2024

Risk and Capital Management

Nykredit

Contents

Disclosure requirements

This report has been prepared in accordance with the legal disclosure requirements laid down in the EU's Capital Requirements Regulation (CRR) and, combined with supplementary data material, it meets the requirements. The supplementary data material is available at nykredit.com.

The report covers the Nykredit Group, including the Nykredit Realkredit Group. Besides the Nykredit Realkredit Group, the Nykredit Group includes the company Nykredit A/S. The sole activity of Nykredit A/S is its ownership of Nykredit Realkredit A/S. The Nykredit Realkredit Group is referred to in the report as Nykredit.

Disclaimer

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.

2024 in brief

Nykredit's business activities involve certain risks that have an impact on society as well as on our business. Being a systemically important financial institution (SIFI), and a mutual company, Nykredit has a special responsibility. Our risk management therefore focuses on providing sustainable financial solutions that are viable for Nykredit, for our customers and for society in the short, medium and long term.

Nykredit has made a voluntary public tender offer for Spar Nord with the aim of delisting the company and integrating Spar Nord in the Nykredit Group. The tender offer is subject to approval by the authorities and is conditioned on Nykredit acquiring 90% of the shares to be able to compulsorily acquire the remaining shares and delist Spar Nord.

By joining forces with Spar Nord, Nykredit is further consolidating its banking position and becoming the bank in Denmark with the largest branch network. The combination will strengthen Nykredit's overall position, and the ambition is to become Denmark's customer-owned relationship bank. Nykredit's Group strategy – Winning the Double 2.0 – will continue unchanged, and the Nykredit Group will continue to work to strengthen the collaboration with the partner banks in Totalkredit and Sparinvest.

Nykredit maintained a satisfactory risk profile throughout 2024
Danish GDP growth was lower than expected in Q1, but has since picked up within virtually all components, and overall, the Danish economy expanded significantly in 2024. Growth was broad-based, albeit with the pharmaceutical sector as a strong driver. The Danish economy is expected to continue growing at a solid pace in the coming years, supported by a more accommodative monetary policy, with interest rate cuts expected at all ECB monetary policy meetings in H1/2025.

Danish households experienced real wage growth and a continued increase in employment, and many homeowners benefited from interest rate declines during the year.

Nykredit forecasts rising house prices at national level in 2025 and 2026 on the back of rising incomes, falling interest rates and a strong labour market. House prices will also be fuelled by lower housing taxes in 2025, which will be based on the price development in 2022-2024 when housing prices dropped.
Donald Trump's agenda of protectionism and tariff walls creates uncertainty in the long run, especially for a small and open economy such as Denmark. The exact implementation and consequences of Mr Trump's policy are still difficult to predict. If Mr Trump's tariff proposals are implemented in 2025 and 2026, this will, other things being equal, put downward pressures on Danish exports in the years to come.

Credit quality remains high
Most of Nykredit's loan portfolio consists of personal customers with home loans. Their credit quality is generally good, supported by high employment, high savings levels, low LTV ratios and real wage growth. Also, Nykredit's personal customers have proved resilient to the interest rate increases in recent years, which have not given rise to significant fluctuations in arrears, overdrafts or write-offs.

In 2024 the credit quality of Nykredit's business loan portfolio declined slightly, mainly driven by the onset of higher interest rates and input prices in 2023, which have now materialised in customers' financial statements and ratings. The development in customers' ratings differs across industries, but generally, the ratings fell from strong levels. The credit quality of Nykredit's largest business customers remained unchanged to a higher degree. Further, Nykredit's is predominantly exposed to less cyclical segments, such as the food, pharmaceutical and chemical industries.

Property rental saw a decline in activity levels as a result of rising interest rates, leading to downward pressures on transaction numbers and prices. This segment represents a large proportion of the loan portfolio, and Nykredit has given the area high priority in terms of LTV monitoring and dialogue with customers showing initial signs of weakness. However, LTV ratios are still low, and customers are generally resilient following a long period of growth in the segment. Nykredit has carried out sensitivity calculations on an ongoing basis to ensure that risks are adequately addressed in credit assessments, and that the necessary steps have been taken in terms of impairments and capital.

Nykredit has maintained impairment provisions to prevent any losses resulting from, for instance, geopolitical tensions. These provisions were reduced in 2024, while provisions for ESG-related risks have been increased. The levels of arrears, overdrafts and write-offs remained very low throughout the year.

