereof produce positive liquidity.

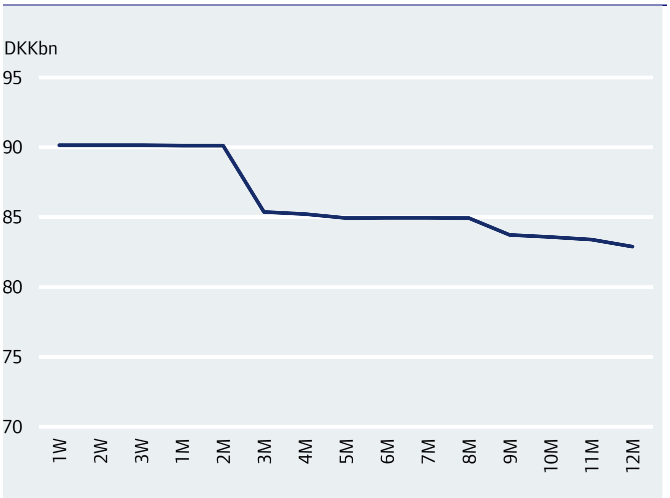
Nykredit's equity and other capital market funding are placed in Danish and European government and covered bonds. These securities are transferable and eligible as collateral in the market and with central banks and are thus directly applicable for raising liquidity. A smaller part is placed in money market deposits, equities, credit bonds and similar assets.

The liquidity portfolio ensures that Nykredit has a sizeable buffer against liquidity movements driven by customer flows, loan arrears, current costs and maturing capital market funding.

Available unencumbered assets amounted to DKK 90bn at end-2015 compared with DKK 91bn at end-2014.

The Asset/Liability Committee oversees the total liquidity risk of the individual companies. The day-to-day liquidity risk is managed by Group Treasury.

Mortgage lending
Liquidity stress testing (internal methods)



Note: Liquidity raised by issuing senior secured instruments is included up to their maturity.

FUNDING AND LIQUIDITY REQUIREMENTS

Nykredit is subject to various regulatory requirements as well as requirements from credit rating agencies:

- Supplementary collateral requirements for SDOs in connection with falling property prices
- Overcollateralisation requirements from credit rating agencies
- Liquidity Coverage Ratio (LCR)
- Standard & Poor's liquidity and stable funding ratios
- Supervisory Diamond requirement of stable funding.

Under the LCR, a financial institution must hold sufficient high quality liquid assets (HQLA) to handle a liquidity stress period of 30 days. Nykredit has adapted to the LCR rules, for example by reducing the portfolio of self-issued bonds as they do not count towards the LCR. In autumn 2015 it was determined how to treat short-term liquidity movements around payment dates under the LCR. The implication is that Nykredit must hold a stock of liquid assets corresponding to at least 2.5% of total mortgage lending.

At end-2015, the Nykredit Realkredit Group's LCR was 274%. The aggregate LCR for Nykredit's mortgage banks was 519%, while Nykredit Bank's LCR was 120%.

Standard & Poor's introduced two new ratios in 2013: a liquidity ratio and a stable funding ratio. The latter largely matches the stable funding requirement of the Supervisory Diamond as well as the coming Net Stable Funding Ratio (NSFR) requirement. For the Nykredit Realkredit Group, the two ratios were 0.49 and 85.4%, respectively, at end-2015. Standard & Poor's considers a neutral level to be in the range of 1 and 100%.

The Supervisory Diamond sets out limits to the proportion of mortgage loans that are subject to quarterly or annual refinancing, while for Nykredit Bank it imposes restrictions on the ratio between lending and stable funding.

NEW REGULATORY AND RATING REQUIREMENTS AND ISSUANCE SCHEDULE

(This paragraph has been corrected after the publication of the Annual Report 2015)

In addition to the above, a number of new requirements are being, or will be, phased in over the coming years, the main requirements being:

- Standard & Poor's requirement of Additional Loss-Absorbing Capacity (ALAC), which protects senior creditors
- Debt buffer requirement
- Net Stable Funding Ratio (NSFR)

Nykredit has indicated that in order to maintain its long-term unsecured rating of A with Standard & Poor's, the Nykredit Group will meet the ALAC criteria of this credit rating agency. The implication is that Nykredit must raise a special type of bail-inable senior debt or other subordinated capital totalling DKK 20bn-25bn.

Nykredit commenced this process in autumn 2015 by issuing Tier 2 capital. Issuance of the remaining DKK 15bn-20bn is scheduled for 2016-2017. Going forward, the new ALAC-eligible funding will replace the issuance of senior secured and unsecured debt to meet the existing supplementary collateral requirement. At the same time, the new ALAC-eligible funding will satisfy the statutory requirements of the so-called debt buffer towards 2020. When fully phased in, the debt buffer must correspond to at least 2% of total mortgage lending.

