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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.

## 1, 2016 IN BRIFF

Nykredit saw a continued improvement in the financial conditions of its customers during 2016. The positive trends in the Danish economy persisted, employment numbers rose, and unemployment declined from an already low level.

Interest rates remained historically low during 2016, despite a minor rise in long-term interest rates towards the end of the year. In the housing market, prices of both houses and flats increased all over Denmark, most notably in the large towns and cities.

The favourable economic trends rubbed off on Nykredit's loan portfolio and customers' ability to pay. Hence, Nykredit recorded reduced loan impairments and write-offs as well as fewer properties acquired by foreclosure.

#### Lower impairment losses and low loss ratios

Impairment losses on loans and advances (earnings impact) of the Nykredit Realkredit Group came to DKK 0.7bn in 2016 against DKK 0.9bn in 2015. 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 impairment provisions for potential future losses on mortgage and bank lending totalled DKK 8.4bn at end-2016. Total provisions for mortgage loan impairment were unchanged at DKK 5.7bn (0.5% of lending). Total provisions for bank loan impairment declined by DKK 0.3bn to DKK 2.6bn (5% of lending).

Total write-offs on the Group's customers in 2016 were DKK 1.3bn, equal to a loss ratio of 0.1%, which was on a level with 2015. Nykredit's mortgage loan losses amounted to DKK 0.9bn. About 45% of the losses were on private residential lending, while 55% was on business lending. Nykredit Bank's loan losses amounted to DKK 0.3bn.

## **Provisions for swaps**

Nykredit has made significant provisions for the overall swap portfolio for a number of years. The provisions have primarily related to housing cooperative exposures. At end-2016, total provisions amounted to DKK 5.0bn, of which credit value adjustments represented DKK 4.2bn. Furthermore, Nykredit terminated a few swap contracts totalling DKK 1.3bn in 2016.

The provisions were driven by a number of factors beyond Nykredit's control. The level of long-term interest rates was one of the main reasons; but also yield spreads to the swap curve, the maturities of the contracts as well as customers' credit quality played a role.

## Increasing CET1 capital and new credit models

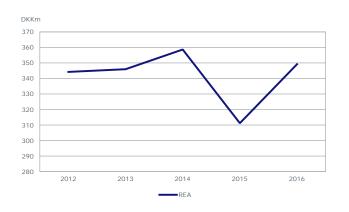
At end-2016 Nykredit's risk exposure amount (REA) totalled DKK 349bn. With own funds at DKK 80.6bn, this corresponds to a total capital ratio of 23.0% against 23.9% at end-2015. Common Equity Tier 1 (CET1) capital came to DKK 65.9bn, corresponding to a CET1 capital ratio of 18.8% against 19.4% at end-2015.

At Group level, REA increased by DKK 38bn in 2016. The primary reasons were the implementation of new credit models and changed calculation methods as well as a slight rise in lending.

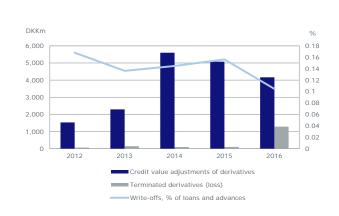
# Capitalisation of Nykredit Bank A/S and Totalkredit A/S increased

Nykredit Bank A/S has raised DKK 2bn of Tier 2 capital with Nykredit Realkredit A/S to ensure an appropriate buffer against the regulatory requirements. Totalkredit has raised DKK 4bn of Additional Tier 1 (AT1) capital with Nykredit Realkredit A/S primarily with a view to meeting a future leverage ratio requirement of 3% at a comfortable margin.

## Nykredit Realkredit Group Risk exposure amount



## Nykredit Realkredit Group Derivatives and write-offs



## 1.1 BOARD DECLARATION AND RISK STATEMENT

The Boards of Directors of Nykredit Holding and Nykredit Realkredit have on 6 February 2017 approved Nykredit's report Risk and Capital Management 2016.

- It is the Boards' assessment that Nykredit has adequate and effective risk management arrangements and controls in place with regard to Nykredit's risk profile and strategy.
- It is furthermore the Boards' assessment that the description of Nykredit's risk profile and key ratios gives a true and fair view of Nykredit, including Nykredit's overall risk appetite.

The Boards' assessment is based on the continuous risk reporting and the adopted strategy as reviewed and approved by the Boards of Directors, the Executive Boards and the Chief Risk Officer.

#### Risk assessment

- Nykredit's total capital ratio was 23.0% at end-2016. The total capital requirement including capital buffers is 12.7% as at the beginning of 2017. Against this backdrop, the Group is deemed to have satisfactory excess coverage relative to regulatory requirements and Nykredit's capital policy
- Credit risk is managed in accordance with the credit policy, including requirements for credit risk concentrations on single names, geographical regions and industries
- Market risk relates mainly to the management of equity and liquidity reserves. Market risk is managed in accordance with the market risk policy and the pertaining limits and guidelines prescribed by the Board of Directors
- Nykredit's liquidity is monitored daily in accordance with the liquidity policy and limits prescribed by the Board of Directors. At end-2016 Nykredit's Liquidity Coverage Ratio (LCR) was 321%, which is well above the regulatory requirement
- Nykredit's operational risk is managed in accordance with the operational risk policy and the pertaining limits and guidelines prescribed by the Board of Directors. Nykredit's operational risk is at a comfortable level.

The Boards of Directors find Nykredit's overall risk profile satisfactory in relation to the current risk policy.

# Executive Board of Nykredit Holding A/S and Nykredit Realkredit A/S

Michael Rasmussen Kim Duus David Hellemann

Group Chief Executive Group Managing Director Group Managing Director

Søren Holm Anders Jensen

Group Managing Director Group Managing Director

Board of Directors of Nykredit Holding A/S			Board of Dire	ectors of Nykredit F	Realkredit A/S
Steffen Kragh Chairman	Merete Eldrup Deputy Chairman	Nina Smith Deputy Chairman	Steffen Kragh Chairman	Merete Eldrup Deputy Chairman	Nina Smith Deputy Chairman
Helge Leiro Baastad	Hans Bang- Hansen	Olav Bredgaard Brusen	Helge Leiro Baastad	Hans Bang- Hansen	Olav Bredgaard Brusen
Michael Demsitz	Per W. Hallgren	Marlene Holm	Michael Demsitz	Per W. Hallgren	Marlene Holm
Allan Kristiansen	Bent Naur	Erling Bech Poulsen	Allan Kristiansen	Bent Naur	Erling Bech Poulsen
Anders C. Obel	Inge Sand	Leif Vinther	Anders C. Obel	Inge Sand	Leif Vinther
Lasse Nyby	Lars Peter Skaarup	Claus E. Petersen			

# 2. GOVERNANCE AND MANAGEMENT OF RISK

## 2.1 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.

The Nykredit Realkredit Group, which is wholly owned by Nykredit Holding A/S, is referred to as Nykredit in this report.

Nykredit's main activity is match-funded mortgage lending secured by mortgages on real estate. Mortgage lending is carried out both under the Nykredit brand and through the subsidiary Totalkredit, which is wholly owned by Nykredit Realkredit A/S. Lending to personal customers is provided only through Totalkredit, while lending to business customers is provided through both Totalkredit and Nykredit Realkredit.

Mortgage lending in Totalkredit is based on a strategic alliance with 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 and funding of the mortgage loans. Totalkredit and the individual partner bank share the risk relating to the loans according to the principles set out in the agreement with the partner banks. The partner banks receive fees for customer services and risk hedging. At end-2016 mortgage lending to personal customers in Totalkredit made up around half of Nykredit's total mortgage lending.

The business activities combined with the management of the investment portfolio involve credit, market, liquidity and operational risks, including IT and compliance risks. 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 the refinancing of mortgage loans in special situations. Thus, credit risk is Nykredit's main risk.

#### 2.1.1 Differences compared with financial statements

There are differences between the financial statements and determinations under the Capital Requirements Regulation (CRR). 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. This report has been prepared in accordance with Part 8 of the CRR, which defines the disclosure requirements.

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

## Nykredit Realkredit Group Highlights

DKK million	2012	2013	2014	2015	2016
Mortgage lending, cf Annual Report	1,136,445	1,136,644	1,137,099	1,119,101	1,124,693
Bank loans, excl reverse repurchase lending, cf Annual Report	49,728	46,963	50,494	46,747	55,003
Other credit exposures	178,176	199,986	222,914	177,345	195,815
Total credit exposures <sup>1</sup>	1,364,349	1,383,593	1,410,507	1,343,193	1,375,511
REA	344,209	345,963	358,589	311,220	349,348
CET1 capital	51,720	54,666	55,559	60,525	65,863
Own funds	62,410	65,303	65,606	74,498	80,599
Impairment losses for the year, % - mortgage lending	0.1	0.2	0.2	0.1	0.1
Impairment losses for the year, % - bank lending, excl reverse repur-					
chase lending	0.6	0.3	0.2	(0.1)	(0.1)

Note: Other credit exposures include repo transactions and off-balance sheet items.

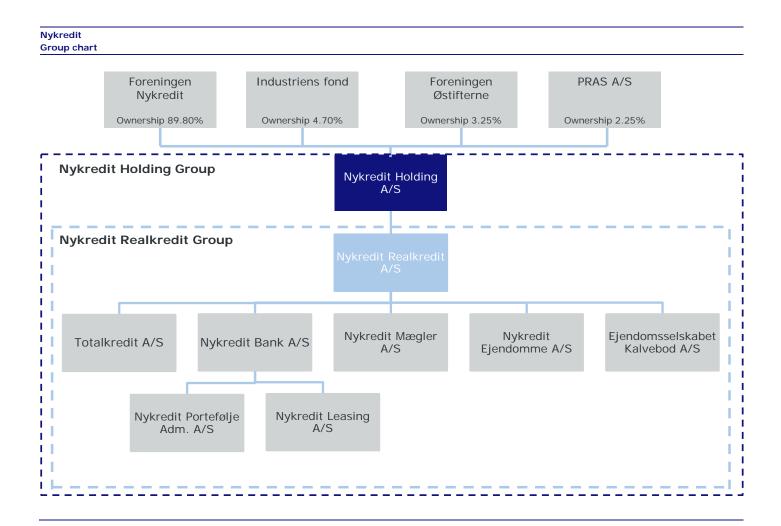
<sup>&</sup>lt;sup>1</sup> Total credit exposures increased by nearly DKK 8bn compared with Nykredit's report Risk and Capital Management 2015. The reason is that repo transactions calculated according to the standardised approach have now been determined before financial collateral.

## 2.2 NYKREDIT'S CORPORATE STRUCTURE

Nykredit Holding A/S owns 100% of Nykredit Realkredit A/S. The main activity of Nykredit Holding is its ownership of Nykredit Realkredit. This means that Nykredit Holding currently has no activities or independent risk exposures.

The Board of Directors of Nykredit Holding is identical to the Board of Directors of Nykredit Realkredit except for three additional members, while the Executive Board of Nykredit Holding is identical to the Group Executive Board of Nykredit Realkredit.

Decisions regarding general issues are discussed by the Board of Directors of Nykredit Holding, while operating issues are discussed by the Boards of the individual companies.



## 2.2.1 Capital adequacy differences between the Groups

Although the sole activity of Nykredit Holding A/S is its ownership of Nykredit Realkredit A/S, the determination of own funds and total REA is not identical for the Nykredit Holding Group and the Nykredit Realkredit Group. The differences are due to five factors:

## 1. Common Equity Tier 1 (CET1) capital:

CET1 capital totalled DKK 65.9bn in the Nykredit Holding Group and DKK 65.6bn in the Nykredit Realkredit Group at end-2016. The difference is caused by a deduction from CET1 capital for intercompany balances with PRAS A/S and its indirect ownership interest in Nykredit Holding.

## 2. Additional Tier 1 (AT1) capital in subsidiaries:

Nykredit's AT1 capital was issued by Nykredit Realkredit A/S and therefore cannot be included 100% in the capital determination of the Nykredit Holding Group. This is laid down in the rules on minority interests in the Capital Requirements Regulation (CRR), which stipulate that AT1 capital may only be included at an amount corresponding to the regulatory requirement for the group concerned, in this case the Nykredit Holding Group.

## 3. Tier 2 capital in subsidiaries:

Nykredit's Tier 2 capital was also issued by Nykredit Realkredit A/S. It has the same consequences as described for AT1 capital above.

## 4. Risk exposure amount - credit risk:

As mentioned under 1) above, intercompany balances and indirect ownership interests are eliminated in the Nykredit Holding Group. This reduces total REA for credit risk in the Nykredit Holding Group by around DKK 1bn.

## 5. Risk exposure amount - operational risk:

Nykredit applies the basic indicator approach to determine REA for operational risk. This means that Nykredit applies profit for the year to calculate REA, and as profit for the year of Nykredit Holding is lower than that of Nykredit Realkredit, so is REA.

This report is based on the Nykredit Realkredit Group, as the sole activity of Nykredit Holding A/S is currently the ownership of Nykredit Realkredit A/S.

Appendix A contains a detailed overview of the capital and risk exposures of the Nykredit Holding Group and the Nykredit Realkredit Group.

## Determination of own funds and total REA

End-2016	Nykredit Realkredit	Nykredit Holding
DKK billion	Group <sup>1</sup>	Group
CET1 capital before deductions	65.5	65.5
Deduction for intercompany exposi	ures 0	(0.3)
Other deductions	0.3	0.3
CET1 capital	65.9	65.6
AT1 capital	3.7	2.5
Tier 1 capital	69.5	68.0
Tier 2 capital	11.1	8.5
Own funds	80.6	76.3
REA		
Credit risk	304.3	303.3
Market risk	25.4	25.4
Operational risk	19.6	19.7
Total REA	349.3	348.4
Financial ratios		
CET1 capital ratio, %	18.8	18.8
Tier 1 capital ratio, %	19.9	19.5
Total capital ratio, %	23.0	21.9

<sup>&</sup>lt;sup>1</sup> Own funds are specified under "Capital" below.

## 2.3 RISK MANAGEMENT AND GOVERNANCE

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 undertaken by the Group Executive Board.

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

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

The Board of Directors oversees the establishment of adequate risk management procedures and monitors risks through the Risk Board and the Audit Board.

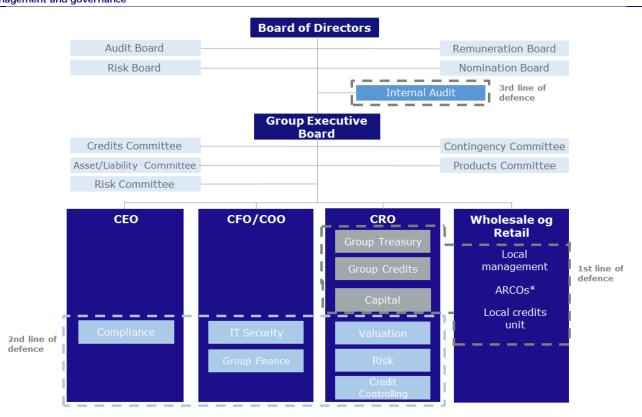
The Executive Board oversees that risks are managed, mitigated and controlled. The Executive Board monitors risks through the Risk Committee.

Nykredit's risk management is based on the Three Lines of Defence model. The Executive Board has delegated its daily control duties, and overall control is based on three functional levels:

- Business units, first line of defence:
- 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 control functions, second line of defence Comprise a number of cross-functional areas, such as Group Credits, Group Finance, Risk including the Chief Risk Officer, Compliance including the Chief Compliance Officer, and IT Security. These units are responsible for monitoring whether policies and procedures are observed and whether internal controls performed by the business units are satisfactory.
  - Internal Audit, third line of defence

    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. They also regularly report to the Board of Directors and the Group's Audit Board.

Nykredit Realkredit Group Risk management and governance



Note: Assistant Risk and Compliance Officers (ARCOs) are appointed in all business divisions to support local management

#### 2.3.1 Board of Directors

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

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

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

Further details on the skills 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.

Nykredit Realkredit Group Board responsibilities and structure

## 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

#### 2.3.2 Executive Board

The Executive Board is responsible for the day-to-day management and operationalises policies and guidelines for each risk area. The Executive Board has also set up a number of Group committees.

## 2.3.3 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 overseeing activities involving credit risk, market risk, liquidity risk and operational risk.

The Head of Risk, Nykredit's risk control 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 control function performs Group-wide controls, monitors Group risks and prepares risk reports for the Boards of Directors on all risk areas.

#### 2.3.4 Chief Compliance Officer

The Chief Compliance Officer is responsible for regulatory compliance issues and all related management reporting. The Chief Compliance Officer reports to the Group Chief Executive of Nykredit on technical issues, but reports to the Head of Group Legal Affairs for organisational purposes. The Chief Compliance Officer acts separately from Management in the *first line of defence*, and is organised separately from and does not report to any other business divisions of Nykredit.

## 2.3.5 Assistant Risk and Compliance Officers

To strengthen Nykredit's efforts to mitigate and prevent risks, including operational and compliance risks, the managements of the individual business divisions have appointed Assistant Risk and Compliance Officers (ARCOs). Their primary duty is to assist the management of the individual divisions in executing various compliance and risk-related tasks. The Compliance and Risk functions regularly evaluate the work of the individual ARCOs.

## 2.4 BOARDS AND 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. These board committees advise the Board of Directors on particular matters and prepare cases for review by the entire Board of Directors, each within their field of responsibility.

#### **Audit Board**

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

The Audit Board consists of Anders C. Obel, Chief Executive Officer (Chairman), Merete Eldrup, Chief Executive Officer, Per W. Hallgren, Chief Executive Officer, and Bent Naur, former Chief Executive Officer, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting. Effective from the financial year 2017, Per W. Hallgren, Chief Executive Officer, has been appointed Chairman of the Audit Board.

The Audit Board held four meetings in 2016.

## Remuneration Board

The principal tasks of the Remuneration Board are to qualify proposals for remuneration prior to consideration by the Board of Directors and to make recommendations in respect of Nykredit's remuneration policy, including guidelines on incentive pay, for the approval of the Board of Directors. Moreover, the Remuneration Board makes proposals for remuneration of the Board of Directors and the Group Executive Board. Finally, the Remuneration Board ensures that the information in the Annual Report about remuneration of the Board of Directors and the Group Executive Board is correct, fair and satisfactory.