Nykredit's liquidity and funding remained robust
Nykredit currently holds a strong liquidity and funding position. Throughout 2024, Nykredit maintained liquidity reserves adequate to counter the periods of market turmoil seen during the year and accommodate increased loan demand. Over a number of years, Nykredit has tightened its internal guidelines and requirements to secure robust liquidity reserves resilient to even severe liquidity stress.

In 2024 Nykredit maintained its business activities in a changing monetary policy environment, including the selling and issuing of bonds to fund its day-to-day lending and scheduled refinancing operations. Market liquidity was robust, and Nykredit remained able to sell bonds on an ongoing basis and to obtain long-term funding at competitive prices.

Strengthened management of non-financial risks
In line with the growing cyber threat and the expectation that the number of cyber attacks will increase, Nykredit has ramped up efforts to ensure that our IT risk management, including our cyber defence and IT contingency set-up, is able to handle the threat. Focus is particularly on ensuring that the most critical parts of our business operations are also the most resilient.

In addition, Nykredit conducts penetration testing and/or Red Team testing, where professional hackers challenge Nykredit's cyber defence, testing Nykredit's capacity to handle security incidents in practice. Any potential risks identified are subsequently reduced through mitigating measures.

Further, Nykredit has participated in the Danish Financial Supervisory Authority's (FSA's) cyber stress test and participates in sector collaborations to ensure continued robust risk management.

In 2024 Nykredit also had a sharp focus on preparing to comply with the upcoming requirements under the Digital Operational Resilience Act (DORA), which will apply from 17 January 2025. DORA will replace existing IT risk management requirements, introducing much stricter detailed requirements.

Fraud prevention and control
Nykredit works actively and continuously to prevent, combat and manage fraud against our customers.

An important element in the prevention and combating of fraud is information campaigns and awareness initiatives, and we support Finance Denmark's safe banking campaign, which will continue into 2025. A number of awareness initiatives will be launched, aimed at Nykredit's customers as well as customer-facing staff.

Focus on sustainability (ESG) risks
Nykredit's sustainability risk management is continuously assessed and improved as warranted by the risk outlook and based on maturing legislation and data in the area. The management of sustainability risks is incorporated into the management of traditional risk types, and the transmission channel towards credit risk is considered to constitute Nykredit's most significant risk. Therefore, efforts in this particular area took a high priority in 2024 and will continue to be of key importance in 2025. In 2024 the ESG credit tool was updated to enable a more detailed assessment of sustainability risks in credit approval processes, and efforts related to climate adaptation and physical risk assessment were intensified. This work will continue in 2025.

In connection with the publication of the EBA Guidelines on the management of ESG risks within the framework of CRD6, a gap-fit analysis has been prepared in relation to existing management tools. The efforts to ensure compliance with the Guidelines build on an existing, solid foundation. For example, working with the double materiality analysis and the climate transition plan in the context of the CSRD as well as the ESG credit tool will provide a good basis for addressing key parts of the new Guidelines.

In 2024 Nykredit strengthened the organisation of activities in this area by placing responsibility for cross-organisational efforts with a new organisational unit. This unit, which is part of the strategy function, is also in responsible for ensuring the important cross-Group coordination, and for ensuring that priorities in this area reflect the focus areas of the Executive Board and the Board of Directors and also that the activities of the Group complement each other.

To support this work and ensure implementation in the business units, a preparatory ESG forum has been set up with the aim of ensuring progress, developing our ESG strategy, and assessing trends and new regulation in the area.

Capital need
The Board of Directors has set a Common Equity Tier 1 (CET1) capital target of 15.5-16.5% of the risk exposure amount (REA), whereas the overall target for own funds has been set at 20.5-21.5%. With a CET1 capital ratio and a total capital ratio of 20.5% and 23.4%, respectively, Nykredit is comfortably above these capital targets, which provides strategic leeway. In addition, Nykredit may obtain new CET1 capital from its owners through Forenet Kredit's capital resources and investment commitments from a number of Danish pension companies. Consequently, Nykredit has the same access to capital as a listed SIFI. Also, Nykredit holds CET1 capital to meet the new Basel requirements, which will be phased in up to 2032.