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

On the back of the changed issuance schedule and rising house prices, which reduce the requirement for supplementary collateral, Nykredit Realkredit does not expect to issue senior secured or unsecured debt in 2016.

The NSFR was adopted as part of the new capital adequacy rules under the Capital Requirements Regulation (CRR), but its final form has not yet been adopted. The European Commission will submit a proposal in 2016. The ratio is expected to remain a reporting requirement in 2018.

In step with the existing requirements set out in the Supervisory Diamond and from Standard & Poor's, the NSFR will encourage banks to improve the ratio between lending and stable funding. To this end, financial institutions generally need to increase the maturity of their funding.

Refinancing of ARMs with 1-year interest reset

As a consequence of the new rating agency and regulatory requirements, including the FSA Supervisory Diamond, Nykredit launched initiatives in late 2014 to reduce the proportion of short-term funding.

This included a new price structure aimed at boosting borrowers' incentives to choose repayment mortgages and longer refinancing intervals.

The low interest rate level also encouraged many customers to switch to fixed-rate loans.

Consequently, 2015 saw extensive refinancing of adjustable-rate mortgages (ARMs) with 1-year interest reset into loan types with longer reset periods, mainly F-kort, Cibor-linked and fixed-rate loans.

The proportion of ARMs with 1-year interest reset was reduced by DKK 115bn, equivalent to a reduction from 21% to 11% of total lending. Standard & Poor's stable funding ratio improved from 76.9% to 85.4%.

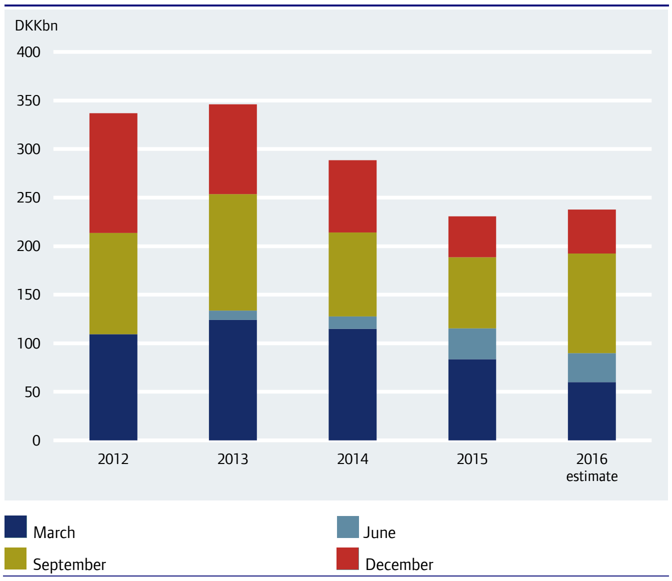
The reduction of loans subject to frequent refinancing has contributed to a marked improvement of the various liquidity and funding ratios. It also reduces the risk related to the refinancing auctions.

Benchmark bond series

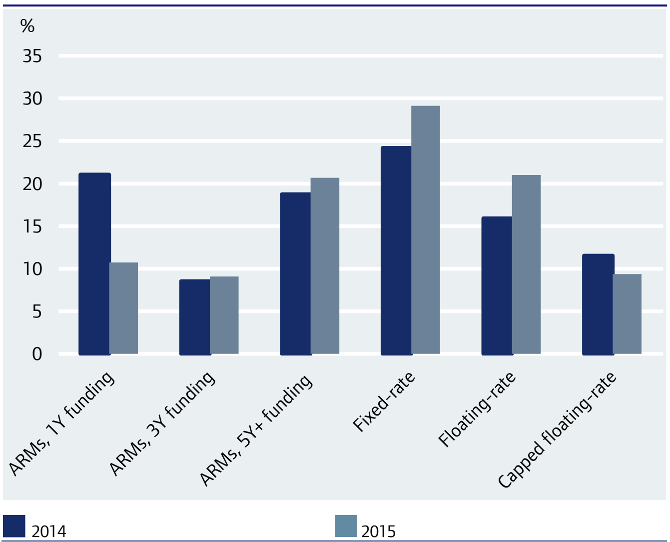
With the introduction of the LCR, banks increasingly prefer high-quality bonds, ie bonds with high outstanding amounts (EUR >500m) and high ratings (minimum AA). 83% of Nykredit's bonds are today classified in the top LCR category, while 8% are in the second highest category.

Nykredit is continually working towards having a balanced product range that best suits our customers' needs and investors' increased preference for very liquid bond series.