The Remuneration Board consists of Steffen Kragh, Chief Executive Officer (Chairman), Merete Eldrup, Chief Executive Officer, Nina Smith, Professor, who are all members of the Board of Directors elected by the General Meeting, and Leif Vinther, Chairman of Staff Association and staff-elected member of the Board of Directors of Nykredit Realkredit A/S.

The Remuneration Board held three meetings in 2016.

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

#### **Nomination Board**

The Nomination Board is tasked with making recommendations to the Board of Directors on the nomination of candidates for the Board of Directors and the Executive Board. 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, reporting to the Board of Directors, is overall responsible for the skills profiles of the Board of Directors and the Executive Board and the continuous evaluation of their work and results.

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

The Nomination Board held three meetings in 2016.

#### 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 risks related to 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 consists of Merete Eldrup, Chief Executive Officer (Chairman), Michael Demsitz, Chief Executive Officer, Anders C. Obel, Chief Executive Officer, and Bent Naur, former Chief Executive Officer, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting. Effective from the financial year 2017, Per W. Hallgren has joined the Risk Board.

The Risk Board held four meetings in 2016.

#### **Committees**

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

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

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 of Group companies. The Committee chiefly considers cases and manages portfolios in the credits area.

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

The *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 new services, products and concepts potentially involving material risks for the Group, counterparties and/or customers complies with the Group's business model and the guidelines approved by the Group Executive Board for development and approval of new concepts and products. Further, the Committee must monitor and evaluate the existing products and assess any need for changing or adjusting individual products or the entire product range.

The *Pricing Panel* may consider cases relating to pricing or levels of authorisation across the Retail and Wholesale business areas. The aim is to ensure that Nykredit's pricing policy always supports a profitable business model that will, in a timely and consistent manner and across business areas, address any changes in capital requirements, funding terms or other costs that may affect Nykredit's earnings.

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

## 2.5 INTERNAL CONTROLS

The purpose of Nykredit's controls is to ensure that policies and guidelines laid down by the Boards of Directors are observed, and to ensure timely prevention, detection and correction of any errors, deviations or omissions, which is the responsibility of the risk control functions, the second line of defence.

#### 2.5.1 Control activities and control environment

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

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

The Executive Boards are 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 Boards.

## Nykredit Realkredit Group Executive Board responsibilities and Group committees

## Group Executive Board

- Overall day-to-day management
- Stategic planning and business developmen
- Operationalises policies and guideline

## Risk

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

## Credit

- Manages and operationalises the credit policy
- Approves large exposures

## Asset / Liability

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

## Contingency

 Responsible for compliance with contingency plans and related IT security policly

## Products

Ensures development and maintenance of concepts and products

## Pricing Pane

 Reviews cases regarding the pricing of products and services and pricing mandates to ensure a profitable business model

## 2.5.2 Reporting

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

Risk exposure is reported on a continuous basis in all material areas such as credit risk, market risk, liquidity risk, operational risk, compliance risk and IT risk.

# NYKREDIT REALKREDIT GROUP RISK AREAS REVIEWED BY THE BOARD OF DIRECTORS

Risk management		
Risk policies	Annually	Review of risk policies, risk guidelines and risk appetite, including:
		<ul> <li>Capital policy</li> </ul>
		<ul> <li>Credit policy and guidelines for approval of loans and other credit facilities</li> </ul>
		Market risk policy and guidelines
		<ul> <li>Liquidity policy and guidelines</li> </ul>
		<ul> <li>Operational risk policy and guidelines</li> </ul>
		<ul> <li>IT security policy</li> </ul>
		<ul> <li>Insurance cover policy</li> </ul>
		■ Valuation policy
Internal Capital Adequacy Assessment	Annually	<ul> <li>Review of the Group's internal capital adequacy requirement</li> </ul>
Process (ICAAP)		<ul> <li>Presentation of conclusions from stress tests containing the impact of</li> </ul>
		different scenarios on the expected loss and capital requirement.
Internal Liquidity Adequacy Assess-	Annually	<ul> <li>Evaluation of the Group's liquidity position and management, including its</li> </ul>
ment Process (ILAAP)		funding profile and funding schedule. The report includes liquidity risk cal-
		culations and assessments through liquidity stress tests etc.
Risk reporting		
Capital	Quarterly	Own funds, required own funds and internal capital adequacy requirement
		Leverage ratio
Credit risk	Quarterly	<ul> <li>Development in credit risk and parameters, and ratings</li> </ul>
		<ul> <li>Concentration risk by industry, loan type and geographical region</li> </ul>
		<ul> <li>Housing prices and loan-to-value (LTV) ratios</li> </ul>
		<ul> <li>Review, assessment and approval of exposures above a certain limit</li> </ul>
Market risk	Monthly/quarterly	<ul> <li>Interest rate, foreign exchange and equity price risks (conventional</li> </ul>
		measures and Value-at-Risk)
		<ul> <li>Credit risk of investment portfolio</li> </ul>
		<ul> <li>Backtest of models and stress tests</li> </ul>
Liquidity risk	Monthly/quarterly	<ul> <li>Liquidity and excess liquidity coverage for period under review</li> </ul>
		■ Liquidity stress testing
Operational risk	Quarterly	<ul><li>Events and losses</li></ul>
Regulatory risk	Quarterly	<ul> <li>Update on new legislation</li> </ul>

## 2.6 RISK POLICY

The risk policy is an explicit formulation of the Group's capital policy and risk appetite for all types of risk. 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 determination of its overall risk appetite takes into consideration the objective to support an efficient market for Nykredit's bonds in issue, regardless of the economic climate. Nykredit's capital targets reflect this objective. Nykredit's capital policy is described under "Capital policy and targets towards 2019" below.

## 2.6.1 Risk appetite

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

The Group's risk appetite reflects its overall tolerance for assuming risks in the context of its business model and the Group strategy. The specific tolerance limits for the individual risks vary according to risk type, customer exposure, product type, strategy, targets, etc. These factors are described and incorporated in relevant policies and guidelines. The specific risks related to business unit activities are assessed in the context of the financial importance of the individual unit.

Nykredit manages its capital usage 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.

## 2.6.2 Types of risk

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 resulting from customers defaulting on their obligations. Counterparty risk, which is the risk of the loss 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 IT, compliance, 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, while liquidity risk is mitigated through a sufficient stock of liquid assets. This is described in more detail in the following sections.

#### Nykredit's overall risk appetite

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

Capital: by having CET1 capital at 17.5% of REA (tar-

get 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 and 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 dur-

and relatively high interest rates.

Market risk: by having a market risk policy with the main

principle that losses on exposures involving market risk must not significantly affect Nykredit's total results. Market risk is managed by means of estimated losses in stress scenarios. Statistical as well as forward-looking stress scenarios are used to calculate the

ing stress conditions with high un-employment

estimated losses.

**Liquidity:** by having a liquidity policy which ensures that

Nykredit's funding and liquidity management supports the mortgage lending business and ensures competitive prices for customers and Nykredit, regardless of the market conditions. Furthermore, the liquidity management must ensure that Nykredit can maintain high ratings and its position as issuer of covered bonds

(SDOs)

Leverage: by limiting financial leverage so that Tier 1 capital after deductions relative to lending

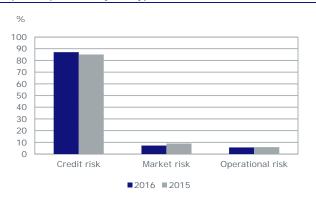
makes up at least the applicable regulatory requirement at any time, currently 3.1% min-

imum.

Operational risk: by having operational risks which are low relative to other risks and which are assess

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.

## Nykredit Realkredit Group Capital requirement by risk type



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

## 3. CAPITAL MANAGEMENT

# 3.1 CAPITAL POLICY AND TARGETS TOWARDS 2019

The Board of Directors of the Nykredit Realkredit Group has set a CET1 capital ratio target of 17.5% of REA for 2019. The capital policy is reviewed annually.

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% of the current REA assuming a Pillar II capital requirement of 2-3%, and depending on the economic climate, including whether the countercyclical capital buffer is activated or not. To this should be added requirements resulting from the stress test exercises of the European Banking Authority (EBA) and the Danish FSA.
- The capital level must be market-consistent, corresponding to the levels of other large Nordic financial issuers.
- Nykredit must hold sufficient capital to ensure ratings with the credit rating agencies that are compatible with the Group's strategy.

In addition to this, especially three Nykredit characteristics must be allowed for in terms of capital. They are:

- 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 total REA amounted to DKK 349bn at end-2016. The greater part of REA is made up of credit risk exposures.

In Q3/2016 the Group's REA changed in two material respects. Firstly, the Danish FSA approved the last part of the Group's advanced IRB models as well as new rating models for the business and agricultural segments etc. All in all, the IRB approach still results in a reduction of REA compared with the standardised approach. However, viewed separately the change in Q3 resulted in a DKK 35bn increase in REA, of which 70% concerned the Group mortgage lenders and 30% Nykredit Bank.

Also in Q3/2016, the notional maturity of business exposures of Nykredit Bank was changed from previously 2.5 years to their actual maturity, subject to a cap of 5 years. The change resulted from talks with the Danish FSA. This caused a partial rise in REA of DKK 17bn.

In light of the latest model changes and the expected future regulatory requirements, the capital structure and capital levels in both Nykredit Bank and Totalkredit were adjusted in 2016. Nykredit Bank has raised DKK 2bn of Tier 2 capital with Nykredit Realkredit A/S in order to ensure an adequate buffer to comply with the regulatory requirements and to meet the capital targets of the Board of Directors when the SIFI buffer requirement increases in 2017. Totalkredit has raised DKK 4bn of AT1 capital with Nykredit Realkredit A/S primarily with a view to meeting a future leverage ratio requirement of 3% at a comfortable margin.

Nykredit has a number of sensitivities in relation to its capital and risk exposures. Nykredit's capital and REA are affected first of all by current operating results, including loan impairments, investment portfolio income and value adjustment of swaps.

In addition to this, REA is affected by developments in the general economic conditions and in property prices and interest rates. Viewed separately, a 5% change in property prices will impact REA by around DKK 15bn.

Finally, Nykredit's capital and REA are being affected regularly by changes in regulation and supervisory practices these years.

For example, the international financial reporting standard IFRS 9 will be implemented from 1 January 2018, which is expected to increase the Group's total impairment provisions by about DKK 1.0bn-1.5bn, including the tax effect. This will reduce Nykredit's CET1 capital. The work of analysing the impact of IFRS 9 and adjusting Nykredit's models is still ongoing, and the estimate is therefore subject to high uncertainty.

At EU level, a proposal was submitted in November 2016 for revision of the regulatory capital requirements framework, which is expected to increase REA for market risk significantly, cf below. The Basel Committee is also discussing significant changes to the capital requirements framework, which must be expected to impact particularly all types of mortgage loans as well as market risk, cf also below. Lastly, there is an ongoing process, at national and EU levels, to harmonise the capital requirements for credit institutions.

On top of that, the Danish FSA and the EBA are regularly conducting stress tests of credit institutions, cf the EBA's EUwide stress test results of July 2016.

Owing to these factors, REA is changing continually, which is one of the reasons why Nykredit's Board of Directors decided to prepare Nykredit for listing on the stock exchange in order to ensure greater capital flexibility.

# 3.2 RISK OF INCREASED CAPITAL REQUIREMENTS

There is a risk that the capital requirements will be tightened further in the coming years.

Thus, the Basel Committee is working on a proposal to be launched at the beginning of 2017 containing a number of changes to and restrictions on the calculation of risk exposures for banks and mortgage lenders using internal models.

The most important change is a possible proposal by the Basel Committee to introduce a new so-called capital floor requirement for credit institutions using internal models, implying that the institutions may become subject to a minimum capital requirement across risk types (credit, market and operational risk) that makes up a proportion of the capital requirement calculated using the standardised approach.

The Basel Committee is contemplating a capital floor at 70% of the standardised approach, which will increase Nykredit's REA markedly compared with today.

The capital floor requirement may impact all Danish mortgage banks as they have a very low risk of loss. It may therefore result in significant increases in the capital requirement for mortgage loans in general, and for private residential mortgage loans with LTVs over 55-60% in particular

The Basel Committee is also contemplating to propose the introduction of floors to the parameters used in the internal models for credit risk (PD and LGD) and to restrict the application of advanced internal models. However, if a general capital floor requirement is introduced, cf above, these model restrictions will have no immediate impact on Nykredit.

Moreover, on 23 November 2016 the European Commission proposed revisions to the EU's capital requirements framework, including the introduction of a leverage ratio in the EU and changes to the rules for calculating the capital requirements for market risk. Both measures have previously been recommended by the Basel Committee.

The possible changes in the rules for market risk may result in higher capital requirements and may also have a negative impact on covered bond markets, as it may become significantly more expensive for banks and mortgage lenders to trade in covered bonds. This may result in lower prices and higher residential mortgage rates.

Based on our current knowledge of the discussions of the Basel Committee and the proposal for revision of the EU Capital Requirements Regulation, the increased capital requirements may potentially add an estimated DKK 15bn to Nykredit's CET1 capital requirement under the current capital policy, including the CET1 capital ratio target of 17.5% of REA.

Nykredit's total capital requirement will ultimately depend on the wording of the Basel standards, their implementation in the EU, and the new market and rating standards for large Nordic financial issuers.

In this connection it is important to bear in mind that markets will often expect the large established institutions to adapt to new legislation relatively fast, even if legislation prescribes a longer formal phase-in period of the requirements. In that case, having capital levels that differ significantly from those of other large Nordic institutions would not be a tenable situation for Nykredit. Nykredit must therefore be able to meet potentially stricter capital requirements faster than actually prescribed by the legislation. This is emphasised by the fact that, being the largest private issuer of covered bonds in Europe, Nykredit relies on being able to sell bonds at competitive prices, which makes it imperative that Nykredit's capital position can never be called into question.

Nykredit is working 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.

## 3.2.1 ALAC, debt buffer requirement and NSFR

A number of new or changed liquidity requirements are being, or will be, phased in over the coming years, most importantly:

- S&P's requirement of Additional Loss-Absorbing Capacity (ALAC)
- Debt buffer requirement
- the Net Stable Funding Ratio (NSFR)
- Benchmarks in the Supervisory Diamonds for mortgage lenders and banks

Nykredit Realkredit A/S and Totalkredit A/S must meet the debt buffer requirements towards 2020, amounting to at least 2% of total mortgage lending when fully phased in. In addition to this, Nykredit Realkredit A/S and Totalkredit A/S will meet S&P's ALAC criteria to maintain their long-term unsecured rating of A, which means that they must raise bail-inable senior debt.

This process began in 2015 when Nykredit Realkredit A/S and Totalkredit A/S issued Tier 2 capital. In 2016 Nykredit Realkredit A/S and Totalkredit A/S issued so-called senior resolution notes (SRN) – a special form of bail-inable senior debt.

At end-2016 DKK 7.4bn worth of SRN had been issued.

In November 2016, the European Commission submitted a proposal for revision of the Capital Requirements Regulation (CRR), including the introduction of a Net Stable Funding Ratio in the EU. The proposal will be examined in the course of 2017 and 2018, and the requirement is expected to become effective around 2020. At present, the NSFR is only a reporting requirement.

## 3.3 DETERMINATION OF CAPITAL

Nykredit's own funds stood at DKK 80.6bn at end-2016 against DKK 74.5bn at end-2015.

Nykredit's Tier 1 capital consists mainly of Common Equity Tier 1 (CET1) capital. As shown in the table, Tier 1 capital totalled DKK 69.5bn. CET1 capital totalled DKK 65.9bn and Additional Tier 1 (AT1) capital totalled DKK 3.7bn. 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.

In June and July 2016, Nykredit issued senior resolution notes (SRN). They do not count towards own funds, but are eligible for meeting S&P's ALAC requirement for rating purposes and the Danish debt buffer requirement for mortgage banks. Senior resolution notes are bail-inable debt serving to protect unsecured creditors in case of the company's bankruptcy. Both issues amounted to EUR 500m.

In light of the latest model changes and the expected future regulatory requirements, the capital structure and capital levels in both Nykredit Bank and Totalkredit were adjusted in 2016. Nykredit Bank has raised DKK 2bn of Tier 2 capital with Nykredit Realkredit A/S to ensure an appropriate buffer to the regulatory requirements when the SIFI buffer requirement increases in 2017. Totalkredit has raised DKK 4bn of AT1 capital with Nykredit Realkredit A/S primarily with a view to meeting a future leverage ratio requirement of 3% at a comfortable margin.

In the Group's capital determination, a deduction has been made for parts of Totalkredit's non-distributable reserve fund. The deduction is based on the assessment of the Danish FSA that the non-distributable reserve fund cannot be recognised fully according to a decision made by the Danish FSA concerning the non-distributable reserve fund of another financial undertaking. Nykredit does not concur with the assessment of the Danish FSA and expects to discuss the issue with the FSA from a legal perspective in spring 2017 with a view to reaching a formal decision concerning the treatment of Totalkredit's non-distributable reserve fund for capital adequacy purposes.