Chart 1.1: Breakdown of risk exposures

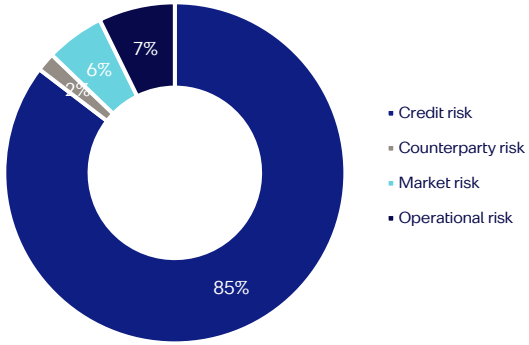


Table 1.1: Financial highlights

Nykredit Realkredit Group

Year-end DKK billion/%	2024	2023	2022
Capital adequacy and capital			
CET1 capital ratio, %	20.5	20.4	19.5
Total capital ratio, %	23.4	23.7	23.3
Leverage ratio, %	5.3	5.1	5.1
Internal capital adequacy requirement, %	10.4	10.6	11.6
Risk exposure amount	475	433	438
Funding and liquidity			
Liquidity Coverage Ratio (LCR), %	454	310	283
Net Stable Funding Ratio (NSFR), %	142	147	149
S&P long-term Issuer Credit Rating/outlook	A+/stable	A+/stable	A+/stable
Fitch long-term Issuer Credit Rating/outlook	AA-/stable	A/stable	A/stable
Encumbered assets, %	81	80	80
Liquidity reserves	105	106	102
Credit ratios and key figures			
Credit exposures	1,826	1,727	1,668
Total provisions for loan impairment and guarantees	8.6	9.0	9.4
NPL, %	1.6	1.2	1.4
NPL, DKK billion	18.5	18.2	20.0
Loss ratio, %	0.02	0.02	0.02

Board declaration and risk statement

The Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S have on 5 February 2025 approved this report.

The Boards' assessment is based on the continuous compliance and risk reporting and compliance and risk policies, the internal capital adequacy requirement (ICAAP), the liquidity position (ILAAP), Internal Audit's assessment of the control environment and the adopted strategy, Winning the Double 2.0, as approved by the Boards of Directors and the Executive Boards.

The Executive Boards are responsible for the day-to-day risk management and compliance with the policies and guidelines adopted by the Boards of Directors. The Chief Risk Officer and the Chief Compliance Officer are responsible for the monitoring, control and reporting of risks.

Nykredit works consistently to further develop its risk management and control environment. For information and key figures and ratios concerning Nykredit's risk profile, please refer to the relevant sections of this report.

- 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.