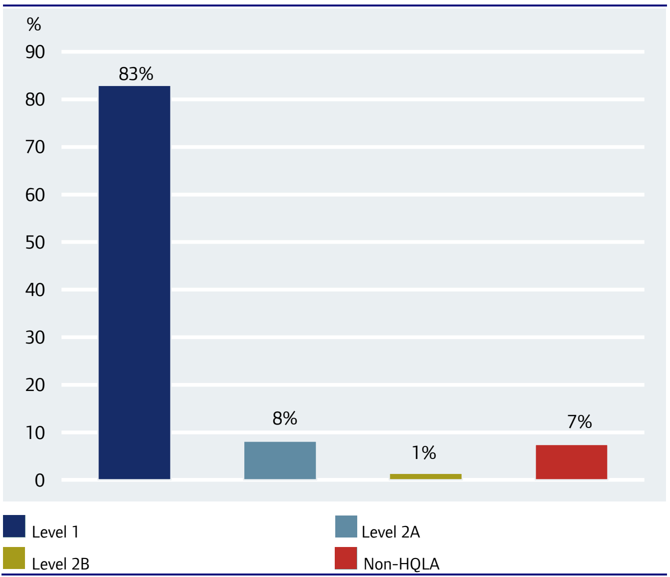
Nykredit Realkredit Group
Refinancing auctions of SDOs and ROs



Nykredit Realkredit Group
Breakdown of loan types



Nykredit Realkredit Group
Issuance by LCR category



Negative interest rates
Danmarks Nationalbank lowered interest rates in 2015 so that Cibor and Cita rates turned negative. As all Nykredit's floating-rate bonds had an interest rate floor of 0%, new floating-rate loans and bonds were launched that allow negative interest rates. The Danish infrastructure related to bonds has been adjusted so that negative interest may be offset against redemptions for investors, and borrowers are compensated for the negative interest by way of an increased principal payment on the loan.

Fixed-rate bullet covered bonds funding ARMs were also hit by negative interest rates in 2015. This may occur where the bonds are traded at a premium resulting in a negative yield-to-maturity for borrowers and investors.

REFINANCING RISK

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

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

- Interest rate trigger: The yield-to-maturity rises by more than 5 percentage points at an auction of bonds with maturities up to 2 years.
- Auction trigger: An auction or a similar sale fails.

BANKING

Nykredit Bank monitors its balance sheet and liquidity position on a daily basis as part of its liquidity risk management.

Statutory liquidity rules and rating requirements require the Bank to hold a sufficiently large liquidity buffer of unencumbered securities. The securities portfolio consists mainly of liquid Danish and European government and covered bonds that are transferable or eligible as collateral in the market and with central banks.

Stress testing is performed on a continuous basis using bank-specific, sector-specific and combination scenarios as prescribed by the Danish Executive Order on Management and Control of Banks etc.

According to a stress test of the Bank's liquidity based on scenarios involving no access to funding markets, the Bank will have a positive liquidity position for at least 12 months.

The LCR regulation entered into force on 1 October 2015. At 31 December 2015, the LCR was 120% compared with a statutory requirement of 100%, corresponding to an excess liquidity coverage of DKK 6.7bn.

The excess liquidity coverage pursuant to section 152 of the Danish Financial Business Act was 347% at end-2015 against 282% at end-2014, corresponding to a liquidity reserve of DKK 61.6bn against DKK 68.1bn at end-2014. Section 152 will be phased out, and the LCR will become the EU-wide standard measure for short-term liquidity risk.

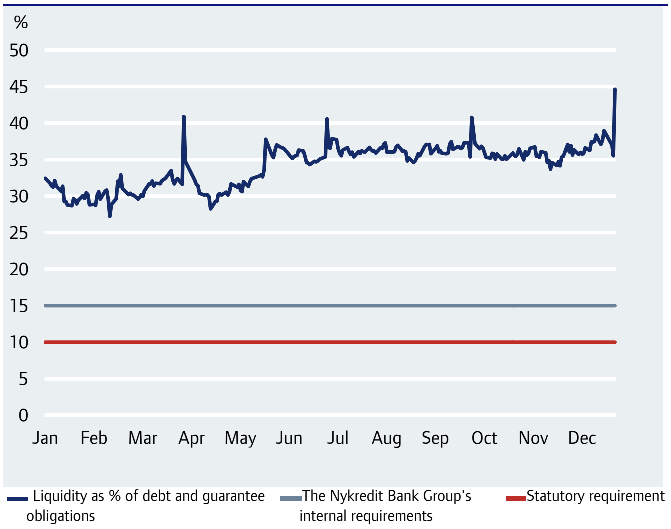
The aggregate amount issued under the ECP (Euro Commercial Paper) and EMTN (Euro Medium-Term Note) programmes was DKK 22.5bn at end-2015 against DKK 25.9bn at end-2014.