## Nykredit Realkredit Group

## Own funds

DKK million	2016	2015
Common Equity Tier 1 (CET1) capital		
CET1 capital before deductions	65,548	61,686
CET1 primary deductions		
Proposed dividend		-
Prudent valuation	(95)	(359)
Intangible assets, including goodwill, and deferred capitalised tax assets	-	(250)
Minority interests	988	-
Deferred tax assets	(37)	(52)
Assets in defined-benefit pension fund	(241)	(227)
Deduction for difference between IRB losses		
and impairments	(329)	(1,116)
Other deductions		-
Transitional adjustment of deductions	228	806
Total CET1 capital deductions	315	(1,161)
Total CET1 capital	65,863	60,525
Additional Tier 1 (AT1) capital/hybrid capital		
AT1 capital/hybrid capital	3,800	3,831
Transitional adjustment of deductions	(82)	(322)
AT1 capital deductions	(42)	(22)
Total AT1/hybrid capital deductions	(91)	(343)
Total AT1/hybrid capital	3,676	3,488
Total Tier 1 capital	69,539	64,013
Tier 2 capital		
Subordinated debt	11,315	10,820
Tier 2 capital before deductions	11,315	10,820
Tier 2 deductions		
Transitional adjustment of deductions	(280)	(335)
Other deductions	25	-
Total Tier 2 deductions	(255)	(335)
Total Tier 2 capital	11,060	10,485
Own funds	80,599	74,498

## Nykredit Realkredit Group Loan capital, end-2016

	Interest rate	Call date	Maturity	Capital
Nykredit Realkredit A/S				
Additional Tier 1 capital	6.25%	26 October 2020	Perpetual	EUR 500m
Tier 2 capital (CoCo)	4.00%	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 Realkredit Group Highlights

% of REA	Capital ratio, end-2016	Total regulatory requirement <sup>1</sup> , beginning of 2017	Total regulatory requirement, fully loaded, beginning of 2019 <sup>2,3</sup>
Nykredit Realkredit Group			
Common Equity Tier 1 capital	18.8	8.2	10.2-12.7
Tier 1 capital	19.9	10.1	12.1-14.6
Own funds	23.0	12.7	14.7-17.2
Nykredit Realkredit A/S			
Common Equity Tier 1 capital	17.0	7.6	9.7-12.2
Tier 1 capital	18.0	9.3	11.4-13.9
Own funds	20.7	11.7	13.7-16.2
Nykredit Bank Group			
Common Equity Tier 1 capital	14.8	8.5	10.5-13.0
Tier 1 capital	14.8	10.5	12.5-15.0
Own funds	16.6	13.2	15.2-17.7
Totalkredit A/S			
Common Equity Tier 1 capital	22.2	8.3	10.3-12.8
Tier 1 capital	26.5	10.2	12.3-14.8
Own funds	28.7	12.9	14.9-17.4

<sup>&</sup>lt;sup>1</sup> The regulatory requirements reflect current and fully loaded capital requirements, including the current level under Pillar II. The regulatory requirements thus comprise the internal capital adequacy requirement, SIFI buffer, capital conservation buffer and countercyclical buffer.

<sup>&</sup>lt;sup>2</sup> The ranges for the total capital requirements in 2019 reflect the countercyclical buffer which is determined annually by the Minister for Industry, Business and Financial Affairs and may range from 0 to 2.5%. It is currently 0% in Denmark.

<sup>&</sup>lt;sup>3</sup> Going forward, actual capital ratios will be affected by total REA, which will vary according to developments in economic conditions, any changes to supervisory practices regarding internal models and the effects of changed financial reporting standards (IFRS 9).

## 3.4 DETERMINATION METHODS

#### 3.4.1. 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, Totalkredit A/S and Nykredit Bank A/S

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

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

## 3.4.2. Market risk

For the determination of REA for market risk, Nykredit Realkredit A/S has obtained FSA approval to apply a Valueat-Risk (VaR) model to estimate the general risk related to:

- equities
- debt instruments
- foreign exchange.

Only equities in the trading book are included.

Nykredit Bank A/S has obtained FSA approval to apply a VaR model for:

- debt instruments
- 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.

## 3.4.3 Operational risk

For all Group companies, REA for operational risk is determined using the basic indicator approach. This means that REA is calculated as 15% of average gross earnings of the past three years.

#### 3.4.4 Transitional rules

Nykredit is still subject to a transitional rule for determination of capital requirements. Own funds must represent at least 6.4% of REA determined under Basel I.

#### 3.4.5 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) 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.

## Nykredit Realkredit Group Breakdown of exposures by different credit risk approaches

2016	Advanced IRB approach	Foundation IRB approach	Standardised approach	Total	Exposures, total
	%	%	%	%	DKK million
Retail exposures	99.9	-	0.1	100.0	796,101
Of which					
- mortgages on real estate	99.9	-	0.1	100.0	777,735
- other retail exposures	98.6	-	1.4	100.0	21,366
Business exposures	96.1	-	3.9	100.0	456,424
Credit institution exposures <sup>1</sup>	-	-	100.0	100.0	54,351
Sovereign exposures <sup>2</sup>	-	-	100.0	100.0	59,178
Other credit exposures	76.8	-	23.2	100.0	9,458
Total 2016	90.2	-	9.8	100.0	1,375,511
Total 2015 <sup>3</sup>	83.7	8.1	7.4	100.0	1,343,193

<sup>&</sup>lt;sup>1</sup> Credit institution exposures include guarantees issued by banks of a total of DKK 11bn.

<sup>&</sup>lt;sup>2</sup> Sovereign exposures include government guarantees of a total of DKK 35bn.

<sup>&</sup>lt;sup>3</sup> Total credit exposures increased by nearly DKK 8bn compared with Nykredit's report Risk and Capital Management 2015. The reason is that repo transactions calculated according to the standardised approach have now been determined before financial collateral.

## 3.5 RISK EXPOSURE AMOUNT

At end-2016 Nykredit's risk exposure amount (REA) totalled DKK 349bn. With own funds at DKK 80.6bn, this corresponds to a total capital ratio of 23.0% against 23.9% at end-2015. CET1 capital came to DKK 66bn, corresponding to a CET1 capital ratio of 18.8% against 19.4% at end-2015.

At Group level, REA increased by DKK 38bn in 2016. The primary reasons were the implementation of new credit models and changed calculation methods. This is described further under "Capital policy and targets towards 2019".

Nykredit's minimum requirement calculated under the transitional rule (Basel I) came to DKK 48.3bn at end-2016. The current transitional rule has been extended and so far applies until end-2017.

The total capital requirement including capital buffers is 12.7% in 2017, of which CET1 capital represents around 8.2% including Pillar II.

## 3.5.1 Group companies

At end-2016 all companies of the Nykredit Group had capital ratios at comfortable levels above the statutory requirement.

At end-2016 Nykredit Realkredit A/S's REA amounted to DKK 392bn and own funds stood at DKK 81bn.

Totalkredit A/S's REA amounted to DKK 92.3bn and own funds DKK 26.5bn, corresponding to a total capital ratio of 28.7% and a CET1 capital ratio of 22.2%. The Nykredit Bank Group's REA amounted to DKK 110.3bn and own funds DKK 18.4bn, corresponding to a total capital ratio of 16.6% and a CET1 capital ratio of 14.8%.

## 3.6 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 sufficient capital and thus determine 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 are determined as the sum of Pillar I and Pillar II capital.

Required own funds stood at DKK 36bn at end-2016, equal to an internal capital adequacy requirement of 10.2%.

#### 3.6.1 Pillar I

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

# Nykredit Realkredit Group REA and capital adequacy

Minimum requirement <sup>1</sup>	48,317	48,268
Total statutory requirement	12.7	13.2
Capital conservation buffer, %	1.3	0.6
SIFI buffer, %	1.2	0.8
Internal capital adequacy requirement, %	10.2	11.8
Statutory requirement		
CET1 capital ratio, %	18.8	19.4
Total capital ratio, %	23.0	23.9
Own funds	80,599	74,498
Total REA	349,348	311,220
Total operational risk	19,636	18,397
Basic indicator approach	19,636	18,397
Operational risk		
Total market risk	25,437	27,958
Settlement risk	85	0
Standardised approach	10,722	11,594
Internal models	14,631	16,364
Market risk		
Total credit risk	304,275	264,865
Other credit exposures	1,198	1,777
IRB approach	289,572	249,814
Standardised approach	13,507	13,274
Credit risk		
DKK million	2016	2015

<sup>&</sup>lt;sup>1</sup> The transitional rule has been determined in accordance with the transitional provisions of the CRR. Own funds must represent at least 6.4% of REA determined under Basel I.

## Nykredit Realkredit Group

Own funds and REA of Group companies

2016	Nykredit Realkredit A/S	Totalkredit A/S	Nykredit Bank Group	Nykredit Realkredit Group
DKK million				
Credit risk <sup>1</sup>	367,030	83,965	95,079	304,275
Market risk <sup>2</sup>	13,800	3,708	9,369	25,437
Operational risk	10,806	4,624	5,898	19,636
Total REA	391,637	92,296	110,346	349,348
Capital requirement subject to transitional rule <sup>3</sup>	30,730	18,800	5,657	48,317
Own funds	81,430	26,516	18,361	80,599

<sup>1</sup> Including intercompany exposures, for which reason the credit risk is greater for the company than for the Group.

<sup>&</sup>lt;sup>2</sup> Including settlement risk

<sup>&</sup>lt;sup>3</sup> The transitional rule has been determined in accordance with the transitional provisions of the CRR. Own funds must represent at least 6.4% of REA determined under Basel I.

#### 3.6.2 Pillar II

Pillar II comprises the determination of other risks as well as an increased capital requirement during a slight 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 valuation adjustment (CVA).

Following a dialogue with and approval by the Danish FSA, Nykredit in Q3/2016 implemented its own LGD estimates for business exposures in Nykredit Bank and a new method for calculating REA for exposures in default in Nykredit as a whole. New rating models for business customers were also implemented. The effect was previously incorporated in the internal capital adequacy requirement through a charge under Pillar II.

# Nykredit Realkredit Group Required CET1 capital for countercyclical buffer

Required CETT Capital for Countercyclic	ai builei		
2016			
DKK million	Sweden	Norway	Total
Credit risk			
- Exposure (standardised approach)	1,129	124	1,254
- Exposure (IRB)	23,066	2,074	25,140
Trading book			
- Sum of short and long positions	9,147	1,616	10,762
Capital requirement			
Capital requirement for credit			
exposures	660	128	788
Capital requirement for trading book	54	16	70
Total capital requirement	714	142	858

Note: The capital conservation buffer in Norway and Sweden is 1.5% of REA.  $\label{eq:capital}$ 

#### 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.

The uncertainty buffer has been set at 5% for the Nykredit Bank Group, 7.5% for Nykredit Realkredit A/S and the Nykredit Realkredit Group and 10% for Totalkredit A/S, reflecting the continuous development of the different models. The buffer is calculated on the basis of the sum of all other risks.

## 3.6.3 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. The SIFI buffer requirement was 0.8% in 2016 and increases to 1.2% in 2017.

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 2017 the capital conservation buffer is 1.3%

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. The capital requirement regarding the countercyclical buffer in Sweden and Norway totals DKK 858m.

Besides these requirements of a more technical nature, the results of the stress test exercises of the EBA and the Danish FSA must be incorporated in Nykredit's capital planning.

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

Nykredit Realkredit Group Minimum CET1 capital requirement

minimum of i capital requirement		
% of REA	2016	2019
Pillar I	4.5%	4.5%
Pillar II	-	~1.2%
SIFI buffer requirement	0.8%	2.0%
Capital conservation buffer	0.6%	2.5%
Countercyclical buffer in Denmark	0	0-2.5%
Total	5.9%	10.2-12.7%

## Nykredit Realkredit Group Required own funds

	Nykredit Realkredit A/S <sup>1</sup>	Totalkredit A/S	Nykredit Bank	Nykredit Realkredit
2016			Group	Group
DKK million				
Credit risk	29,362	6,717	7,606	24,342
Market risk	1,104	297	750	2,035
Operational risk	864	370	472	1,571
Total Pillar I	31,331	7,384	8,828	27,948
Slightly weaker economic climate (stress tests, etc)	1,110	1,097	1,198	2,773
Other risks <sup>2</sup>	1,142	286	1,192	2,551
Model and calculation uncertainties	2,519	877	561	2,495
Total Pillar II	4,771	2,260	2,951	7,819
Total required own funds	36,102	9,644	11,779	35,767

<sup>&</sup>lt;sup>1</sup> Credit risk for Nykredit Realkredit A/S comprises a 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.

## Nykredit Realkredit Group

Internal capital adequacy requirement, %

	Nykredit Realkredit A/S	Totalkredit A/S	Nykredit Bank	Nykredit Realkredit
2016			Group	Group
% of REA				
Credit risk	7.5	7.3	6.9	7.0
Market risk	0.3	0.3	0.7	0.6
Operational risk	0.2	0.4	0.4	0.4
Total Pillar I	8.0	8.0	8.0	8.0
Credit risk	0.5	1.4	1.4	1.1
Market risk	0.0	0.0	0.6	0.2
Operational risk	0.1	0.0	0.5	0.2
Other risks <sup>1</sup>	0.6	0.9	0.5	0.7
Total Pillar II	1.2	2.4	2.7	2.2
Total internal capital adequacy requirement	9.2	10.4	10.7	10.2
SIFI buffer requirement (2017)	1.2	1.2	1.2	1.2
Capital conservation buffer (2017)	1.3	1.3	1.3	1.3
Total capital requirement	11.7	12.9	13.2	12.7

 $<sup>^{1} \</sup> Other \ risks \ include \ assessment \ of \ control \ risk, \ strategic \ risk, \ external \ risk, \ concentration \ risk, \ liquidity \ risk, \ etc.$ 

 $<sup>^{2} \</sup> Other \ risks \ include \ assessment \ of \ control \ risk, \ strategic \ risk, \ external \ risk, \ concentration \ risk, \ liquidity \ risk, \ etc.$ 

# 3.7 STRESS TESTS AND CAPITAL PROJECTIONS

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

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

The most important macroeconomic factors identified are:

- Property prices
- Interest rates
- Unemployment
- GDP growth

Nykredit generally operates with three scenarios for the macroeconomic development: a base case scenario, a slightly weaker economic climate and a severe recession. The capital requirement for credit risk builds primarily on correlations between the macroeconomic factors, customer default rates (PD) and the size of the loss in case of customer default (LGD). These correlations are an essential element of the capital projection model. Operating losses in a stress scenario increase the capital requirement, while operating profits are not included. The scenarios operate with the impacts of both rising and falling interest rates. The capital charge is calculated based on the most severe scenario.

Other stress scenarios are used as required for Nykredit Bank and Totalkredit, and/or the scenarios are supplemented with assessments of factors that may have an adverse impact on the companies' risk exposures or capital.

## Scenario: Base case

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

# Stress scenario: Slightly weaker economic climate in 2017-2019

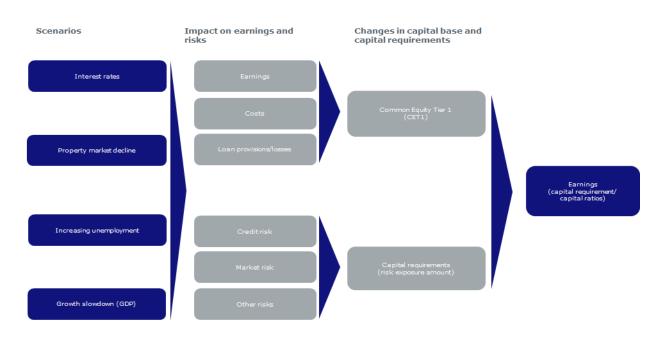
The stress scenario is designed to illustrate a slightly weaker economic climate relative to the base case scenario. The capital charge is calculated on the basis of falling interest rates, which is the more severe of the two scenarios. The capital charge reflects how much Nykredit's capital requirement would increase if this scenario occurred. The results are included in the determination of the internal capital adequacy requirement.

## Stress scenario: Severe recession

A central element of Nykredit's capital policy is to have sufficient own funds, also in the long term and in a severe recession. Nykredit continually calculates the impact of severe recession combined with a high interest rate level. The stress scenario reflects an unusual, but not unlikely, situation.

The calculations are also factored into the current assessments of capital targets going forward.

## Nykredit Realkredit Group Structure of stress tests and capital projections



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 scenarios

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

The FSA stress scenarios 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 2016. The results have confirmed Nykredit's strong capital position under the current 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. In addition, the Board of Directors of Nykredit Realkredit A/S determines the countercyclical buffer based on the calculations in the severe recession scenario. The countercyclical buffer 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 Board and the Risk Committee monitor the development in the internal capital adequacy requirements of the individual companies closely and are briefed at least quarterly. The Asset/Liability Committee monitors and coordinates the capital, funding and liquidity of the Group and the individual Group companies.

Nykredit Realkredit Group Stress scenarios for determination of capital requirement

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%	2017	2018	2019
Base case			
Property prices, growth	1.7	1.6	1.7
Interest rates <sup>1</sup>	0.3	0.6	1.0
Unemployment	3.5	3.5	3.5
GDP growth	1.5	1.7	2.0
Slightly weaker economic climate (applied under Pillar II)			
Property prices, growth	(2.5)	(2.5)	(2.5)
Interest rates <sup>1</sup>	(0.1)	(0.2)	(0.3)
Unemployment	4.8	5.7	6.5
GDP growth	(0.3)	0.0	0.0
Severe recession (applied under capital targets)			
Property prices, growth	(12.0)	(10.0)	(5.0)
Interest rates <sup>1</sup>	5.5	6.5	7.0
Unemployment	6.5	9.0	10.0
GDP growth	(3.0)	(2.0)	0.0

 $<sup>^{\</sup>rm 1}$  Average of 3-month money market rates and 10-year government bond yields.

## 3.8 FSA SUPERVISORY DIAMONDS

#### 3.8.1 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 benchmarks for five key ratios 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.
- Concentration on 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.

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 showed growth of 17.9%. 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.

## 3.8.2 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 benchmarks for five key ratios that indicate when a mortgage bank 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 business.
- 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 owner-occupied and holiday housing with an LTV above 75% of the statutory LTV limit may not exceed 10% of total lending.
- 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 prior to their commencement dates.

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 and 2-year interest reset was thus reduced by DKK 55bn in 2016. 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

	2016	2015
Lending growth (limit value <20%)	17.9%	-7.5%
Large exposures (limit value <125%)	0.0%	11.1%
Property exposure (limit value <25%)	12.6%	11.4%
Funding ratio (limit value <1.0%)	0.62	0.53
Excess liquidity coverage (limit value 50%)	265%	347%

Nykredit Realkredit Group Supervisory Diamond for mortgage lenders

Comn	nencement
Lending growth	2018
Large exposures, %	2018
Borrower's interest rate risk relating to residential properties	2018
Interest-only (IO) loans to personal customers	2020
Limitation of short-term funding	2020

## 3.9 LEVERAGE RATIO

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.