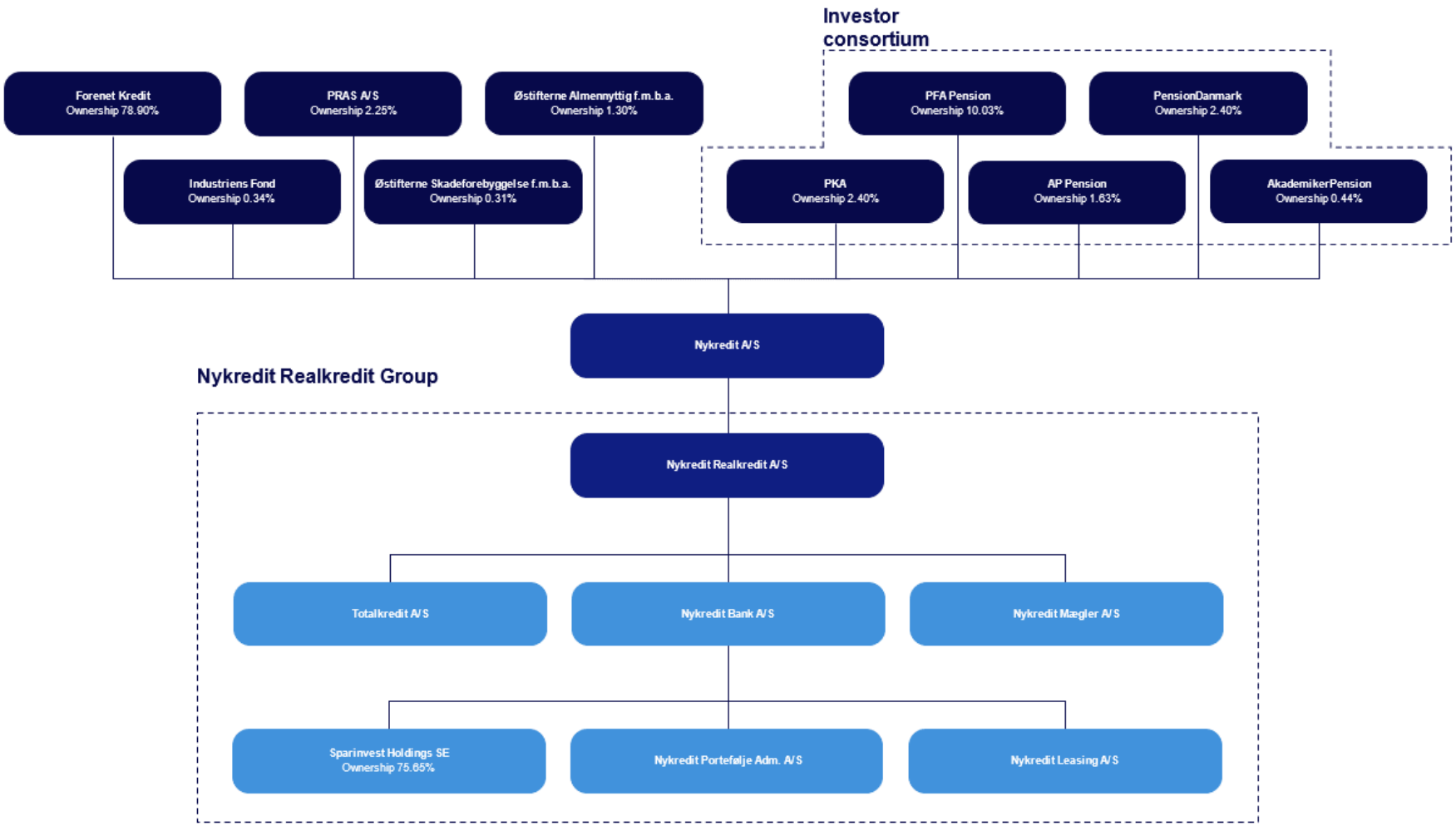
- It is furthermore the Boards' assessment that the description of Nykredit's risk profile and key figures and ratios gives a true and fair view of Nykredit, including Nykredit's overall risk appetite.

Risk assessment

- 85.4% of the Group's REA derives from credit risk, which mainly relates to mortgage and bank lending. Credit risk is managed in accordance with the credit policy, including requirements for credit risk concentrations on single names, industries and geographical regions. At end-2024 DKK 8.6 billion had been provided for loan losses against DKK 9.0 billion at end-2023. The credit risk exposure falls within the Group's risk appetite.
- Market risk mainly relates to the activities of Nykredit Markets and the Group's investment function. 5.6% of the Group's REA derives from market risk. Market risk is managed in accordance with the market risk policy, including detailed limits and guidelines for various types of market risk prescribed by the Board of Directors. The market risk exposure falls within the Group's risk appetite.
- Liquidity risk is managed in accordance with the liquidity policy, including detailed limits and guidelines prescribed by the Board of Directors. At end-2024 the LCR was 454%, and the NSFR was 142%.
- Operational risk is managed in accordance with the non-financial risk policy and pertaining guidelines. 7.3% of the Group's REA derives from operational risk.
- Nykredit's total risk is reflected in the internal capital adequacy requirement, which represents 10.4% of REA.
- Based on the internal capital adequacy requirement, stress tests, guidelines and expectations for the capital position, the Board of Directors has set the CET1 capital requirement at 15.5-16.5% of REA. In addition to this, Nykredit has set aside capital for full implementation of the new EU capital requirements (CRD6/CRR3). Nykredit's CET1 capital represented 20.5% of REA at end-2024, while the total capital ratio was 23.4%.