Total run-off under Nykredit Bank's EMTN programme in 2016 will be DKK 6.4bn.

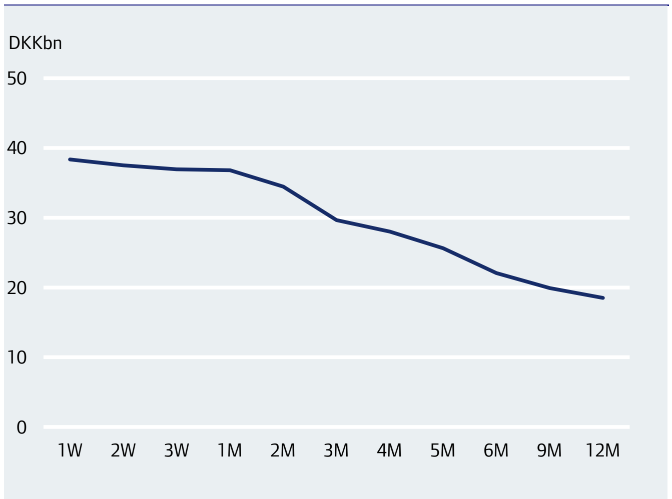
The total EMTN and ECP issuance requirement depends on customer deposit and lending levels as well as the Bank's other business activities.

Nykredit Bank had a deposit surplus of DKK 16.0bn at 31 December 2015.

Nykredit Bank Group
Liquidity relative to statutory requirements 2015



Nykredit Bank Group
Liquidity stress testing (internal methods) 2015



NYKREDIT'S RATINGS

Nykredit Realkredit A/S and Nykredit Bank A/S have a rating relationship with the international credit rating agencies Standard & Poor's and Fitch Ratings regarding the rating of the companies and their funding.

The bonds issued by Nykredit Realkredit A/S are primarily mortgage covered bonds (SDOs and ROs). Furthermore, Nykredit has issued bonds to build additional loss-absorbing capacity (ALAC) and to fund supplementary collateral (senior secured and unsecured debt), subordinated debt (Tier 2 and Tier 2 CoCo) and Additional Tier 1 (AT1) capital.

Standard & Poor's

Nykredit Realkredit A/S and Nykredit Bank A/S both have a long-term unsecured rating of A and a short-term unsecured rating of A-1. The rating outlooks are negative.

Senior secured debt is rated AA- by Standard & Poor's. The rating outlooks are negative.

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

On 13 July 2015, Standard & Poor's published its rating actions after its review of the implementation of the EU Bank Recovery and Resolution Directive (BRRD) in Denmark. Standard & Poor's took the position that its ratings on Danish banks will no longer include an uplift for expected government support during a crisis.

Standard & Poor's noted at the same time that Nykredit Realkredit A/S expects to have a capital buffer of 5% according to the criteria of Standard & Poor's ALAC concept by mid-2017.

This made Standard & Poor's change its long-term credit ratings on Nykredit Realkredit A/S and Nykredit Bank A/S from A+ to A, whereas the short-term credit ratings were affirmed at A-1. This did not affect the ratings on the SDOs and ROs issued by Nykredit Realkredit A/S and Totalkredit A/S.

On 11 December 2015, Standard & Poor's raised the rating of senior secured debt issued by Nykredit Realkredit A/S by 1 notch to AA- due to the implementation of the BRRD.

The negative outlooks on certain ratings reflect Standard & Poor's view on the refinancing risk relating to adjustable-rate mortgages (ARMs) with short-term funding and the fact that they await Nykredit's build-up of ALAC.

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

DKK billion	2015
Current supplementary collateral requirement	31.9
Stress test of supplementary collateral requirement in 12 months	40.5
Assets provided as supplementary collateral	38.1
- of which funded by senior secured debt[1]	20.4

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

Nykredit Realkredit Group
Senior secured and unsecured debt in issue

DKK million	Maturity date	Nominal outstanding amount
Senior secured debt 16 January (DKK)	01.01.2016	118
Senior secured debt 16 April (DKK)	01.04.2015	4,800
Senior secured debt 17 October (DKK)	01.10.2015	1,210
Senior unsecured debt (SEK)	02.01.2017	589
Senior secured debt 17 April (DKK)	01.04.2017	965
Senior secured debt 17 June (EUR)	01.06.2017	5,597
Senior secured debt 18 May (EUR)	02.05.2017	3,731
Senior secured debt 19 January (EUR)	02.05.2018	3,731
Senior unsecured debt (EUR)	28.01.2019	3,731
Private placements > 5 years	10.09.2019	1,082
Total		**25,555**

Note: Pursuant to the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, senior secured debt may be applied to fund overcollateralisation in capital centres.