In November 2016, the European Commission submitted a proposal for revision of the Capital Requirements Regulation (CRR), including the introduction of a leverage ratio requirement of 3% in the EU. The proposal will be examined in the course of 2017 and 2018, and the requirement is expected to become effective around 2020.

The intention is to reduce the risk of excessive leverage and to allow for the potential uncertainty in the determination of capital requirements resulting from the internal models or the standardised approach.

84% of the Nykredit Realkredit Group's assets are made up of mortgage lending with very low risk. At end-2016 Nykredit's leverage ratio was 4.6%.

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

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DKK million	2016	2015
Tier 1 capital	69,539	64,013
Leverage ratio exposures	1,493,909	1,452,901
Leverage ratio	4.6%	4.4%

## Nykredit realkredit A/S

Lev	/er	ag	e r	aı	IC

DKK million	2016	2015
Tier 1 capital	70,504	63,838
Leverage ratio exposures	1,335,285	1,310,424
Leverage ratio	5.2%	4.9%

## Totalkredit A/S

Leve	erage	ratio	)

DKK million	2016	2015
Tier 1 capital	24,488	18,591
Leverage ratio exposures	681,967	638,090
Leverage ratio	3.5%	2.9%

# Nykredit Bank Group

## Leverage ratio

DKK million	2016	2015
Tier 1 capital	16,424	15,831
Leverage ratio exposures	233,279	209,297
Leverage ratio	7.0%	7.6%

## 4. CREDIT RISK

Credit risk reflects the risk of loss resulting from Nykredit's customers defaulting on their obligations. Nykredit's portfolio shows positive signs. Arrears ratios are declining for some portfolios and stable for others. Write-offs are low. Property prices are on the rise all over Denmark, thereby increasing security provided by way of mortgages. General macroeconomic conditions seem favourable.

The risk exposure amount (REA) for credit risk totalled DKK 304bn at end-2016, equivalent to 87% of total REA of DKK 349bn.

## 4.1 CREDIT POLICY

The credit policy lays down the risk profiles of the individual Group companies. It is reviewed and adopted by the Boards of Directors and is based on Nykredit's strategy and the aim that customers should perceive Nykredit as a reliable and qualified partner.

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.

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

The Boards of Directors of the Group are 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 quarterly 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.

## 4.2 CREDIT APPROVAL GUIDELINES

Nykredit's local customer centres have been authorised to process most credit applications independently. Nykredit aims to process most credit applications locally. To this end, regional credit units have been set up which, up to a limit of DKK 30m, process credit applications that exceed the authority assigned to the customer centres. Credit applications exceeding the authority assigned to the local credit units 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, the Bank's Executive Board, the Group Executive Board or the Boards 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 Group Executive Board 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 ex-

ceeds multiples of DKK 100m. 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 500m and, subsequently, when the exposure exceeds multiples of DKK 100m.

The credit limits are higher if the customer is a bank or mortgage lender.

## 4.3 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.

Nykredit uses credit risk models for credit assessment, risk management, capital management, collective impairment provisions and pricing. The use of credit risk models is an integrated part of the business processes.

When processing credit applications, the customer centres conduct an assessment of the individual customer. The assessment applies a model-based customer rating reflecting the customer's probability of default. The customer rating is supplemented with an assessment of the customer's financial position and any other relevant characteristics such as financial strength, resilience to external factors and managerial

Nykredit Realkredit Group Credit approval



Note: Nykredit Bank and Totalkredit have similar credit approval structures.

strength (businesses). If the application is for a mortgage loan, a statutory property valuation is also performed. When approving loans to personal customers, the customer's rating is supplemented with policy rules based on key ratios on the customer's 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.

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.

The largest exposures 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 and ratings.

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 strategy designed for the customer is adhered to. Customer advisers may perform overrides, revising a customer rating upwards (by one category), or downwards (unlimited). Group Credits has unlimited overriding authority. Customer exposures involving rating overrides are reviewed at least once a year. As a result, the customer rating may be adjusted or the override removed.

## 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 expected 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, for instance, PD and LGD levels.
Default	An exposure is in default where it is deemed improbable that the customer will repay all its debt in full, or where a significant amount has been in arrears for 90 days. For mortgage products, however, 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.

# 4.4 MODELS FOR DETERMINATION OF CREDIT RISK

Credit risk is determined using three key parameters: Probability of Default (PD), expected Loss Given Default (LGD) and expected Exposure at Default (EAD). These three key parameters are usually referred to as risk parameters.

## 4.4.1 Modelling principles

According to the Capital Requirements Regulation (CRR), PD estimates must be based on historical 1-year default rates and must reflect a suitable weighting between the long-term average and the current level. LGD estimates must always reflect an economic downturn.

The modelling principles are of great importance when comparing PD and LGD estimates for validation purposes 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 estimated values, the observed values mirror only the current economic climate.

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

#### 4.4.2 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.

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, financial statements, payment behaviour and any loan impairment.

Statistical models have been developed for corporate and institutional clients and production farming businesses estimating PDs on the basis of financial data as well as data on payment behaviour and any loan impairment.

## 4.4.3 Credit ratings

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

If a calculated rating is deemed not to reflect the customer's real credit quality, the rating will be corrected – this is referred to as override. Model validation includes calculated ratings as well as rating overrides.

## 4.4.4 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.

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

Estimated LGDs are calibrated so that the parameters reflect losses during a severe economic downturn. Nykredit uses the period 1991-1993 for this calibration.

## 4.4.5 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 additional drawn parts of approved credit commitments. The latter is factored in using conversion factors (CF).

#### 4.4.6. Validation and control of models

Nykredit develops and improves its credit risk models on an ongoing basis. Focus is on achieving models that are accurate and yield consistent and stable results.

The models are developed independently of the units that handle Nykredit's credit approval and model validation.

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 at least once a year. Generally, the model estimates and the observed values are aligned. The validation results are used in the ongoing ICAAP process and to determine the internal capital adequacy requirement. If validation shows that a model underestimates the risk and it is found that such underestimation is not temporary, a capital charge will be provided under Pillar II until the model has been readjusted to reflect the actual risk.

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 of the Board of Directors. The Parameters and Models Board is a subcommittee of the Risk Committee.

The ongoing validation includes:

- Quarterly monitoring: Monitoring of the models' customer ranking, comparison of the estimated and the actual number of defaults, rating distributions and migration, etc.
- Annual validation: Model estimates are compared with actual observations within different segments.
- Validation of subelements: At least every three years, the subelements of the individual models are assessed. It is assessed whether the model's input factors are still significant and representative, contributing to the explanatory power of the model.
- Quality assurance and data input checks: Data used for calculating the risk parameters are subject to a number of controls. This applies to both internal data and data from external suppliers.
- Case processing and data entry controls: Nykredit's case processing and data entry controls consist of three elements – sampling, in-depth investigation and thematic surveys. 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.

## Nykredit Realkredit Group

Validation and control of models

2016		Personal customers	Business customers				
Number	Total number of customers	Expected defaults	Actual defaults	Total number of customers	Expected defaults	Actual defaults	
Ordinary customers (rating categories 6-10)	763,348	3,711	2,639	38,898	168	133	
Ordinary customers with minor signs of weakness (rating categories 3-5)	122,624	2,213	1,508	15,591	273	227	
Weak customers (rating categories 0-2)	54,124	8,303	4,528	3,682	810	337	
Total	940,096	14,227	8,675	58,171	1,251	697	

## 4.4.8 Expected Loss

Expected Loss (EL), also referred to as IRB losses, 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 8.7bn are currently slightly higher than the Group's total impairment provisions of DKK 8.3bn (excluding impairments relating to credit institutions). The main reason is that the calculations of IRB losses apply mortgage exposure LGDs estimated on the basis of data for an economic downturn.

Write-offs dropped in 2016 compared with 2015. Total write-offs including losses on properties acquired by foreclosure amounted to DKK 1.3bn in 2016 against DKK 1.7bn in 2015. Write-offs were thus substantially lower in 2016 than the current total impairment provisions of DKK 8.3bn (excluding impairments relating to credit institutions).

## Nykredit Realkredit Group Impairment provisions and IRB losses

2016		
	Total impairment	
DKK million	provisions <sup>1</sup>	IRB losses <sup>2</sup>
Mortgage exposures		
Retail exposures	2,488	2,731
Of which		
- mortgages on real estate	2,488	2,731
- other retail exposures	-	-
Business exposures	3,254	3,049
Total mortgage exposures	5,742	5,781
Bank exposures		
Retail exposures	891	1,022
Of which		
- mortgages on real estate	294	330
- other retail exposures	597	692
Business exposures	1,698	1,928
Total bank exposures	2,589	2,949
Total exposures		
Retail exposures	3,378	3,753
Of which		
- mortgages on real estate	2,782	3,061
- other retail exposures	597	692
Business exposures	4,952	4,977
Total exposures, total	8,331	8,730

Note: Includes exposures determined subject to the advanced IRB approach. The difference between IRB losses and impairment provisions is not directly comparable with the deduction from own funds due to adjustments for prudent valuation.

<sup>&</sup>lt;sup>1</sup> Individual and collective loan impairment provisions and provisions for guarantees. Impairments relating to credit institutions are excluded as these exposures are not determined under the IRB approach.

<sup>&</sup>lt;sup>2</sup> IRB losses express the model-based expected losses for the coming year. IRB losses have been determined using LGDs for 1991-1993 pursuant to the Capital Requirements Regulation (CRR).

## 4.5 REA FOR CREDIT RISK

Total credit exposures (EAD) of the Nykredit Realkredit Group came to DKK 1,376bn at end-2016 against DKK 1,335bn at end-2015.

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.

REA for credit risk increased from DKK 265bn to DKK 304bn in 2016. The increase is mainly attributable to the business segments and stems from Nykredit's implementation in Q3 of own LGD estimates for business exposures in Nykredit Bank and the changed method for calculating REA for exposures in default in the Group as a whole, cf "Capital management". New rating models for business customers were also implemented.

The average risk weight of all exposures increased from 19.7% in 2015 to 22.1% at end-2016 as a result of the above model changes.

REA for retail exposures grew by DKK 5bn. The reason was larger lending volumes, as the average risk weight dropped from 14.3% in 2015 to 13.8% at end-2016.

## Nykredit Realkredit Group Credit exposures and REA

2016	Mortgage exposures	Bank expo- sures	Repos	Deriva- tives	Guarantees issued	Offers and undrawn credit com- mitments	Other	Total credit exposures	Exposure- weighted average risk weight, %	REA
DKK million/%										
Retail exposures	758,890	15,813	-	-	562	20,836	-	796,101	13.8	110,223
Of which	-	-	-	-	-	-	-	-	-	-
- mortgages on real estate, non-SMEs	684,921	9,456	-	-	29	6,195	_	700,600	12.6	88,429
- mortgages on real estate, SMEs	73,969	-	-	-	164	2	-	74,135	18.2	13,510
- other retail expo- sures	-	6,357	-	_	370	14,639	-	21,366	38.8	8,284
Business exposures	326,619	42,419	52,713	12,857	11,616	10,200	-	456,424	36.9	168,290
Credit institution exposures	40,938	1,502	9,086	1,854	0	-	971	54,351	14.2	7,764
Sovereign exposures	9,512	14,638	_	6	194	-	34,828	59,178	-	-
Other credit exposures <sup>1</sup>	-	-	-	_	-	-	9,458	9,458	190.3	17,997
Total 2016	1,135,959	74,372	61,799	14,718	12,372	31,036	45,257	1,375,511	22.1	304,275
Total 2015 <sup>2</sup>	1,127,204	53,350	53,700	15,546	18,684	29,569	45,140	1,343,193	19.7	264,865

<sup>&</sup>lt;sup>1</sup> Includes equity exposures, assets with no counterparty, credit valuation adjustments (CVA) and default fund contribution.

Note: Repo exposures are DKK 12.4bn higher in the Nykredit Bank Group than in the Nykredit Realkredit Group due to intra-Group trading.

<sup>&</sup>lt;sup>2</sup> Total credit exposures increased by nearly DKK 8bn compared with Nykredit's report Risk and Capital Management 2015. The reason is that repo transactions calculated according to the standardised approach have now been determined before financial collateral.

## 4.6 PORTFOLIO TRENDS

Nykredit's portfolio shows positive signs. Arrears ratios declined for some segments and were stable and low for others in 2016. Write-offs dropped in 2016 compared with 2015. Property prices rose all over Denmark, leading to higher mortgage security. The general macroeconomic climate seems favourable.

Customers' financial circumstances generally improved in 2016 as a result of mainly two macroeconomic factors – the labour market and the interest rate level. Gross unemployment decreased from an already low level of 4.4% in 2015 to 4.2% at end-2016, while residential mortgage rates remained historically low.

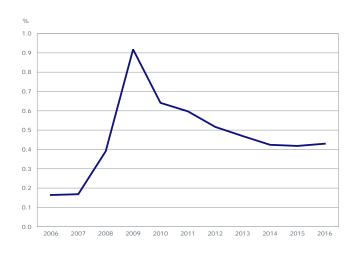
As a result, customers' ability to pay improved, and several observable indicators such as loan impairment losses, loans in default, properties acquired by foreclosure and write-offs show that this had a positive overall effect on the Group's portfolio.

In the longer term, however, there are signs of risk which, in relation to personal lending, mainly concern the strong growth in property prices in Copenhagen and Aarhus. Mortgage lending in these areas accounts for 13% of Nykredit's total mortgage lending.

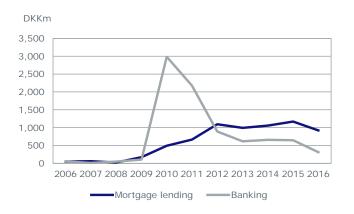
The agricultural sector is still under pressure, but property and milk prices rose towards the end of 2016, which may reduce the sector risk if prices turn out to be stable. However, general sector financial performance is still far from satisfactory, and this is reflected in the high variation in individual farm performance. Market conditions are difficult for conventional milk producers, while plant breeders seem less affected. Nykredit's exposures are mainly in the mortgage lending area where arrears ratios are on the rise. But write-offs are still modest and expected to remain relatively low. More than 70% of Nykredit's mortgage loan portfolio of almost DKK 100bn falls within 40% of the property value and 90% of the portfolio falls within 60%. The average loan-to-value (LTV) ratio in terms of the top part of the loan is stable at just under 60%.

The arrears ratios of housing cooperatives are generally very low. Some of the housing cooperatives have hedged their mortgage loans against rising interest rates using a financial instrument. Because of the historically low interest rate level, these derivatives now have high negative market values, which Nykredit has value adjusted. When interest rates go up again, the negative market values will be reduced. Nykredit Bank has no direct interest rate exposure from its portfolio of interest rate swaps due to interest rate hedging arrangements with major domestic and foreign banks. Therefore, the provisions should rather be viewed in light of the uncertainty about the legal set-up of cooperative housing and customers' financial outlooks. However, 2016 was marked by a few large exposures, which caused Nykredit to realise capital losses.

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



# Nykredit Realkredit Group



Note: Including loses incurred on properties acquired by foreclosure.

## Nykredit Realkredit Group LTVs – agriculture



#### 4.6.1 Arrears

In connection with Nykredit's mortgage lending, a borrower is deemed to be in default if payment is in arrears for 75 days. Below, the proportion of 75-day arrears will be referred to as the arrears ratio.

At the September 2016 due date, the overall arrears ratio was 0.39%, unchanged from the same time the year before, which indicates a stable development.

The arrears ratio for Nykredit Realkredit's private residential lending rose from 0.54% in 2015 to 0.64% in 2016, while arrears in Totalkredit reduced from 0.20% to 0.18%. The arrears ratios for both Nykredit Realkredit's private residential lending and Totalkredit's lending have more than halved since arrears peaked in 2009, cf Appendix B.

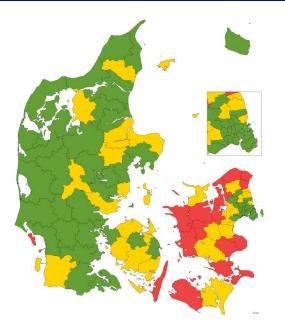
The arrears ratio for business lending rose from 0.59% in 2015 to 0.64% in 2016. In the business segment, Nykredit saw plummeting arrears ratios for corporate and institutional clients in 2016, while arrears for SMEs increased and are still relatively high, cf Appendix B.

Arrears ratios are still highest around South and West Sealand and significantly lower in the capital region and most of Jutland.

## 4.6.2 Loan impairment

Impairment losses on the Nykredit Realkredit Group's loans and advances (earnings impact) came to DKK 0.7bn in 2016 against DKK 0.9bn in 2015. 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 for the year. The lower earnings impact mainly reflects a drop in individual impairment provisions.

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's impairment provisions for potential future losses on mortgage and bank lending totalled DKK 8.4bn at end-2016. Total provisions for mortgage loan impairment were unchanged at DKK 5.7bn (0.5% of lending). Total provisions for bank loan impairment declined by DKK 0.3bn to DKK 2.6bn (5% of lending).

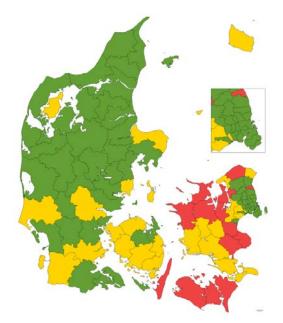
Regular individual reviews and risk assessments are conducted for all mortgage and bank exposures of a certain size with a view to uncovering any objective evidence of impairment (OEI) and potential subsequent default. If necessary, impairment provisions are subsequently made for individual exposures.

Where OEI is identified for private residential mortgage lending, individual impairment provisions are calculated automatically using a statistical model. Bank exposures are reviewed manually to identify any need for individual provisioning in case of OEI. Exposures with OEI that are 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 model-based PDs over 3% as well as loans in default for which no individual impairment provisions have been made. All bank loans not provided for individually are included in the calculation of collective impairment provisions.