Executive Board of Nykredit A/S and Nykredit Realkredit A/S	Board of Directors of Nykredit Realkredit A/S	Board of Directors of Nykredit A/S
Michael Rasmussen (Group Chief Executive)	Merete Eldrup (Chair)	Merete Eldrup (Chair)
Tonny Thierry Andersen (Group Managing Director)	Preben Sunke (Deputy Chair)	Preben Sunke (Deputy Chair)
David Hellemann (Group Managing Director)	Olav Bredgaard Brusen	Olav Bredgaard Brusen
Anders Jensen (Group Managing Director)	Michael Demsitz	John Christiansen
Pernille Sindby (Group Managing Director)	Rasmus Fossing	Michael Demsitz
	Per W. Hallgren	Rasmus Fossing
	Kathrin Helene Hattens	Per W. Hallgren
	Jørgen Høholt	Kathrin Helene Hattens
	Torsten Hagen Jørgensen	Jørgen Høholt
	Vibeke Krag	Torsten Hagen Jørgensen
	Mie Krog	Vibeke Krag
	Inge Sand	Peter Kofod
		Mie Krog
		Lasse Nyby
		Inge Sand

Chart 1.2: Group chart, Nykredit



2. Governance and management

The Nykredit Realkredit Group is a Danish financial services group serving mainly personal customers, business customers and institutional customers in Denmark and Greenland. We also provide personal lending in Spain and France, as well as business lending in Sweden and Germany. The Group carries on banking and mortgage lending as well as activities within estate agency services, asset management, portfolio administration, leasing and insurance mediation.

The Nykredit Realkredit Group's core business is match-funded mortgage lending secured by mortgages on real estate. Mortgage lending is carried out through Nykredit Realkredit A/S and its subsidiary Totalkredit A/S. Mortgage lending to personal customers is provided primarily through Totalkredit A/S, while mortgage lending to business customers is provided through both Totalkredit A/S and Nykredit Realkredit A/S. The Group's real estate activities are undertaken by Nykredit Mægler.

Mortgage lending in Totalkredit is based on a strategic partnership comprising 41 Danish banks at end-2024. The partner banks are responsible for serving customers, and Totalkredit A/S undertakes the funding of the mortgage loans. Totalkredit A/S and the arranging partner bank share the risk of loss on the loans, and the partner banks receive regular payments. The Totalkredit partnership is described in more detail in *4 Credit risk*.

Nykredit Bank is an important part of the Nykredit Realkredit Group and provides a significant contribution to a diversified revenue profile, widely underpinning the Group's mortgage business. For example, Nykredit's customer centres provide customer and investment advisory and loan services for a large part of the mortgage business. Also, Nykredit Bank undertakes market making in Danish covered bonds and thereby contributes to market liquidity. The risk profile mainly relates to loans and credit facilities provided to personal and business customers. Leasing activities are undertaken by Nykredit Leasing, a subsidiary of Nykredit Bank A/S. Other activities include administration and management of investment funds through Nykredit Bank's subsidiaries Sparinvest and Nykredit Portefølje Administration.

2.1 Risk profile

The Nykredit Realkredit Group's ("Nykredit") business model and related activities, including management of the investment portfolio, involve exposure to credit, market and liquidity risk as well as a number of non-financial risks.

As Nykredit's main business areas are based on lending, Nykredit's primary risk is credit risk. Mortgage lending and the underlying funding are regulated by the balance principle, which means that Nykredit incurs limited market and liquidity risk on its mortgage lending and the underlying funding. The mechanisms behind the balance principle are described in detail in *6.4 Balance principle and match funding*. Liquidity and market risks are further reduced by the Danish act regulating refinancing risk, which provides for the refinancing of mortgage loans under special circumstances.

Credit risk, market risk and non-financial risks are mitigated by holding adequate capital, while liquidity risk is mitigated through sufficient liquidity reserves and an appropriate funding structure. A few outstanding regulatory measures are addressed through capital targets, the Pillar II add-on to the internal capital adequacy requirement or capital add-ons held under Pillar I. The Board of Directors sets out risk appetite in policies, and the current risk levels are assessed as part of the internal risk reporting.

Nykredit's overall risk policy reflects Nykredit's governance and overall tolerance for assuming risk in the context of Nykredit's business model and strategy. A policy has been laid down for each type of risk with specific limits and guidelines for risk taking.

2.1.1 Group-wide risks

In addition to being exposed to financial and non-financial risks, Nykredit is exposed to a number of strategic, business, regulatory and sustainability-related risks. These are considered to be Group-wide risks reflecting underlying factors that may impact financial and non-financial risks.

Some of the Group-wide risks are not directly measurable. Instead, these are viewed qualitatively, and the current risk levels and risk appetite are regularly assessed and follow general risk management governance and practices.

Strategic and business risks are related to the risk that Nykredit will not achieve the objectives of the Winning the Double strategy or earnings targets, for example due to changes in macroeconomic conditions, the political climate, customer preferences, competitive conditions etc.