Nykredit Realkredit Group
Ratings

	Nominal DKKbn[1]	S&P	Fitch
SDOs, ROs and senior secured debt			
Nykredit Realkredit A/S			
- Capital Centre C (covered bonds, ROs)	2	AAA	
- Capital Centre D (covered bonds, ROs)	143	AAA	
- Capital Centre D (senior secured debt, JCBs)	4	AA-[2]	
- Capital Centre E (covered bonds, SDOs)	354	AAA	
- Capital Centre E (senior secured debt, JCBs)	5	AA-[2]	
- Capital Centre G (covered bonds, ROs)	46	AAA	
- Capital Centre H (covered bonds, SDOs)	616	AAA	
- Capital Centre H (senior secured debt, JCBs)	13	AA-[2]	
- Capital Centre I (covered bonds, ROs)	9	AAA	
- Nykredit Realkredit In General (covered bonds, ROs)	1	AAA	
Totalkredit A/S			
- Capital Centre C (covered bonds, ROs)	20	AAA	
Other ratings			
Nykredit Realkredit A/S			
- Short-term unsecured rating		A-1	F1
- Long-term unsecured rating		A[2]	A
- Additional Tier 1 capital		BB+	BB+
Tier 2 capital (CoCo)		BBB	BBB
- Tier 2 capital		BBB	A1
Nykredit Bank A/S			
- Short-term deposit rating		A-1	F1
- Long-term deposit rating		A[2]	A
Euro MTN Programme			
- Short-term senior debt		A-1	F1
- Long-term senior debt		A[2]	A
Euro Commercial Paper Programme and Certificate of Deposit Programme			
- Short-term senior debt		A-1	F1

1) Bonds in issue at nominal value at 31 December 2015
2) Negative outlook

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

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

In this connection, Nykredit ceased supplying information for the purpose of Moody's rating process.

Moody's has nonetheless opted to publish unsolicited ratings for some Group companies.

OPERATIONAL RISK

Operational risk reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk also includes legal and model risks.

The operational risk relating to Nykredit's primary activities is inherently limited as mortgage lending activities are highly standardised.

The Nykredit is continuously working to create a risk culture where the awareness of operational risk is a natural part of everyday work. The objective is to support and develop an organisation where mitigation and management of operational risks are an integral part of both the day-to-day business activities and the long-term planning. Operational risk must be limited continually taking into consideration the costs involved.

Given its nature and characteristics, operational risk is best mitigated and managed through the day-to-day business activities. The responsibility for the day-to-day management of operational risk is thus decentralised and lies with the individual business areas. Operational risk management activities are coordinated centrally to ensure consistency and optimisation across the Group.

As part of operational risk management, operational risk events are systematically recorded, categorised and reported with a view to creating an overview of loss sources and gaining experience for sharing across the organisation. All operational events causing losses of over DKK 10,000 must be recorded. Selected business areas must furthermore record operational risk gain events, potential operational loss/gain events and events that did not lead to a loss/gain (near-miss events).

The recording of operational risk events includes information about the type of product, process and risk the event concerned as well as on any insurance cover and time consumption relating to the event. In 2015 both the number of operational risk events and Nykredit's losses centred around the risk type "execution, delivery and process management", which includes human errors occurring in connection with manual daily routines.

In addition to the recording of operational risk events, Nykredit is continuously working on identifying significant operational risks. Operational risks are mapped on the basis of input supplied by each business area about its own significant risks to Nykredit's centralised operational risk function. Operational risk mapping provides a valuable overview of particularly risky processes and systems and therefore constitutes an excellent management tool. The mapping also forms the basis of Nykredit's overall operational risk appetite.

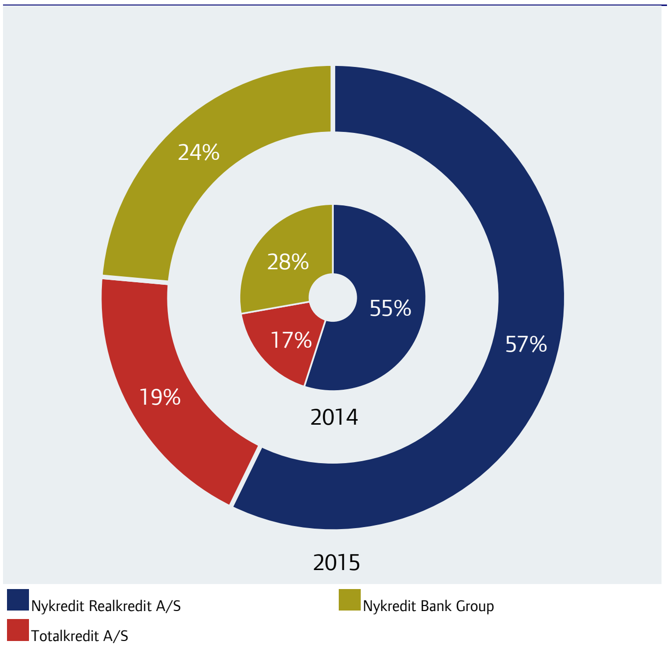
Besides the more general approach to identifying operational risks, targeted risk management is performed in key areas such as IT supply in the form of business contingency plans and in connection with approval of new products and IT solutions.