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

Nykredit Realkredit Group
Private residential property – arrears 2016



The 75-day arrears ratio for private residential property was 0.23% at national level in 2016 (September due date). Arrears ratio: 0%-0.25% 0.25%-0.5% 0.5+

## 4.6.3 Exposures in default

For Nykredit as a whole, 2.8% of exposures were in default at end-2016. About 25% of exposures in default had been provided for. For mortgage lending, the ratio was about 2.7% and for bank lending about 5%. The proportion of exposures provided for relative to exposures in default was lower for Nykredit Realkredit and Totalkredit than for Nykredit Bank, as their exposures are fully secured by mortgages on real estate. The proportion of exposures in default was the same as in 2015.

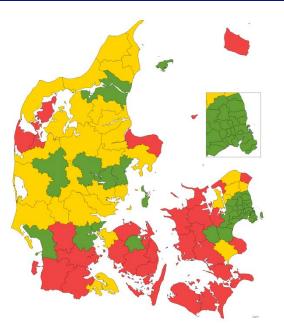
## 4.6.4 Losses and properties acquired by foreclosure

Total write-offs on the Group's customers in 2016 were DKK 1.3bn, equal to a loss ratio of 0.1%. This is a reduction of DKK 0.4bn compared with 2015. Nykredit's mortgage loan losses amounted to DKK 0.9bn. About 45% of the losses were on private residential lending, while 55% was on business lending. Nykredit Bank's loan losses amounted to DKK 0.3bn.

Losses on both bank and mortgage lending declined in 2016 compared with 2015. The development was mainly driven by a drop in losses on private residential lending. Mortgage loan losses have reduced for both Totalkredit and Nykredit Realkredit. In the private residential segment, South and West Sealand as well as Lolland-Falster still accounted for the majority of write-offs. Nykredit's losses on residential lending tend to be lowest in the cities and highest in areas in which property values are relatively low.

Loss levels were relatively low in 2016. This is due to the combination of low interest rates and relatively low unemployment, which supports the ability to pay of personal customers in particular.

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



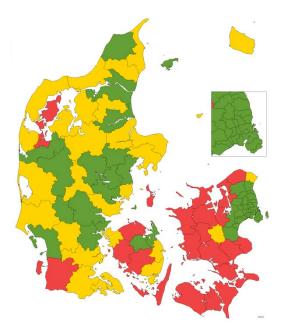
The loss ratio for private residential property was 0.12% at national level at end-2015.

Loss ratio: 0.0%-0.10% 0.10%-0.20% 0.2+

The overall picture of Nykredit's bank loan losses is positive. At end-2016 the loss ratio was 0.6% (excluding reverse repurchase lending). 81% of the Bank's losses related to business lending.

During 2016 the Nykredit acquired 148 properties by foreclosure and sold 200. The property portfolio counted 107 properties at end-2016. Both the number of properties acquired during the year and the portfolio of acquired properties have reduced considerably every year since 2012. At the beginning of the 1990s, the portfolio comprised about 1,500 acquired properties.

Nykredit Realkredit Group
Private residential property – losses relative to total lending 2016



The loss ratio for private residential property was 0.11% at national level at end-2016.

Loss ratio: 0.0%-0.10% 0.10%-0.20% 0.2+

34/69

## 4.6.5 Customers' credit quality

As a result of the generally favourable macroeconomic trends, the credit quality of 77% of Nykredit's customers was in the range ordinary to high (ratings 6-10) at end-2016. These customers typically have robust finances and make timely payments.

This type of customers made up 77% of Nykredit's personal customers, and for business, excluding agricultural, customers the percentage was 83%. For agricultural customers, it was 49%.

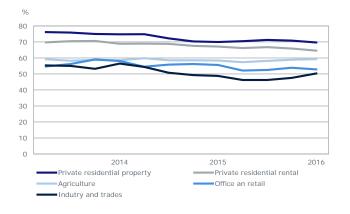
Overall, 15% of Nykredit's customers were considered "ordinary customers with minor signs of weakness" (ratings 3-5). These customers typically have less robust finances, but make timely payments. They made up 15% of personal customers, and for business, excluding agricultural, customers, the percentage was 9%. For Nykredit's agricultural customers, the percentage was 38%.

The rest of Nykredit's customers were weak customers (ratings 0-2) and customers in default, making up 8% of customers. These are typically customers who have not made timely payments and/or have defaulted on their obligations, or customers with a negative net worth or equity, or with low or negative earnings. Customers with objective evidence of impairment (OEI) are also in this group. 4% of Nykredit's customers showed OEI at end-2016.

## 4.7 SECURITY

The decision to grant a loan is 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.

## Nykredit Realkredit Group LTV - property segments



#### 4.7.1 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 the property. Nykredit generally always performs a manual valuation, but also applies a statistical model in connection with the processing of loans for detached and terraced houses and owner-occupied flats where statistical valuation is particularly accurate.

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 Property Prices Board monitors market conditions and identifies areas and property types 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 is a subcommittee of the Risk Committee.

The loan-to-value (LTV) ratio denotes the debt outstanding relative to the property value. LTV ratios play a significant role in several contexts and are used for:

- Monitoring Nykredit's mortgage lending
- Calculating customers' credit risk for the purpose of, for instance, credit assessment and capital calculations
- Calculating supplementary collateral for properties with SDO-funded loans.

LTV ratios are determined quarterly. The LTV ratios referred to below are average LTVs.

At end-2016, the LTV level of the Group's total loan portfolio was 64%, down 1 percentage point on end-2015.

The LTV level of the Group's private residential lending remained unchanged in 2016. At end-2016, it was just under 70%.

The LTV level of sectors comprised in total business lending was in the range of 50-65% at end-2016, representing a small decline on end-2015.

At end-2016, 0.5% of the Group's private residential mort-gage lending had LTVs over 100%. The bulk of the Group's loans with LTVs over 100% were granted to homeowners in the Sealand Region.

Housing prices have seen a slight uptrend since 2012, albeit with considerable regional variation. Recent years' housing market improvement has been based in and around the cities but has spread to a larger part of Denmark.

As mentioned previously, the growth areas Copenhagen and Aarhus have seen the highest price increases. Here, price increases of up to 50% have been observed since 2012. Mortgage lending in Copenhagen and Aarhus accounted for 13% of Nykredit's total mortgage lending at end-2016.

The Danish FSA has implemented several measures seeking to limit homebuyers' access to credit. On 1 November 2015 a rule was introduced stipulating that homebuyers must make a 5% down payment. On 1 February 2016 the Danish FSA issued guidelines that further tightened the discretionary income requirements for homebuyers in and around Copenhagen and Aarhus. These guidelines also include other provisions relating to a prudent credit policy. We expect these measures to gradually dampen demand, thus curbing the rise in prices. The latest price statistics seem to confirm this expectation.

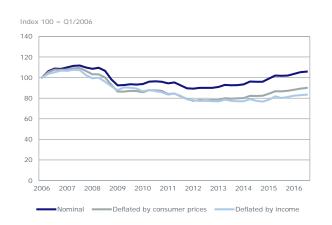
The development in commercial and agricultural property prices shows larger fluctuations quarter on quarter than seen for private residential property. The reason is that the number of transactions is lower and that commercial and agricultural properties are far less homogeneous than residential properties. Focus in relation to commercial and agricultural properties should therefore be on long-term trends, and these have shown a stable development for all property types in recent years.

## 4.7.2 Guarantees

Nykredit mainly receives guarantees from public authorities and other banks. Guarantees issued by public authorities mitigate the credit risk – mainly within mortgage lending for public 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 land registration guarantees, guarantees for interim loans and loss guarantees.

Detached and terraced house prices



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.

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. Under an agreement concluded with the partner banks, 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.

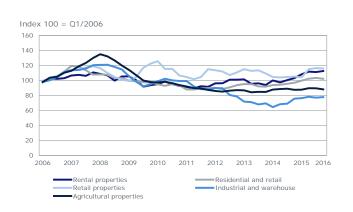
#### 4.7.3 Financial collateral

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 own security values based on estimated haircuts to the different types of financial collateral.

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 GMRA 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 counterpar-

Commercial property prices



Note: 3M moving averages.

ty or customer, all the financial contracts of the customer governed by the contractual basis are netted. Netting means that the potential obligation of each customer is determined as the sum of potential obligations under all the customer's contracts less the sum of potential claims.

#### 4.8 CONCENTRATION RISK

Concentration risk is the risk of being particularly exposed to groups of customers with identical or similar credit risks.

#### 4.8.1 Mortgage lending

Nykredit's portfolio is highly diversified in terms of loan type, geography, loan term and size of debt outstanding. A majority of the mortgage loans (62%) were granted to homeowners

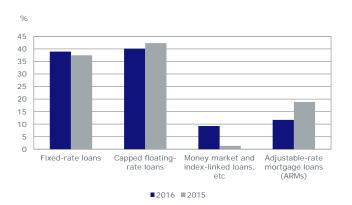
Nykredit's lending to industry and trades and to office and retail amounted to 12% at end-2016, while lending to agricultural customers accounted for 8%. Nykredit's lending to residential rental customers and housing cooperatives amounted to 13% and 3%, respectively.

The Group's portfolio of fixed-rate loans grew by DKK 30bn during 2016. The rise derived from loans with and without interest-only (IO) periods. The portfolio of IO loans decreased by DKK 22bn, while repayment loans rose by DKK 25bn.

51% of all private residential mortgage loans have an optional IO period. In 2016 the IO periods of private residential mortgage lending corresponding to DKK 16bn expired. Generally, homeowners have 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 18bn will expire in 2017.

Based on the above and 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 notable concentration risk.

Nykredit Realkredit Group Private residential lending by loan type



Nykredit's international credit exposures represented about 5% of the total portfolio at end-2016. Nykredit has no lending for activities outside Europe.

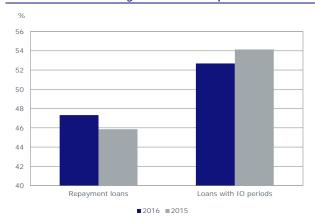
#### 4.8.2 Bank lending

Pursuant to the Capital Requirements Regulation (CRR), individual exposures may not exceed 25% of eligible capital after credit risk mitigation. Nykredit Bank had no exposures exceeding this limit in 2016.

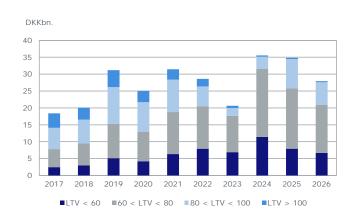
The Bank's largest single exposure to a non-financial counterparty was DKK 1.4bn at end-2016, equal to 7% of eligible capital. Nykredit Bank has no large exposures exceeding 10% of eligible capital.

The Bank's 20 largest exposures to non-financial counterparties amounted to an aggregate DKK 18bn, equivalent to 98% of eligible capital at end-2016. In 2015 the Bank's 20 largest exposures to non-financial counterparties amounted to DKK 15.3bn, equivalent to 95% of eligible capital.

Nykredit Realkredit Group
Private residential lending with/without IO periods



Nykredit Realkredit Group
Private residential lending with expiry of IO periods



#### 4.9 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 determining the capital requirement, counterparty risk exposures are calculated according to the market value method, ie as any positive market value of the transaction plus the potential future credit exposure.

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

The counterparty risk exposure after netting and collateral was DKK 15.9bn at end-2016. Of this amount, derivatives represented DKK 14.7bn and repo transactions DKK 1.2bn. REA totalled DKK 17.2bn.

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, there 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 indirect membership of the London Clearing House.

#### 4.9.1 Value adjustment of derivatives

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

Nykredit makes fair value adjustments of derivatives in accordance with the International Financial Reporting Standards (IFRS). This includes individual value adjustments of customers showing objective evidence of impairment (OEI), credit valuation adjustments (CVA) based on customers' current credit quality as well as management judgement.

Nykredit also makes adjustments for other factors. As at end-2016, Nykredit has made funding valuation adjustments (FVA) where customers have not provided security for derivatives.

#### Nykredit Realkredit Group Counterparty risk

		2016			2015	
DKK million	Derivatives	Repos	Total	Derivatives	Repos	Total
Exposure before netting	63,884	61,799	125,683	69,831	71,549	141,380
Netting	45,697	-	45,697	50,317	-	50,317
Exposure after netting	18,187	61,799	79,986	19,514	71,549	91,063
Collateral received	3,469	60,642	64,112	3,965	69,314	73,279
Exposure after netting and collateral	14,718	1,156	15,874	15,549	2,235	17,784

#### 4.9.2 Swaps with business customers

A number of business customers with floating-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 when customers hedged 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 values of the individual swap contracts to become negative.

The development in Nykredit's total impairment provisions for swaps is affected by several factors, including the level of long-term interest rates, credit spreads to swaps, the maturities of the contracts as well as customers' credit quality. The Danish FSA has encouraged the adoption of a prudent approach to the assessment of customers with swap contracts. This means that swap contracts with customers showing OEI (rating 0 and exposures in default) are value adjusted in full. This despite the fact that customers with rating 0 still make timely payments to Nykredit.

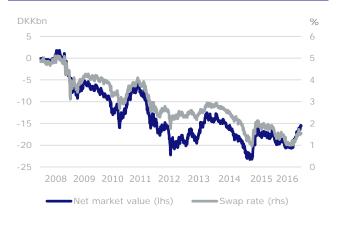
At end-2016 the negative market value of derivatives relating to customer exposures was about DKK 15.5bn. The market values of individual swap contracts became more negative in 2016 as a result of interest rate declines. However, due to the termination of swaps and run-off of contracts, the total negative market value of Nykredit's portfolio amounted to DKK 15.5bn at end-2016 compared with DKK 16.4bn at end-2015.

Apart from the changes in market values, total impairment provisions were affected by tightening credit spreads and the run-off of contracts. Nykredit further terminated swaps worth DKK 1.3bn, which also reduced total impairment provisions. The terminated swaps are now recognised as write-offs in the financial statements.

The negative market value of swap contracts with housing cooperatives accounted for 42% of the total negative market value of derivatives relating to customer exposures. Of this market value of DKK 6.6bn, 46% has been value adjusted, equivalent to DKK 3.0bn.

At end-2016, total provisions amounted to DKK 5.0bn, of which credit value adjustments represented DKK 4.2bn. Furthermore, Nykredit terminated a few swap contracts totalling DKK 1.3bn in 2016.

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



#### Nykredit Realkredit Group

Total

Market value of derivatives contracts with business customers

2016			
	Negative	Total impairment	Total impairment provisions as % of market
DKKbn/%	market value	provisions <sup>1</sup>	value
Housing			
cooperatives	6.6	3.0	46
Agriculture	1.3	0.3	27
Other	7.6	0.8	11

<sup>&</sup>lt;sup>1</sup> Individual value adjustments, CVA and management judgement

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#### 4.9.3 Use of external ratings

S&P Global Ratings and Moody's provide information to Nykredit about the credit assessments of countries, counterparties and issues. Nykredit uses rating information as an integrated part of data flows and receives external credit assessments from S&P and Moody's daily.

The mapping of credit assessments to credit quality steps is based on the mapping table of the Committee of European Banking Supervisors (CEBS). A risk weight is assigned to each credit quality step to be applied to exposures at the individual credit quality steps for the calculation of total REA under the standardised approach for credit risk pursuant to Articles 111-134 of the Capital Requirements Regulation (CRR).

### Nykredit Realkredit Group

#### Long-term ratings

Risk weight			
Credit quality step - Rating	Institution	Corporate	Sovereign
1 - AAA to AA-	20%	20%	0%
2 - A+ to A-	50%	50%	20%
3 - BBB+ to BBB-	50%	100%	50%
4 - BB+ to BB-	100%	100%	100%
5 - B+ to B-	100%	150%	100%
6 - CCC+ and below	150%	150%	150%

## Nykredit Realkredit Group

#### **Short-term ratings**

Risk weight Credit quality step - Rating	Institution	Corporate
1 - A-1+	20%	20%
2 - A-1	50%	50%
3 - A-2 to A-3	100%	100%
4 - Below A-3	150%	150%

### Nykredit Realkredit Group

## Exposure using ECAI credit assessments

2016		
DKK million	Exposures	REA
Institution	26,171	2,624

## 5. 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, etc.

Market risk can be further divided into *general risk*, which means risk affecting the financial markets in general, and *specific risk*, which is the risk related to one individual issuer of securities. This distinction is applied in the day-to-day risk management as well as in the determination of risk exposures involving market risk.

Nykredit's market risk relates mainly to the management of equity and liquidity reserves. In addition, Nykredit Bank and Nykredit Realkredit incur market risk when trading in bonds, swaps and other financial products with customers.

Nykredit's market risk is determined for two purposes:

- Internal management of all positions involving market risk
- Determination of the risk exposure amount (REA) for market risk for use in the determination of capital adequacy

For the purpose of internal management, various key measures are applied to determine market risk, including a Value-at-Risk model. Furthermore, Nykredit's market risk appetite is laid down in the market risk policy.

In the determination of REA for market risk, the Value-at-Risk model is combined with standardised approaches to calculate one aggregate risk exposure amount. The model has been approved by the Danish FSA and is applied for determination of the main part of Nykredit's general market risk.

Risk exposures involving market risk account for 7.3% of total RFA

#### **5.1 MARKET RISK POLICY**

The Board of Directors has adopted a market risk policy with the main principle that losses on exposures involving market risk must not significantly affect Nykredit's total results. Market risk is managed by means of estimated losses in stress scenarios. Statistical as well as forward-looking stress scenarios are used to calculate the estimated losses.

The Parent 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, see "Spread risk" below.

In practice, Nykredit incurs only negligible market risk on its mortgage lending – regardless of financial market trends. This is because mortgage lending is governed by a statutory balance principle and match-funded, see the description under "Liquidity risk and funding".

#### **5.2 MARKET RISK GUIDELINES**

In addition to the market risk policy, Nykredit's Board of Directors has laid down more detailed market risk guidelines that are used in the day-to-day management.

Through the Asset/Liability Committee and in accordance with the guidelines 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 guidelines for each company's activities.