Regulatory risks are related to potential negative impacts of new regulation on Nykredit's business model, earnings, customers or business development.

Sustainability risks, also referred to as ESG risks, are centred around the following three themes:

- A greener and prepared Denmark (E)
- A customer-owned Nykredit (S)
- Responsible business practices (G)

In particular, focus is on sustainability within credit and non-financial risks, and mainly compliance and conduct risks.

Chart 2.1: Nykredit's overall risk types

The organisation of Nykredit's sustainability efforts was strengthened in 2024 with the establishment of a central ESG unit, which has become a permanent part of Nykredit's basic organisation. Furthermore, an ESG forum has been set up, with representatives from all parts of the organisation, to ensure consolidation and alignment of the sustainability agenda throughout Nykredit.

The ESG unit is responsible for preparing the Group-wide strategy and coordinating initiatives across the Group. The responsibility for executing ESG initiatives is decentralised across relevant business divisions, fostering decentralised knowledge and resource development in the area. Specific sustainability expertise with a focus on ESG-related risks exists in the risk management function and specific sustainability expertise with a focus on ESG-related opportunities exist in each of the Group's business divisions.

For more information about Nykredit's sustainability efforts, see the Nykredit Group's Annual Report 2024.

2.2 Risk governance and culture

The Board of Directors is the supreme management body. They make strategic and policy decisions and lays down guidelines for the day-to-day management undertaken and implemented by the Group Executive Board. The Board of Directors oversees the establishment of risk management procedures and monitors risks through the Board Risk Committee and the Board Audit Committee. All policies are approved at least once a year by the Boards of Directors, which receive regular reports on compliance with limits and guidelines set out in the policies. The Executive Boards oversee that risks are managed and controlled as determined by the Boards of Directors. The Executive Boards monitor risks through various committees.

The day-to-day risk management, monitoring and reporting activities are organised according to the principles of the three lines of defence. The three lines of defence divide responsibilities between 1) units that enter into business transactions with customers or otherwise expose the Group to risk, 2) units responsible for risk monitoring and control, and 3) the Group's internal audit.

First line of defence: The operational business units, which basically take, and are responsible for managing, the risk. The management of each business division is responsible for identifying, assessing and managing the risks arising in connection with the performance of its duties

and for ensuring that satisfactory internal controls are in place at all times in respect of the risks related to the handling of business operations and processes. Further, the first line of defence is to ensure that risk management is performed in compliance with current legislation and the Group's business model, policies, guidelines and business procedures.

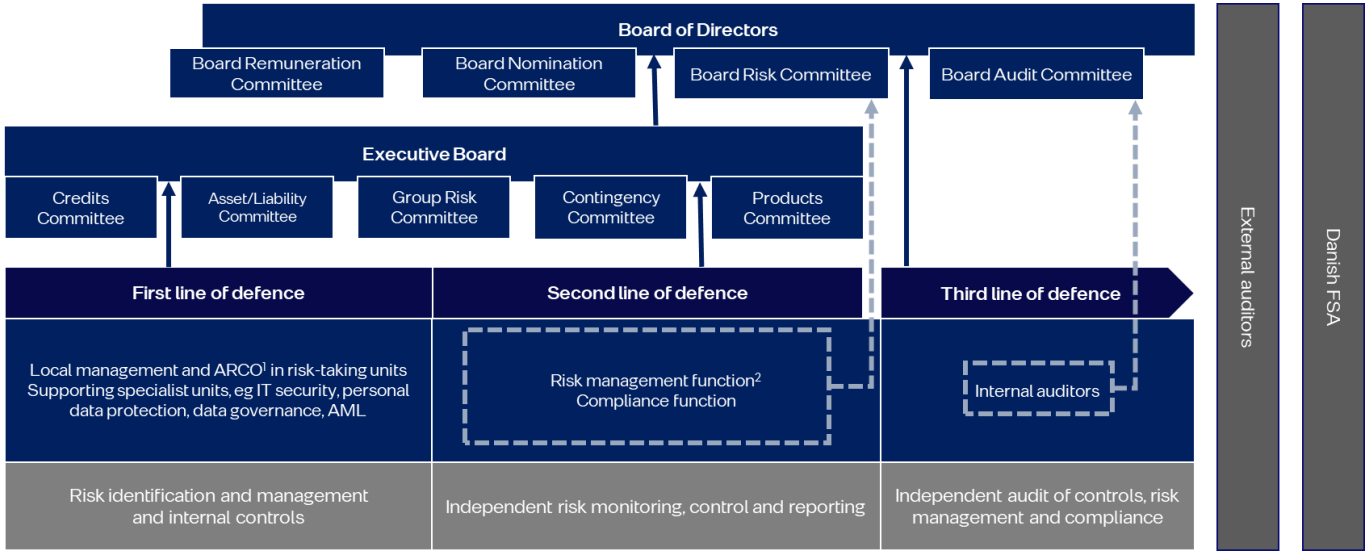
The management of each business division documents its risk management activities according to the Executive Board's guidelines for internal documents and submits a statement annually to the Executive Board on compliance with applicable rules as prescribed by the Executive Order on Management and Control of Banks etc.