Furthermore, the IT security area is monitored constantly, and Nykredit participates actively in a wide Danish and international network on IT security through the Danish Bankers Association. In addition, information is received regularly on potentially compromising customers from CSIS and from other banks.

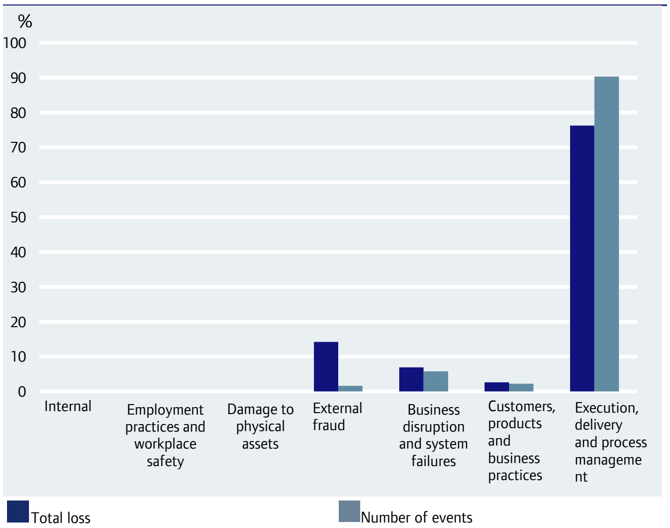
Nykredit has laid down policies, business procedures and controls specifically relating to anti-money laundering, and customer transactions are monitored on a continuous basis.

Nykredit determines the capital requirement for operational risk using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings of the past three years. To calculate REA, the capital requirement is divided by 8%. REA for operational risk was DKK 18.4bn throughout 2015.

Nykredit Realkredit Group
Breakdown of operational risk



Nykredit Realkredit Group
Operational loss events in 2015



Note: Operational loss events have been categorised according to the classification set out in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR).

Nykredit Realkredit Group
Credit exposures and REA

2014 DKK million	Mortgage lending	Bank lending	Guarantees issued	Other	Total exposure	*Of which undrawn commitments*	Exposure-weighted average risk weight, %	REA for credit risk
Retail exposures	717,693	13,648	11,585	11,747	754,673	*8,372*	15.3	115,794
Of which								
- mortgages on real estate	*717,693*	*10,980*	*899*	*5,318*	*734,890*	*4,888*	*14.5*	*106,413*
- other retail exposures	-	*2,668*	*10,686*	*6,429*	*19,783*	*3,483*	*47.4*	*9,382*
Business exposures	386,660	38,545	8,671	88,657	522,533	*17,168*	30.2	157,848
Credit institution exposures	9,315	-	878	64,183	74,375	*187*	17.9	13,325
Sovereign exposures	32,067	-	1	15,067	47,134	*3*	-	0
Equity exposures	-	-	-	3,828	3,828	-	324.0	12,385
Assets with no counterparty	-	-	-	4,263	4,263	-	100.0	4,263
Credit value adjustments (CVA)	-	-	-	3,388	3,388	-	41.2	1,394
Default fund contribution	-	-	-	312	312	-	100.0	312
Total 2014	**1,145,735**	**52,194**	**21,135**	**191,444**	**1,410,507**	***25,730***	**21.6**	**305,321**
Total 2013	1,150,160	75,145	11,958	146,330	1,383,593	27,394	21.6	298,575

Nykredit Realkredit Group
Credit exposures by maturity

2014 DKK million	Up to 1 year	Over 1 year and up to 5 years	Over 5 years	Total exposures
Retail exposures	37,966	6,812	709,895	754,673
Of which				
- mortgages on real estate	*18,182*	*6,812*	*709,895*	*734,890*
- other retail exposures	*19,783*	-	-	*19,783*
Business exposures	55,585	36,835	430,113	522,533
Credit institution exposures	64,183	878	9,315	74,375
Sovereign exposures	15,067	1	32,067	47,134
Equity exposures	3,650	-	177	3,828
Assets with no counterparty	4,263	-	-	4,263
Credit value adjustments (CVA)	-	3,388	-	3,388
Default fund contribution	-	-	312	312
Total 2014	**180,713**	**47,914**	**1,181,880**	**1,410,507**
Total 2013	134,887	43,556	1,205,150	1,383,593