The guidelines permit the use of eg financial instruments if the risk involved can be measured and managed. The risk limit applying to a specific asset includes any use of financial instruments.

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

#### **5.3 MARKET RISK MEASURES**

Market risk cannot be assessed adequately on the basis of a single risk measure. Nykredit therefore applies different measures that express sensitivity to movements in financial markets combined with a Value-at-Risk model that captures one aggregate risk level.

These calculations are supplemented with stress tests, which show the potential losses on the current portfolios in different economic scenarios.

# 5.3.1 Traditional risk measures for day-to-day internal management

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 the occurrence of the event would affect the value of a portfolio.

#### Interest rate risk

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

Nykredit's interest rate exposure was DKK 342m at end-2016. This means that Nykredit would lose DKK 342m at a general interest rate rise of 1%.

Overall, Nykredit's interest rate risk is relatively limited.

#### Spread risk

Spread risk is the risk of spread widening between covered bond yields and swap rates. The spread risk was DKK 2.9bn for the Group's portfolio of covered bonds and around DKK 127m for the portfolio of credit bonds at end-2016. The spread risk on issued senior secured debt and senior unsecured debt totalled around DKK 350m at end-2016.

This means that the Group would lose DKK 2.9bn on its investments in covered bonds if the spread between covered bond yields and swap rates widened by 1 percentage point.

Nykredit reduced this risk slightly in 2016 due to market uncertainty about the Brexit vote, the US presidential election and other factors.

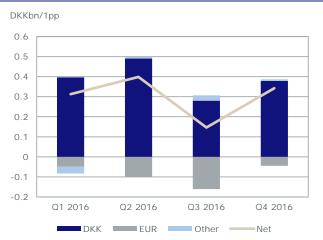
### Equity price risk

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 470m at end-2016.

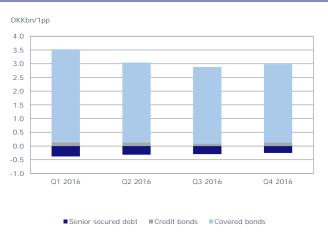
The aggregate equity price risk includes both the trading book and the banking book, the latter containing sizeable strategic equity positions. For more details on equity price risk outside the trading book, see 5.6.1.

Overall, given its relatively large equity portfolio Nykredit's equity price risk is substantial.

#### Nykredit Realkredit Group Interest rate risk



#### Nykredit Realkredit Group Spread risk



Note: Spread risk has been determined exclusive of issued senior unsecured debt.

#### Foreign exchange risk

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

Nykredit hedges its foreign exchange risk except for some minor tactical foreign exchange positions held to achieve a gain. Therefore, the Group had only minor foreign exchange positions in currencies other than EUR in 2016.

Overall, Nykredit's foreign exchange risk is limited.

#### Volatility risk

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

Volatility risk is the risk of loss as a result of changes in market expectations for future volatility.

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

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

The risk is limited and stems mainly from the portfolio of Danish callable covered bonds, but also from other interest rate and equity derivatives.

# 5.4 MODELS FOR DETERMINATION OF MARKET RISK

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

The model is applied in the day-to-day internal management and in the determination of REA for positions involving market risk. The model set-up and choice of parameters depend on the purpose, and the amounts calculated for either purpose are not comparable.

#### 5.4.1 VaR for internal management

For the purpose of the day-to-day internal risk management, the VaR model has been incorporated into Nykredit's securities systems, and VaR is calculated and reported on a daily basis according to prescribed limits. VaR limits have been laid down at Group, company and organisational entity levels.

The VaR model applies a confidence level of 99% and a time horizon of 1 day. The VaR model comprises for this purpose all Nykredit's significant portfolios involving market risk.

Nykredit's internal VaR totalled DKK 79m at end-2016. This means that, according to VaR for internal management, Nykredit would, at a 99% probability, lose a maximum of DKK 79m in one day in consequence of market fluctuations.

VaR reduced in 2016 due to a lower risk exposure to covered bonds and a lower probability of fluctuations in model risk factors related especially to the Brexit vote in the UK in June 2016.

The calculation of VaR for internal management includes positions in the trading book and in the banking book.

## Nykredit Realkredit Group VaR for internal management



#### 5.5 REA FOR MARKET RISK

Nykredit has the approval of the Danish FSA to apply a VaR model on a limited portfolio for the statutory determination of REA for market risk. The approval extends to Nykredit Realkredit A/S and Nykredit Bank A/S. Totalkredit A/S applies the standardised approach only.

In determining REA for market risk, Nykredit uses a combination of internal models (VaR) and standardised approaches, and the risk exposures are furthermore divided into general risk and specific risk.

For Nykredit Realkredit A/S, the VaR calculations are only made for the trading book, while for Nykredit Bank A/S both the trading book and the banking book are included (but excluding equities). These calculations are restricted by the FSA approval unlike the calculation of VaR for internal management, which includes all portfolios involving market risk. The calculations are made on a daily basis.

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.

To factor this in, a stressed VaR is calculated in addition to the current VaR.

The sum of stressed and current VaR denotes the basis of total REA calculated using internal models.

Stressed VaR is determined according to the same principles as current VaR. Stressed VaR must be calculated for the current portfolio of positions, but using volatilities and correlations (market data) from a period of significant stress. The period of stress is defined at least annually in Nykredit Realkredit A/S and Nykredit Bank A/S.

For the end-2016 portfolios of Nykredit Bank A/S and Nykredit Realkredit A/S, the period of the collapse of Lehman Brothers in September 2008 presents the largest fluctuations.

Total REA for market risk came to DKK 25.4bn at end-2016. Nykredit's total REA from VaR amounted to DKK 14.6bn at end-2016, of which stressed VaR amounted to DKK 11.9bn.

## Nykredit Realkredit Group REA for market risk

	Specific risk	General risk	Total REA	Total REA
DKK million			2016	2015
Internal models (VaR):				
Value-at-Risk (99%, 10 days)	-	2,780	2,780	4,562
Stressed Value-at-Risk (99%, 10 days)	-	11,851	11,851	11,802
Standardised approach:				
Debt instruments	7,536		7,536	8,687
Equities	2,766		2,766	2,206
Collective investment schemes	419		419	701
Settlement risk:			85	0
Total market risk	10,721	14,631	25,437	27,958

#### 5.4.2 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. In the 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 (called exceptions).

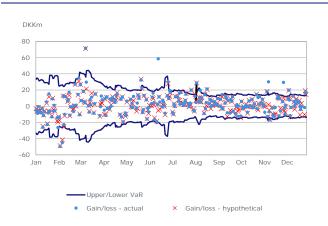
If the actual losses exceed the model's estimates five or more times within one year, REA will be adjusted upwards. VaR backtests for Nykredit Realkredit A/S and Nykredit Bank A/S are shown in the charts below.

Nykredit Realkredit A/S recorded four exceptions in 2016, while Nykredit Bank A/S recorded none.

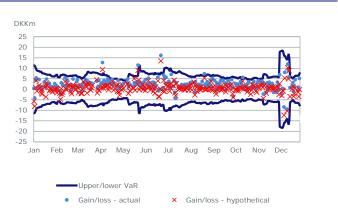
Three of the exceptions stemmed from particularly large spread widening on the portfolio of credit bonds in Q1/2016 combined with a simplified description in the model of the portfolio risk.

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 changes in the risk profiles of the individual companies.

#### Nykredit realkredit A/S VaR backtest



#### Nykredit Bank A/S VaR backtest



#### 5.6 RISK OUTSIDE THE TRADING BOOK

Nykredit classifies the trading and banking books at portfolio level according to 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.

The mortgage lending business and the matching funding are regulated by the statutory balance principle. This ensures that the market risk related to these portfolios is limited.

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

- Prepaid funds and proceeds from borrowers with fixedprice 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.

This interest rate exposure was a negative DKK 40m at end-2016.

#### 5.6.1 Equity price risk outside the trading 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.

The determination of equity price risk outside the trading book is included in total REA for credit risk.

Equity exposures outside the trading book amounted to DKK 4.1bn at end-2016.

#### Nykredit Realkredit Group Maturity of interest rate exposures

2016  DKK million	0-1 year	1-3 years	3-6 years	Over 6 years	Total
Nykredit Realkredit A/S	6	46	32	(142)	(58)
Totalkredit A/S	13	8	(9)	6	18
Nykredit Bank A/S	-	-	-	-	-
Total	19	54	23	(136)	(40)

#### Nykredit Realkredit Group Equities outside the trading book

2016 DKK million	Market value	Carrying amount	Unrealised gains
Strategic equities	2,445	2,115	330
Other equities	1,077	1,044	33
Private Equity	603	594	9
Total	4,126	3,753	372

## 6. LIQUIDITY RISK AND FUNDING

Nykredit's liquidity risk is the risk that Nykredit is unable to fulfil its financial obligations and meet regulatory and rating requirements in the short, medium and long term. Liquidity risk is also the risk of a lack of funding preventing Nykredit from pursuing the adopted business model, or the risk that Nykredit's costs of raising liquidity become prohibitive.

Mortgage lending and the matching funding are regulated by the balance principle. This means that Nykredit incurs limited interest rate risk, foreign exchange risk and liquidity risk on its mortgage lending and the underlying funding. Liquidity and market risk is further reduced by the Danish act regulating refinancing risk, which ensures mortgage loan refinancing in special situations.

The current liquidity risk is therefore limited, and measured against the liquidity policy the risk level is low. However, the coming regulatory and rating requirements, including ALAC, NSFR, debt buffer and Supervisory Diamond benchmarks, will impose higher demands on the composition of liquidity and funding sources, and Nykredit therefore has a particular focus on these requirements.

Increasing property prices have led to falling loan-to-value ratios of mortgaged properties. As a result, Nykredit's need to provide supplementary collateral for its covered bond issues has declined in the past year.

Funding costs have been stable, and Nykredit has seen good demand for its bond issues. Also, a growing deposit surplus has reduced the need for short-term funding in Nykredit Bank.

#### **6.1 LIQUIDITY POLICY**

The liquidity policy defines Nykredit's overall liquidity risk profile and funding structure.

The aim of the liquidity policy is to ensure that Nykredit's funding and liquidity management supports the mortgage lending business and ensures competitive prices for customers and Nykredit, regardless of the market conditions. Furthermore, the liquidity management must ensure that Nykredit can maintain high ratings and its position as issuer of covered bonds (SDOs).

#### **6.2 LIQUIDITY MANAGEMENT GUIDELINES**

Based on Nykredit's liquidity policy set out by the Board of Directors, the Executive Board has laid down the operational limits for liquidity management.

Liquidity management can be divided as follows:

- intraday liquidity management ensuring that Nykredit fulfils its payment and settlement obligations in a timely manner in both normal and unexpected circumstances
- short- and medium-term liquidity management ensuring that Nykredit has sufficient liquidity to meet financial obligations and regulatory requirements for a minimum period of six months in various stress scenarios
- long-term liquidity management ensuring that Nykredit has sufficient liquidity to meet financial obligations and regulatory requirements for a minimum period of 12 months in an expected scenario.

Furthermore, limits have been laid down for the application and diversification of funding sources and for leverage, ensuring competitive funding and an appropriate leverage level.

The Boards of Directors of Nykredit Realkredit A/S, Totalkredit A/S and Nykredit Bank A/S annually receive a report on the Internal Liquidity Adequacy Assessment Process (ILAAP), which describes the liquidity positions, liquidity management and funding profiles of the companies.

#### 6.3 LIQUIDITY COVERAGE RATIO (LCR)

The Liquidity Coverage Ratio (LCR) is applied to assess Nykredit's short-term liquidity requirement. The LCR denotes the ratio between liquid assets and net cash outflows over a 30-day period.

Under the LCR rules, Nykredit must hold a large stock of liquid assets and, as a SIFI, fulfil an LCR of 100%. At end-2016, Nykredit's LCR was 321% and the excess liquidity coverage totalled DKK 75bn of liquid assets.

In connection with the implementation of the LCR, the Danish FSA required that Nykredit Realkredit A/S and Totalkredit A/S hold a stock of liquid assets of at least 2.5% of total mortgage lending. At end-2016, liquid assets eligible for meeting the minimum requirement amounted to DKK 56bn against a requirement of DKK 28bn.

Nykredit Bank aims to have a comfortable excess coverage relative to the LCR. The LCRs of Nykredit Realkredit and Totalkredit are high compared with the required level due to their business models and the minimum requirement of the stock of liquid assets.

As of the beginning of Q4/2016, Nykredit must fulfil an LCR currency requirement in EUR of 60%. This requirement will increase to 80% in Q2/2017 and 100% in Q4/2017. At end-2016 Nykredit's LCR in EUR was 542%.

#### **6.4 SUPPLEMENTARY COLLATERAL**

In order for Nykredit's SDO capital centres to maintain SDO status and retain a AAA rating, Nykredit must provide supplementary collateral for loans exceeding the LTV limit in case of falling property prices.

As the prices of commercial and residential properties have generally gone up, the supplementary collateral requirement has decreased. The supplementary collateral requirement in SDO capital centres amounted to DKK 26bn at end-2016 against DKK 32bn at end-2015.

Nykredit maintains a collateral buffer in case property prices should fall. Owing to this buffer, no further supplementary collateral is required in case of a general property price fall of up to 5%, or a larger fall in individual areas, for example in Copenhagen.

The supplementary collateral requirement is an important factor in relation to the excess liquidity coverage and the raising and tying-up of liquidity.

#### 6.5 S&P GLOBAL RATINGS KEY RATIOS

S&P Global Ratings (S&P) applies long-term and short-term liquidity metrics. The long-term metric, the Stable Funding Ratio (SFR), denotes the ratio between lending and stable funding with maturities over 1 year. The short-term metric, BLAST, denotes the ratio between broad liquid assets and short-term wholesale funding with maturities below 1 year.

The SFR resembles both current and future regulatory requirements:

- the funding ratio under the present Supervisory Diamond for banks
- limits to loans with short-term funding under the Supervisory Diamond for mortgage lenders
- the Net Stable Funding Ratio (NSFR)

At end-2016 Nykredit's SFR was 89%. S&P considers SFR at 100% as a neutral level. The ongoing reduction of loans with short refinancing intervals will improve this ratio.

BLAST may be compared to the LCR and the coming liquidity benchmark under the Supervisory Diamond for banks. At end-2016, Nykredit's BLAST was 0.59.

## Nykredit Realkredit Group S&P - key ratios

2016	SFR	BLAST
Nykredit Realkredit Group	89%	0.59
Nykredit Bank A/S	113%	1.25

#### Nykredit Realkredit Group

	Excess liquidity coverage LCR (%) (DKKbn)				ige	LCR E	EUR (%)		
2016	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4
Nykredit Realkredit Group	278%	226%	313%	321%	60.9	60.4	74.9	75.3	542%
Nykredit Realkredit A/S and Totalkredit A/S	904%	501%	1369%	1052%	51.9	42.3	56.8	46.2	-
Nykredit Bank	135%	143%	148%	153%	9.5	15.8	15.8	18.5	-

#### 6.6 STRESS TESTS

To sustain Nykredit's business model and also to ensure that Nykredit has sufficient liquidity to meet regulatory requirements, LCR projections are prepared in expected and stressed scenarios.

Liquidity forecasts are also made, including various liquidity stress tests, for Nykredit Realkredit A/S and Totalkredit A/S.

The excess liquidity coverage is the liquid assets not reserved for meeting liquidity requirements, including the LCR, the minimum liquidity requirement, the supplementary collateral requirement and the rating agencies' overcollateralisation (OC) requirement.

For Nykredit Realkredit A/S and Totalkredit A/S, the excess liquidity coverage relative to the minimum liquidity and supplementary collateral requirements must be positive for at least 12 months in an expected scenario and at least 6 months in stressed scenarios. Also, the LCR must be over 100% on a 12-month horizon in an expected scenario and a 6-month horizon in stressed scenarios.

For Nykredit Bank, the excess liquidity coverage relative to the LCR must be positive for at least 3 weeks under stress, and the stock of liquid assets must be positive for 7 months under stress. The required periods of positive excess coverage in stressed scenarios are longer for Nykredit Realkredit and Totalkredit, as mortgage lending activities cannot be scaled up or down to the same extent or as quickly as banking activities.

The stressed scenarios are designed with the risk factors deemed to have the greatest impact on Nykredit's liquidity position, including housing prices, arrears, and market values of the bond portfolio.

The stress tests show the resilience of the liquidity position in a situation where Nykredit has no access to a significant part of its usual funding sources.

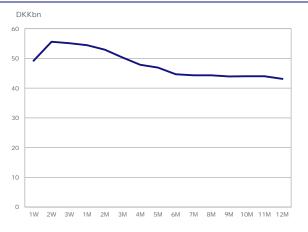
The excess liquidity coverage is determined relative to an expected scenario as well as company-specific, market-specific and combination stress scenarios, the last scenario being the most severe.

Nykredit Realkredit A/S and Nykredit Bank A/S have positive liquidity for a 12-month period in the combination stress scenario.

#### Nykredit Realkredit A/S and Totalkredit A/S Liquidity stress testing



#### Nykredit Bank A/S Liquidity stress testing



#### 6.7 FUNDING

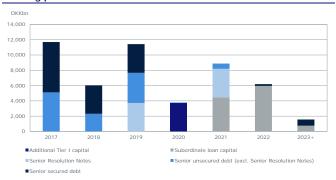
Nykredit has a sizeable balance sheet and extensive market activities, including daily tap issuance and sale of bonds in the market to fund its mortgage lending. Moreover, Nykredit undertakes the ongoing refinancing of adjustable-rate mortgage loans (ARMs) and loans funded by floating-rate bonds. Nykredit also issues capital market funding to obtain a suitable buffer against regulatory and rating requirements.

Nykredit raises funding in the following markets:

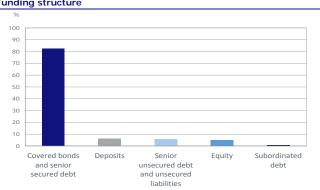
- Danish covered bonds (SDOs/ROs)
- Senior secured debt
- Secured and unsecured bank loans
- Senior unsecured debt
- Bail-inable senior debt (senior resolution notes)
- Subordinated debt

At end-2016 Nykredit had issued Danish covered bonds (SDOs/ROs) of a nominal outstanding amount of DKK 1,216bn against DKK 1,212bn at end-2015.

#### Nykredit Realkredit Group Funding profile



### Nykredit Realkredit Group Funding structure



#### 6.7.1 Covered bonds

By far the greater part of Nykredit's lending consists of mortgage loans funded by covered bonds (ROs and SDOs) according to the balance principle. The balance principle limits the financial risk Nykredit may assume in relation to lending and funding.

As a consequence of the new rating agency and regulatory requirements, Nykredit launched initiatives in late 2014 to reduce its proportion of short-term funding. This has led to a new price structure that increases 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.

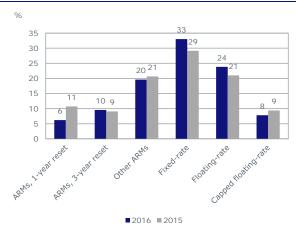
The period since 2014 has seen extensive refinancing of ARMs with 1-year interest reset into loan types with longer reset periods, mainly F-kort, Cibor and fixed-rate loans. This trend continued in 2016. The proportion of ARMs with 1-year interest reset was reduced by DKK 51bn in 2016, a reduction from 11% of total lending at end-2015 to 6% at end-2016.

The reduction of ARMs with 1-year interest reset has also reduced the risk related to the refinancing auctions. The refinancing volumes have decreased since 2013, and at the auctions in June and December 2017 the volumes are expected to rise as a large amount of floating-rate bonds issued around 2007 is up for refinancing. Based on experience from 2015 and 2016, a large proportion of the loans will be prepaid and refinanced into other types of loan.

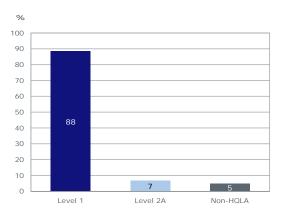
Moreover, Nykredit strives to build bond series of a total outstanding amount over EUR 500m to obtain an efficient pricing of its bonds. Nykredit Realkredit A/S and Totalkredit A/S's joint bond issuance contributes to creating large volumes and deep liquidity in the Group's key bond series. The liquidity is underpinned by Nykredit's large market share and implies better LCR classification of the covered bonds in issue.

As much as 88% of the outstanding amounts in Nykredit's active bond series is today classified in the top LCR category (Level 1), while 7% is in the second-best category (Level 2A).

#### Nykredit Realkredit Group Mortgage lending by Ioan type



Nykredit Realkredit Group LCR classification of covered bonds



#### Nykredit Realkredit Group Refinancing volumes



#### **6.8 ENCUMBERED ASSETS**

Nykredit's main activity is match-funded mortgage lending secured by mortgages on real estate. Nykredit's lending to customers is 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 as "asset encumbrance". Moreover, Nykredit provides collateral in connection with derivatives trading and repo transactions.

At end-2016 encumbered assets made up 84% of Nykredit's total assets, which was unchanged relative to 2015. It is natural that Nykredit should have a relatively high asset encumbrance ratio. It follows from the Danish mortgage lending model under which mortgage loans serve as collateral in favour of bondholders in the individual capital centres.

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.

Specifications concerning encumbered assets are shown in Appendix C.

#### 6.9 CREDIT RATINGS

Nykredit has retained the services of the international credit rating agencies S&P Global Ratings (S&P) and Fitch Ratings regarding the credit rating of the Nykredit companies and their funding.

#### 6.9.1 S&P Global Ratings

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

Senior secured debt is rated AA- by S&P. The rating outlook is stable.

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

S&P announced in July 2016 that they revised the rating outlook on Nykredit Realkredit A/S and Nykredit Bank A/S and on senior secured debt from negative to stable.

#### 6.9.2 Fitch Ratings

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

## 6.9.2 Moody's Investors Service

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

#### Nykredit Realkredit Group Credit ratings

End-2016	Nominal	S&P	Fitch
	DKKbn		
SDOs, ROs and senior secured debt			
Nykredit Realkredit A/S			
- Capital Centre C (covered bonds, RO)	1	AAA	
- Capital Centre D (covered bonds, RO)	114	AAA	
- Capital Centre D (senior secured bonds)	4	AA-	
- Capital Centre E (covered bonds, SDO)	384	AAA	
- Capital Centre G (covered bonds, RO)	49	AAA	
- Capital Centre H (covered bonds, SDO)	628	AAA	
- Capital Centre H (senior secured bonds)	11	AA-	
- Capital Centre I (covered bonds, RO)	7	AAA	
- Nykredit Realkredit In General (covered bonds, RO)	1	AAA	
Totalkredit A/S			
- Capital Centre C (covered bonds, RO)	12	AAA	
Other ratings			
Nykredit Realkredit A/S			
- Short-term unsecured rating		A-1	F
- Long-term unsecured rating		Α	,
- Senior Resolution Notes		BBB+	,
- Tier 2 capital		BBB	Α
- Tier 2 capital (CoCo)		BBB	BBI
- Additional Tier 1 capital		BB+	BB-
Nykredit Bank A/S			
- Short-term deposit rating		A-1	F′
- Long-term deposit rating		Α	,
Euro MTN Programme			
- Short-term senior debt		A-1	F
- Long-term senior debt		A+	,
Euro Commercial Paper Programme and Certificate of Deposit Programme			
- Short-term senior debt		A-1	F′

<sup>&</sup>lt;sup>1</sup> Bonds in issue at nominal value at 31 December 2016.

## 7. OPFRATIONAL 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 risk, IT risk, compliance risk and model risk.

The operational risk relating to Nykredit's primary activities is limited. Especially mortgage products are highly standardised.

REA for operational risk amounted to DKK 19.6bn at end-2016, or 6% of total REA.

#### 7.1 OPERATIONAL RISK POLICY

The Board of Directors lays down the Group's policy and guidelines for operational risk as well as its risk appetite in this area.

It is Nykredit's policy to promote a culture where openness about and awareness of operational risk are natural elements of the everyday work of all staff members, and to ensure that the Risk Committee, the Executive Board, the Risk Board and the Board of Directors are briefed regularly on key risk areas.

The risk policy stipulates that operational risks should be low relative to the other types of risk of the Group. Operational risks are assessed on the basis of the probability of a given event occurring and the potential loss resulting from such event.

#### 7.2 GUIDELINES FOR OPERATIONAL RISK

The Board of Directors' guidelines to the Executive Board set out the tasks and responsibilities for ensuring that the operational risks relating to running Nykredit's business are mitigated and managed in accordance with the principles and limits of the operational risk policy. The Executive Board is responsible for ensuring that the relevant skills are available.

In connection with strategic and business decisions, it is assessed whether they may involve operational risks that are contrary to the policy laid down by Board of Directors. The same applies in connection with approval of new products.

The Executive Board has delegated the ongoing monitoring of operational risk to the Risk Committee, which regularly reviews main risk factors and the specific action plans for selected risk factors.

#### 7.3 COMPLIANCE

Operational risk includes compliance risk, which is subject to separate guidelines. This area is managed by the compliance function headed by the Chief Compliance Officer as described in 2.3.4. Compliance risk is reported to the Board of Directors and the Executive Board.

The compliance function must review as a minimum all customer-facing and market-facing processes within an appropriate time period. A five-year overview of risk areas is prepared for the Group's main areas of activity. The risk areas are selected according to the concept of materiality and risk.

Furthermore, the compliance function has a continued focus on strategic measures that may alter the risk profile of the organisation. It also monitors new and coming regulation and changes in supervisory practices. This currently relates to new anti-money laundering legislation, MiFID II and the EU data protection regulation.

#### 7.4 MANAGEMENT AND MONITORING

Nykredit is continuously working to create a risk culture where the awareness of operational risk is a natural part of everyday work. Given its nature and characteristics, operational risk is best mitigated and managed through the day-to-day business conduct. The responsibility for the day-to-day management of operational risk is 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. Operational risk gain events, potential operational loss/gain events and events that did not lead to a loss/gain (near-miss events) are also recorded.

The recording of operational risk events must include information about the type of product, process and risk the event concerned as well as about any insurance cover and the time consumption relating to the event. In 2016 both the number of operational risk events and Nykredit's losses centred on 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 a good management tool.

#### 7.5 REPORTING

Nykredit's overall operational risk and risk profile changes are reported semi-annually to the Board of Directors and the Executive Board. Logged events are reported quarterly to the Board of Directors, the Executive Board and the business units.

Risk events causing losses greater than DKK 10m must be reported to the Board of Directors at the next meeting, while operational risk events deemed to be a potential threat to the stability of the Group must be reported without undue delay, ie when they have been described sufficiently to decide on mitigation measures. This also applies to potential risk events that may threaten the stability of the Group. Risk events causing losses greater than DKK 1m-10m must be reported to the Risk Committee at the earliest opportunity.

#### 7.6 MITIGATION OF OPERATIONAL RISK

Operational risk is mitigated through business procedures and controls ensuring optimal business processes. At the semi-annual review of risks, it is assessed whether there is a need to initiate action plans to reduce individual risks.

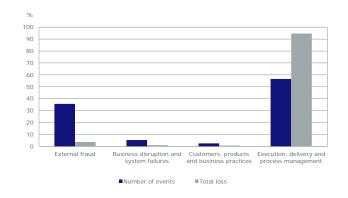
Nykredit has laid down policies, business procedures and controls specifically relating to anti-money laundering, and customer transactions are monitored on a continuous basis. Furthermore, extensive efforts have been made to enhance the processes for obtaining proof of customer identity and the quality thereof.

Nykredit takes out statutory and other insurance to ensure that any damage or claims for damages will not noticeably affect the Group's financial results or operating conditions.

Nykredit has outsourced the operation of IT systems, and appropriate processes have been established for follow-up and reporting from suppliers.

Furthermore, the IT security area is monitored constantly, and Nykredit participates actively in a wide Danish and international network on IT security through the Danish Bankers Association. Emergency response plans and business contingency plans have been prepared.

#### Nykredit Realkredit Group Operational loss events in 2016



Note: No operational loss events were recorded in the categories Internal fraud, Employment practices and workplace safety, and Damage to physical assets.

## **APPENDIX A: CAPITAL**

2016	Nykredit Realkredit Group	Nykredit Holding Group
Equity for accounting purposes	70,957	68,876
Carrying amount of Additional Tier 1 (AT1) capital recognised in equity	(3,796)	(3,760)
Minority interests not included	(1,649)	(1,649)
Equity for capital adequacy purposes	65,548	65,546
Deduction for average dividend	-	-
Prudent valuation adjustment	(95)	(95)
Intangible assets adjusted for deferred tax	(199)	(199)
Provisions for expected losses in accordance with IRB approach	(329)	(329)
Minority interests	988	988
Deduction for treasury shares (PRAS)	-	(279)
Other deductions	(277)	(277)
Transitional adjustment of deductions	228	228
Common Equity Tier 1 (CET1) capital deductions	315	36
CET1 capital	65,863	65,582
Additional Tier 1 (AT1) capital	3,800	2,546
AT1 capital deductions	(42)	(42)
Transitional adjustment of deductions	(82)	(49)
Set-off of excess deductions	-	-
Total AT1 capital after deductions	3,626	2,455
Tier 1 capital	69,539	68,037
Tier 2 capital	11,315	8,510
Tier 2 capital additions/deductions	25	25
Transitional adjustment of deductions	(280)	(66)
Set-off of excess deductions	-	-
Own funds	80,599	76,507
Credit risk (incl CVA)	304,275	303,243
Market risk incl settlement risk	25,437	25,437
Operational risk	19,636	19,678
Total REA	349,348	348,359
Financial ratios		
CET1 capital ratio	18.8%	18.8%
Tier 1 capital ratio	19.9%	19.5%
Total capital ratio	23.0%	21.9%
Minimum capital ratio (capital ratio subject to transitional rules)	13.8%	13.9%
Capital requirement	8.0%	8.0%
Internal capital adequacy requirement	10.2%	10.2%

### Nykredit Realkredit Group

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Leverage ratio	
DKK million	2016
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)	1,380,366
Asset amounts deducted in determining Tier 1 capital	(763)
Total on-balance sheet exposures	1,379,603
Exposure amount of derivatives transactions	
Replacement cost associated with derivatives transactions	14,765
Add-on amount for potential future exposure associated with derivatives transactions	4,436
Total exposure amount of derivatives	19,202
Total exposure amount of securities financing transactions	50,266
Other off-balance sheet exposures	
Off-balance sheet exposure at gross notional amount	57,479
Adjustments for conversion to credit equivalent amounts	(12,641)
Total off-balance sheet exposures	44,838
Total leverage ratio exposure amount	1,493,909
Tier 1 capital	69,539
Leverage ratio	4.6%

## Nykredit Realkredit Group

## Overview of capital instruments

	Issuer	Nykredit Realkredit A/S	Nykredit Realkredit A/S
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS1073143932	XS1195632911
3	Governing law(s) of the instrument	English/Danish law	English/Danish law
4	Transitional CRR rules	Tier 2	Additional Tier 1
5	Post-transitional CRR rules	Tier 2	Additional Tier 1
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)	Tier 2 capital	Additional Tier 1 capital
8	Amount recognised in regulatory capital (end-2015)	DKK 4,477,500,000	DKK 3,731,250,000
9	Nominal amount of instrument	EUR 600,000,000	EUR 500,000,000
9a	Issue price	99.994	100
9b	Redemption price	100	100
10	Accounting classification	Liability - amortised cost	Equity
11	Original date of issuance	03-06-2014	19-02-2015
12	Perpetual or dated	Dated	Perpetual
13	Original maturity date	03-06-2036	n/a
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	03-06-2021; par regulatory/tax call	26-10-2020; par regulatory/tax call
16	Subsequent call dates, if applicable	Annually	Semi-annually
17	Fixed or floating dividend/coupon	Fixed-to-fixed	Fixed-to-fixed
18	Coupon rate and any related index	4%	6.25%
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	n/a	Noncumulative
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	Yes	Yes
31	If write-down, write-down trigger(s)	Breach of 7% CET1 capital ratio of Nykredit Realkredit (solo or consoli- dated) 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	Full	Partial
33	If write-down, permanent or temporary	Permanent	Temporary
34	If temporary write-down, description of write-up mechanism	n/a	The notes may be reinstated at the Issuer's discretion out of relevant profits,
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	At present Senior Resolution Notes	subject to certain restrictions Tier 2
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	n/a	n/a

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

## APPENDIX B: CREDIT RISK

## Nykredit Realkredit Group

Probability of Default (PD)				
%	Observed PD	Applied PD	Observed PD	Applied PD
	End-2016	End-2016	End-2015	End-2015
Mortgage exposures				
Retail exposures	0.9	1.3	0.8	1.3
Of which				
- mortgages on real estate	0.9	1.3	0.8	1.3
- other retail exposures				
Business exposures	0.9	2.5	1.2	2.4
Total mortgage exposures	0.9	1.6	0.9	1.7
Bank exposures				
Retail exposures	1.4	1.4	0.9	1.4
Of which				
- mortgages on real estate	1.5	1.3	1.1	1.4
- other retail exposures	1.4	1.4	0.7	1.4
Business exposures	0.8	0.8	1.3	1.3
Total bank exposures	1.1	1.0	1.2	1.4
Total exposures				
Retail exposures	0.9	1.3	0.8	1.3
Of which				
- mortgages on real estate	0.9	1.3	0.8	1.3
- other retail exposures	1.4	1.4	0.7	1.4
Business exposures	0.9	2.2	1.2	2.3
Total exposures, total	0.9	1.6	0.9	1.7

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.

Observed PD is not immediately comparable with applied PD, as applied PD is business cycle neutral, whereas observed PD reflects the current economic trends. New models were implemented in 2016 for certain business exposures. Consequently, applied PD for 2015 is not directly comparable with applied PD for 2016.

#### Nykredit Realkredit Group Loss Given Default, LGD

%	Observed LGD	Applied LGD	Observed LGD	Applied LGD
	End-2016	End-2016	End-2015	End-2015
Mortgage exposures				
Retail exposures	12.5	9.9	13.5	10.1
Of which				
- mortgages on real estate	12.5	9.9	13.5	10.1
- other retail exposures			-	-
Business exposures	8.8	11.7	7.5	12.3
Total mortgage exposures	11.1	10.4	10.7	10.8
Bank exposures				
Retail exposures	57.1	41.7	50.0	41.3
Of which				
- mortgages on real estate	60.5	36.5	58.6	35.4
- other retail exposures	54.1	45.5	36.4	47.6
Business exposures	34.1	49.6	56.8	41.9
Total bank exposures			54.3	41.7
Total exposures				
Retail exposures	13.9	11.3	15.2	11.3
Of which				
- mortgages on real estate	13.3	10.4	14.8	10.6
- other retail exposures	54.1	45.5	36.4	47.6
Business exposures	10.4	17.2	13.1	15.7
Total exposures, total	12.5	13.1	14.2	12.9

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.

The loss on exposures in default cannot be determined until the case has been finally settled, which may take several years in the most complicated cases. 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 property acquired by foreclosure. The determination of losses therefore includes estimates of the final losses in cases not yet settled.

Applied LGD reflects the loss level in the period 1991-93. If observed LGD is permanently and significantly higher than applied LGD, a capital charge is provided under Pillar II.

Certain bank exposures have changed from the foundation to the advanced IRB approach. Consequently, applied LGD for 2015 and 2016 are not comparable.

#### Nykredit Realkredit Group

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

	Observed CF	Applied CF	Observed CF	Applied CF
	End-2016	End-2016	End-2015	End-2015
Bank exposures <sup>1</sup>				
Retail exposures	0.3	1.0	0.4	1.1
Of which				
- mortgages on real estate <sup>2</sup>	0.3	1.0	0.6	1.0
- other retail exposures	0.3	0.9	0.3	1.1
Total bank exposures	0.3	1.0	0.4	1.1

Note: Exposure-weighted. Includes only exposures subject to the advanced IRB approach using internal CF estimates with undrawn credit.