Nykredit Realkredit Group
Credit exposures by counterparty

2014 DKK million	Personal	Trade	Finance and insurance	Industry	Agriculture	Rental	Other	Total exposures
Retail exposures	692,606	8,294	2,036	2,611	16,280	15,751	17,095	754,673
Of which								
- mortgages on real estate	*674,558*	*7,728*	*1,883*	*2,456*	*15,980*	*15,189*	*17,095*	*734,890*
- other retail exposures	*18,047*	*566*	*153*	*155*	*300*	*562*	*0*	*19,783*
Business exposures	5,613	56,708	58,673	42,834	81,695	240,484	36,517	522,533
Of which								
- SMEs	*1,726*	*32,375*	*22,050*	*12,179*	*79,757*	*202,521*	*26,696*	*377,303*
Credit institution exposures	-	-	-	-	-	-	74,375	74,375
Sovereign exposures	-	-	-	-	-	-	47,134	47,134
Equity exposures	-	-	-	-	-	-	3,828	3,828
Assets with no counterparty	-	-	-	-	-	-	4,263	4,263
Credit value adjustments (CVA)	-	-	-	-	-	-	3,388	3,388
Default fund contribution	-	-	-	-	-	-	312	312
Total 2014	**698,219**	**65,002**	**60,709**	**45,454**	**97,975**	**256,235**	**186,912**	**1,410,507**
Total 2013	687,310	63,992	91,064	43,872	98,020	242,178	157,157	1,383,593

Nykredit Realkredit Group
Total exposures – retail exposures covered by IRB

2014 Rating category	Total exposures DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD[1] %	Exposure-weighted average risk weight %	REA for credit risk DKKm
10	40,621	3	4.4	1.2	479
9	74,901	6	6.3	2.7	2,034
8	168,650	43	8.8	5.4	9,090
7	155,980	12	12.0	9.7	15,115
6	117,529	15	13.6	14.5	17,082
5	53,549	37	13.6	18.3	9,859
4	37,553	9	13.9	24.6	9,240
3	18,373	30	13.4	29.8	5,473
2	18,471	13	11.3	37.1	6,845
1	18,260	6	12.5	65.2	11,903
0	4,985	1	15.0	82.2	4,096
Exposures in default[2]	7,727	1	16.5	60.6	4,684
Total	**716,900**	**176**	**10.8**	**13.4**	**95,901**

1) Pursuant to Article 164 of the CRR, the exposure-weighted average LGD must be at least 10% for retail exposures secured by residential property and at least 15% for retail exposures secured by commercial property for the purpose of REA determination. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the capital floor requirements.
2) The determination of REA for exposures in default is based on the difference between LGDs and individual impairment provisions.

Nykredit Realkredit Group
Total exposures – business exposures covered by IRB

2014 Rating category	Total exposures DKKm	Of which undrawn commitments DKKm	Exposure-weighted average LGD[1] %	Exposure-weighted average risk weight %	REA for credit risk DKKm
10	11,875	160	17.2	19.2	2,276
9	39,374	379	15.4	21.7	8,556
8	88,472	1,166	13.6	22.3	19,720
7	86,657	509	13.7	24.7	21,434
6	55,693	973	12.9	25.0	13,927
5	28,598	211	12.5	27.5	7,852
4	19,797	154	15.4	36.8	7,278
3	24,564	431	11.7	29.3	7,186
2	1,132	9	16.3	45.7	518
1	6,369	24	15.7	72.1	4,786
0	10,717	37	15.9	60.2	6,453
Exposures in default[2]	16,490	70	21.3	44.1	7,270
Total	**390,007**	**4,124**	**14.1**	**27.5**	**107,255**

1) Pursuant to Article 164 of the CRR, the exposure-weighted average LGD must be at least 10% for retail exposures secured by residential property and at least 15% for retail exposures secured by commercial property for the purpose of REA determination. Exposure-weighted average LGD has been determined after adjustment to ensure compliance with the capital floor requirements.
2) The determination of REA for exposures in default is based on the difference between LGDs and individual impairment provisions.

Nykredit Realkredit Group
Types of security and credit exposures

2014 DKK million	Real estate[1]	Guarantees received	Financial collateral	Total security value	Total exposure
Retail exposures	692,210	9,315	78	701,603	754,673
Of which					
- mortgages on real estate[1]	692,210	9,315	*8*	*701,534*	*734,890*
- revolving exposures, etc	-	-	-	-	-
- other retail exposures	-	-	*70*	*70*	*19,783*
Business exposures	371,564	32,067	49,174	452,805	522,533
Credit institution exposures	-	-	-	-	74,375
Sovereign exposures	-	-	-	-	47,134
Equity exposures	-	-	-	-	3,828
Assets with no counterparty	-	-	-	-	4,263
Credit value adjustments (CVA)	-	-	-	-	3,388
Default fund contribution	-	-	-	-	312
Total 2014	**1,063,774**	**41,382**	**49,252**	**1,154,408**	**1,410,507**
Total 2013	1,082,674	38,559	73,873	1,195,105	1,383,593

Note: Exposures also include guarantees issued by banks (DKK 9bn), which have been recognised under credit institution exposures, and government guarantees (DKK 32.0bn), which have been recognised under sovereign exposures.
1) The security value of real estate has been measured at nominal value. The part of the exposure for which security has been provided is shown.

APPENDIX: OVERVIEW OF CAPITAL INSTRUMENTS

Nykredit Realkredit Group

Overview of capital instruments

31/12/2015

		Nykredit Bank (Forstædernes Bank)	Nykredit Realkredit A/S	Nykredit Realkredit A/S
1	Issuer			
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	DK00030017769	XS1073143932	XS1195632911
3	Governing law(s) of the instrument	Danish law	English/Danish law	English/Danish law
	Regulatory treatment			
4	Transitional CRR rules	Additional Tier 1	Tier 2	Additional Tier 1
5	Post-transitional CRR rules	Ineligible	Tier 2	Additional Tier 1
6	Eligible at solo/(sub-)consolidated/ solo&(sub-) consolidated	Solo and consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Hybrid capital	Supplerende kapital	Hybrid capital
8	Amount recognised in regulatory capital (end 2015)	DKK 100,000,000	DKK 4,477,500,000	DKK 3,731,250,000
9	Nominal amount of instrument	DKK 100,000,000	EUR 600,000,000	EUR 500,000,000
9a	Issue price	100	99.994	100
9b	Redemption price	100	100	100
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Equity
11	Original date of issuance	23/12/2005	03/06/2014	19/02/2015
12	Perpetual or dated	Perpetual	Dated	Perpetual
13	Original maturity date	n/a	03/06/2036	n/a
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	01-05-2016; par regulatory call	03-06-2021; par regulatory/tax call	26-10-2020; par regulatory/tax call
16	Subsequent call dates, if applicable	Quarterly	Annually	Semi-annually
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Float-to-float	Fixed-to-fixed	Fixed-to-fixed
18	Coupon rate and any related index	3m CIBOR + 170bps	4%	6.25%
19	Existence of a dividend stopper	Yes	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially mandatory	Mandatory	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially mandatory	Mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	Yes	No	No
22	Noncumulative or cumulative	Cumulative	n/a	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a
30	Write-down features	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	Contractual by shareholders if equity of the issuer is lost	Breach of 7% CET1 Capital Ratio of Nykredit Realkredit (solo or consolidated) or Nykredit Holding Group	Breach of 7,125% CET1 Capital Ratio of Nykredit Realkredit (solo or consolidated) or Nykredit Holding Group
32	If write-down, full or partial	Partial	Full	Partial
33	If write-down, permanent or temporary	Permanent	Permanent	Temporary
34	If temporary write-down, description of write-up mechanism	n/a	n/a	The notes may be reinstated at the Issuer's discretion out of relevant profits, subject to certain restrictions
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	At present Senior Unsecured	Tier 2
36	Non-compliant transitioned features	Yes	No	No
37	If yes, specify non-compliant features	Dividend stopper, no going-concern conversion/write-down, partially mandatory coupons	n/a	n/a

Nykredit Realkredit Group
Overview of capital instruments (continued)

31/12/2015

		Nykredit Realkredit A/S	Nykredit Realkredit A/S
1	Issuer		
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS1311459850	XS1321920735
3	Governing law(s) of the instrument	English/Danish law	English/Danish law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo&(sub-) consolidated	Solo and consolidated	Solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	Supplerende kapital	Supplerende kapital
8	Amount recognised in regulatory capital (end 2015)	DKK 373,125,000	DKK 5,970,000,000
9	Nominal amount of instrument	EUR 50,000,000	EUR 800,000,000
9a	Issue price	100	99.912
9b	Redemption price	100	100
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	19/10/2015	10/11/2015
12	Perpetual or dated	Dated	Dated
13	Original maturity date	28/10/2030	17/11/2027
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	17-11-2022; par regulatory/tax call
16	Subsequent call dates, if applicable	n/a	n/a
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed-to-float	Fixed-to-fixed
18	Coupon rate and any related index	4% in year 1-2, hereafter 6m Euribor + 171bps	2.75%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a
25	If convertible, fully or partially	n/a	n/a
26	If convertible, conversion rate	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	n/a	n/a
32	If write-down, full or partial	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	At present Senior Unsecured	At present Senior Unsecured
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	n/a	n/a

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.