# Nykredit Realkredit Group - bank lending Credit exposures and REA

2016	Bank exposures	Repo transactions	Derivatives	Guarantees issued	Offers and undrawn credit commitments	Other	Total credit exposures	Exposure- weighted aver- age Risk weight,	REA
DKK million								%	
Retail exposures	15,810	-	-	370	19,786	-	35,966	40.9	14,721
Of which									
- mortgages on real estate	9,456	-	-	-	5,145	-	14,601	44.1	6,436
- other retail exposures	6,354	-	-	370	14,642	-	21,366	38.8	8,284
Business exposures	42,419	52,866	12,857	10,582	9,944	-	128,668	59.4	76,467
Credit institution exposures	1,502	21,782	1,228	0	-	628	25,141	7.1	1,794
Sovereign exposures	14,638	-	6	194	-	2	14,839	-	-
Other credit exposures <sup>1</sup>	=	-	-	-	-	2,489	2,489	84.3	2,097
Total 2016	74,369	74,648	14,091	11,146	29,731	3,119	207,103	45.9	95,079
Total 2015	53,350	53,865	20,933	13,392	17,534	12,754	171,828	36.7	63,004

Note: Repo exposures are DKK 12.4bn higher in the Nykredit Bank Group than in the Nykredit Realkredit Group due to intra-Group trading.

## Nykredit Realkredit Group - bank lending

Credit exposures by maturity

2016	Up to	Over 1 year and up	Over 5 years	Total
DKK million	1 year	to 5 years		
Retail exposures	-	-	35,966	35,966
Of which				
- mortgages on real estate	-	-	14,601	14,601
- other retail exposures	-	-	21,366	21,366
Business exposures	56,150	17,410	55,108	128,668
Credit institution exposures	25,141	-	-	25,141
Sovereign exposures	14,839	-	-	14,839
Other credit exposures <sup>1</sup>	-	1,388	1,101	2,489
Total 2016	96,130	18,798	92,175	207,103
Total 2015	64,123	14,968	91,828	171,828

<sup>&</sup>lt;sup>1</sup> Includes equity exposures, assets with no counterparty, credit valuation adjustments (CVA) and default fund contribution.

<sup>&</sup>lt;sup>1</sup> Covers only exposures of Nykredit Bank subject to the advanced IRB approach.

<sup>&</sup>lt;sup>2</sup> Including exposures such as equity release and equity withdrawal credits.

<sup>&</sup>lt;sup>1</sup> Includes equity exposures, assets with no counterparty, credit valuation adjustments (CVA) and default fund contribution.

#### Nykredit Realkredit Group Credit exposures by maturity

2016					
DKK million	Real estate	Guarantees received	Financial collateral	Total collat- eral value	Total expo- sure
Retail exposures	741,429	14,142		755,580	796,101
Of which					
- mortgages on real estate	741,429	14,142		755,580	796,101
- other retail exposures					
Business exposures	311,451	32,212	51,989	395,653	456,424
Credit institution exposures					54,351
Sovereign exposures					59,178
Other credit exposures <sup>1</sup>					9,458
Total 2016	1,052,880	46,364	51,989	1,151,233	1,375,511
Total 2015 <sup>2</sup>	1,064,621	144,322	54,609	1,144,268	1,343,193

<sup>&</sup>lt;sup>1</sup> Includes equity exposures, assets with no counterparty, credit valuation adjustments (CVA) and default fund contribution.

#### Nykredit Realkredit Group Credit exposures by maturity

2016	Up to	Over 1 year and up	Over 5 years	Total
DKK million	1 year	to 5 years		
Retail exposures	1,644	12,708	781,749	796,101
Of which				
- mortgages on real estate	1,127	10,935	762,673	774,735
- other retail exposures	517	1,773	19,076	21,366
Business exposures	65,464	41,609	349,350	456,577
Credit institution exposures	40,199	-	14,152	54,351
Sovereign exposures	26,965	-	32,212	59,178
Other credit exposures <sup>1</sup>	7,265	1,898	295	9,458
Total 2016	141,538	56,215	1,177,758	1,375,511
Total 2015 <sup>2</sup>	144,322	54,609	1,144,268	1,343,193

<sup>&</sup>lt;sup>1</sup> Includes equity exposures, assets with no counterparty, credit valuation adjustments (CVA) and default fund contribution.

#### Nykredit Realkredit Group Credit exposures by counterparty

	Personal		Finance and					_
2016	customers	Trade	insurance	Industry	Agriculture	Rental	Other	Total
DKK million								
Retail exposures	697,105	10,705	1,240	4,024	21,337	47,924	13,766	796,101
Of which								
- mortgages on real estate, non-SMEs	674,820	641	169	137	10,642	1,012	13,178	700,600
- mortgages on real estate, SMEs	923	10,063	1,070	3,887	10,694	46,910	588	74,135
- other retail exposures	21,362	1	1	-	1	2	-	21,366
Business exposures	4,924	57,718	5,419	46,120	68,336	175,243	46,105	456,424
Of which								
- SMEs	1,372	31,070	3,613	13,741	66,210	146,829	25,060	287,895
Credit institution exposures	-	-	-	-	-	-	54,630	54,630
Sovereign exposures	-	-	-	-	-	-	59,178	59,178
Other credit exposures <sup>1</sup>	-	-	-	-	-	-	9,458	9,458
Total 2016	702,029	68,423	59,732	50,144	89,672	223,167	182,704	1,375,511
Total 2015 <sup>2</sup>	680,799	66,906	62,482	42,900	93,269	239,920	156,917	1,343,193

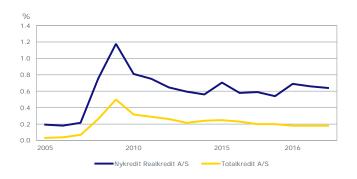
 $<sup>^{\</sup>rm 1}$  Includes equity exposures, assets with no counterparty and default fund contribution.

<sup>&</sup>lt;sup>2</sup> Total credit exposures increased by nearly DKK 8bn compared with Nykredit's report Risk and Capital Management 2015. The reason is that repo transactions calculated according to the standardised approach have now been determined before financial collateral.

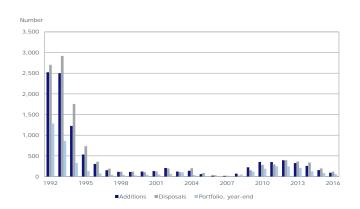
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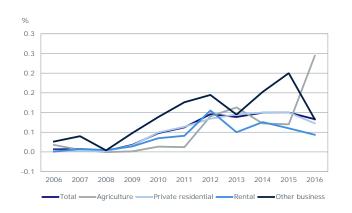
#### Nykredit Realkredit Group Arrears ratio – 75 days past due



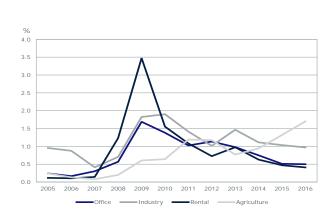
#### Nykredit Realkredit Group – mortgage lending Owner-occupied dwellings acquired/sold



## Nykredit Realkredit Group – mortgage lending Loss ratios



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



#### Nykredit Realkredit Group

Individual and collective loan impairment provisions and provisions for guarantees

2016	Provisions, individual impairment and other	Collective impairment provisions	Total impairment provisions	Total impairment provisions 2015
DKK million				
Impairment provisions, beginning of year	6,366	2,324	8,690	9,218
Additions acquired	-	-	-	-
Amortisation for the year	1,858	(39)	1,819	2,151
Impairment provisions reversed	(1,235)	-	(1,235)	(1,501)
Value adjustment of properties acquired by foreclosure	(76)	-	(76)	(90)
Impairment provisions written off	(814)	-	(814)	(1,087)
Impairment provisions, year-end	6,099	2,285	8,384	8,690
Loans and advances before provisions	21,128	129,878	137,940	137,940
Provisions	6,099	2,285	8,384	8,690
Loans and advances after provisions	15,029	127,593	129,556	129,350

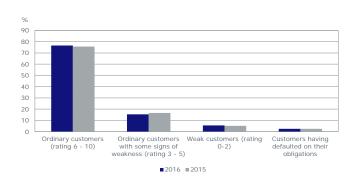
## Nykredit Realkredit Group

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

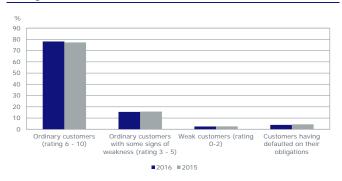
DKK million	Expos	osures Exposure in default		default	Bank loan impairment and provisions for guarantees		Impairment losses on loans and advances, earnings impact	
	2016	2015 <sup>1</sup>	2016	2015	2016	2015	2016	2015
Mortgage lending	1,168,840	1,172,274	25,829	26,273	5,772	5,715	816	1,032
Bank lending	207,103	171,828	5,778	5,165	2,613	2,974	141	(121)
- Guarantees	11,141	13,062			52	100	(48)	(7)
Total	1,375,511	1,343,193	31,607	31,438	8,384	8,690	957	920

<sup>&</sup>lt;sup>1</sup> The credit exposures increased by nearly DKK 8bn compared with Nykredit's report Risk and Capital Management 2015. The reason is that repo transactions calculated according to the standardised approach have now been determined before financial collateral.

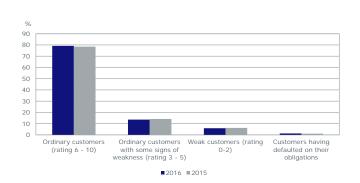
# Nykredit Realkredit Group Credit exposures by customer rating



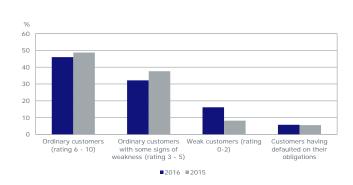
#### Nykredit Realkredit Group Credit exposures by customer rating – business segment excl agriculture



#### Nykredit Realkredit Group Credit exposures by customer rating - personal customers



#### Nykredit Realkredit Group Credit exposures by customer rating – agriculture



#### Nykredit Realkredit Group - mortgage exposures Retail exposures covered by IRB

2016	Total credit	Of which undrawn commit-	Exposure- weighted	Exposure- weighted	REA for
	exposure	ments	average LGD <sup>1</sup>	average Risk weight	credit risk
Rating category	DKK million	DKK million	%	%	DKK million
10	61,985	21	4.4	1.1	699
9	93,839	19	6.3	2.6	2,477
8	176,606	37	8.5	5.2	9,158
7	154,347	21	11.6	9.3	14,324
6	105,292	31	13.1	13.8	14,481
5	47,692	16	12.3	16.5	7,881
4	40,539	19	12.4	21.0	8,519
3	23,889	39	11.8	25.8	6,169
2	22,700	2	11.0	35.8	8,125
1	18,154	2	12.2	62.8	11,407
0	4,603	0	15.0	75.9	3,495
Exposures in default <sup>2</sup>	10,255	1	16.8	84.7	8,690
Total	759,901	209	10.0	12.6	95,426

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 minimum requirements.

#### Nykredit Realkredit Group - mortgage exposures Business exposures covered by IRB

2016			Of which undrawn	Exposure- weighted	Exposure- weighted	
		Total credit exposure	commit- ments	average LGD <sup>1</sup>	average Risk weight	REA for credit risk
Rating category		DKK million	DKK million	%	%	DKK million
	10	17,219	35	9.6	8.8	1,516
	9	36,930	177	14.1	20.6	7,615
	8	61,991	212	11.5	18.7	11,614
	7	68,335	380	11.1	20.4	13,945
	6	52,563	267	10.7	21.0	11,058
	5	25,866	45	11.0	24.2	6,265
	4	16,564	33	12.2	29.0	4,802
	3	12,612	62	14.3	38.3	4,824
	2	9,224	68	10.4	30.8	2,843
	1	2,358	2	13.5	57.3	1,351
	0	8,227	1	14.2	54.2	4,457
Exposures in default <sup>2</sup>		15,218	7	20.4	136.2	20,733
Total		327,107	1,289	12.1	27.8	91,023

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 minimum requirements.

<sup>&</sup>lt;sup>2</sup> The determination of REA for exposures in default is based on the difference between LGDs and individual impairment provisions.

<sup>&</sup>lt;sup>2</sup> 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

2016		Total credit exposure	Of which undrawn commit-ments	Exposure- weighted average LGD <sup>1</sup>	Exposure- weighted average Risk weight	REA for credit risk
Rating category		DKK million	DKK million	%	%	DKK million
	10	6,854	2,682	44.8	8.8	603
	9	3,332	973	42.7	18.2	606
	8	3,607	846	41.4	24.2	871
	7	3,298	698	40.7	31.7	1,044
	6	3,916	617	41.5	40.2	1,573
	5	4,142	792	40.3	50.9	2,106
	4	3,924	781	39.9	61.3	2,406
	3	2,220	307	40.4	70.2	1,559
	2	799	150	40.8	93.1	744
	1	520	68	40.8	133.1	692
	0	181	19	42.2	126.5	229
Exposures in default <sup>2</sup>		2,854	68	44.9	71.7	2,046
Total		35,646	8,000	42.0	40.6	14,480

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 minimum requirements.

#### Nykredit Realkredit Group - bank exposures Business exposures covered by IRB

2016			Of which undrawn	Exposure-	Exposure- weighted	
		Total credit exposure	commit- ments	•	average Risk weight	REA for credit risk
Rating category		DKK million	DKK million	%	%	DKK million
	10	25,248	2,980	20.2	19.2	4,859
	9	15,867	3,572	22.5	29.9	4,748
	8	11,039	2,823	56.0	95.6	10,558
	7	14,412	2,943	49.9	96.1	13,851
	6	29,106	1,400	22.7	49.6	14,447
	5	4,445	602	57.0	131.0	5,821
	4	4,889	306	44.0	111.5	5,453
	3	2,762	597	53.1	145.2	4,011
	2	832	23	52.3	162.2	1,350
	1	187	30	59.5	243.9	456
	0	429	16	18.9	63.7	273
Exposures in default <sup>1</sup>		2,893	78	52.4	218.1	6,310
Total		112,108	15,369	33.0	64.3	72,136

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

<sup>&</sup>lt;sup>2</sup> The determination of REA for exposures in default is based on the difference between LGDs and individual impairment provisions.

<sup>&</sup>lt;sup>1</sup> 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 for 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

2016		Total credit exposure	Of which undrawn commit-ments	Exposure- weighted average LGD <sup>1</sup>	Exposure- weighted average Risk weight	REA for credit risk
Rating category		DKK million	DKK million	%	%	DKK million
	10	68,752	2,688	8.4	1.9	1,297
	9	97,156	980	7.5	3.2	3,080
	8	180,197	873	9.2	5.6	10,026
	7	157,631	710	12.2	9.7	15,364
	6	108,890	635	14.0	14.6	15,922
	5	51,814	828	14.5	19.3	9,977
	4	44,455	783	14.8	24.6	10,920
	3	26,099	318	14.3	29.6	7,720
	2	23,497	152	12.0	37.7	8,866
	1	18,674	68	13.0	64.8	12,099
	0	4,784	19	16.0	77.9	3,725
Exposures in default <sup>2</sup>		13,108	68	22.9	81.9	10,733
Total		795,057	8,121	11.4	13.8	109,729

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 minimum requirements.

# Nykredit Realkredit Group - total exposures Business exposures covered by IRB

2016		Total credit	Of which undrawn commit-	Exposure- weighted	Exposure- weighted average Risk	REA for
Rating category		exposure DKK million	ments DKK million	average LGD %	weight %	credit risk  DKK million
	10	42,468	3,018	15.9	15.0	6,375
	9	52,797	3,921	16.6	23.4	12,363
	8	73,027	3,460	18.2	30.4	22,171
	7	82,747	3,278	17.9	33.6	27,797
	6	81,669	1,612	15.0	31.2	25,505
	5	30,310	671	17.8	39.9	12,085
	4	21,451	420	19.5	47.8	10,251
	3	15,373	638	21.3	57.5	8,835
	2	10,056	24	13.9	41.7	4,192
	1	2,545	37	16.8	71.0	1,807
	0	8,408	24	14.8	56.3	4,730
Exposures in default <sup>1</sup>		18,111	190	25.5	149.3	27,042
Total		438,962	17,292	17.4	37.2	163,153

Note: Includes exposures subject to the advanced as well as the foundation IRB approaches using internal PD estimates.

<sup>&</sup>lt;sup>2</sup> The determination of REA for exposures in default is based on the difference between LGDs and individual impairment provisions.

<sup>&</sup>lt;sup>1</sup> 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 for the Nykredit Bank Group's business exposures in default is calculated using the foundation IRB approach under which the risk weight is nil.

## APPENDIX C: LIQUIDITY RISK

### Nykredit Realkredit Group

**Encumbered and unencumbered assets** 

2016 <sup>1</sup>	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencum- bered assets	Fair value of unencum- bered assets
DKK million				
Assets for accounting purposes				
Total assets	1,198,523		203,229	
Equity instruments			4,055	4,017
Debt instruments	50,858	50,858	57,178	57,542
Other assets <sup>2</sup>	1,883		42,461	
Collateral	collateral re	of encumbered eceived or own ecurities issued	ceived or own	of collateral re- debt securities ble for encum- brance
Collateral received by Nykredit		7,240		28,857
Equity instruments		-		-
Debt instruments		7,240		28,857
Other collateral received		-		-
Own debt securities issued other than own covered bonds or BASs		-		1,726
Encumbered assets	Mai	tching liabilities		ateral received
Carrying amount of selected financial liabilities	ividi	1,173,128	and OWN 36	1,205,763
	Encumbered and unen- cumbered	bers collate	and unencum- eral received or	
Assets and collateral	assets	own	debt securities	Total
Total assets and collateral	1,401,752		28,857	1,430,609

<sup>&</sup>lt;sup>1</sup> The determination is based on data for the period Q4/2015-Q3/2016.

<sup>&</sup>lt;sup>2</sup> The main part of other assets is not eligible as collateral. They are mainly derivatives, property, plant and equipment as well as deferred tax assets.