Nykredit has established a framework for remuneration of material risk takers etc, with a focus on accountability and risk management and supporting Nykredit's aim of contributing to financial stability. The remuneration policy also factors in compliance with ESG-related targets. Details on remuneration in 2024 can be found in Nykredit's remuneration report available at nykredit.com.

Second line of defence: The risk management function, including Credit Controlling and the compliance function, which are responsible for the independent monitoring, controlling and reporting of risks. These functions must regularly assess whether risk management in the first line of defence is within the frameworks set out in regulation and in internal policies and guidelines.

The risk management function and the compliance function report to the head of the CRO division. The duties in the second line of defence, including their performance and delegation, are specified in annual plans and role descriptions for the Chief Risk Officer and the Chief Compliance Officer. The role descriptions explicitly set out how to handle conflicts of interest, as business units in the first line of defence also report to the head of the CRO division.

Chart 2.2: Nykredit Group: Three lines of defence



1. ARCO is short for Assistant Risk and Compliance Officer.
2. Credit Controlling, which performs independent internal credit controls, is an integral part of the risk management function.

To strengthen the organisation's efforts to address and mitigate risks, including non-financial and compliance risks, one or more Assistant Risk and Compliance Officers (ARCOs) have been appointed in the individual business divisions. Their primary duty is to assist the managements of the individual business divisions in executing compliance- and risk-related tasks and to strengthen awareness of Nykredit's risk culture. ARCOs serve as links between the first and second lines of defence. However, ARCOs are also found in units in the second line of defence.

Annual plans are prepared for risk management in the second line of defence, including specification of methods, approach and resource allocation, which are subject to approval by the Executive Boards and adoption by the Boards of Directors.

Third line of defence: Internal Audit, which provides independent assurance over the overall management of risks and internal controls in the Group and reports on its work to Boards of Directors and the Board Audit Committee. Internal Audit is responsible for testing and providing an opinion on whether Nykredit's overall risk management approach, risk management framework, business procedures and internal controls established in all material areas and risk areas have been organised and are working satisfactorily.

The three lines of defence are mutually independent; the functions in the second line of defence are independent of the first line of defence and do not take part in business operations. Similarly, Internal Audit is independent of both the first and second lines of defence, but may base its assurance on the work performed in the second line of defence.

2.3 Risk monitoring

The Board Risk Committee and the Board Audit Committee oversee the effectiveness of Nykredit's internal control systems, financial reporting, internal audit and risk management. Nykredit's Group committees perform the ongoing risk management and reporting on behalf of the Executive Boards. The committees ensure a continuous overview of relevant risks and oversee that the risk policies and guidelines defined by the Boards of Directors are implemented in the business units.

The monitoring approach is adapted to the type of risk; for example, the credit portfolio is monitored by means of an overall credit portfolio overview and portfolio targets, whereas other risks are monitored on the basis of specific limits or through scenario analyses on the basis of the probability of a given event occurring and its potential consequences. Similarly, the monitoring frequency is adapted to the type of risk. Some risks are monitored daily, including through intraday controls, while others are monitored less frequently.

Business procedures have been laid down and controls set out for all material risk areas according to guidelines for internal documents laid down by the Group Executive Board. The controls comprise manual controls as well as automatic controls in the IT systems applied etc.

2.4 Reporting and communication

The Board of Directors and the Executive Board receive a quarterly report describing and assessing all relevant risks. The risk reporting complies with current legislation and is aimed at describing the current risk outlook on the basis of selected risk parameters and analyses of relevant risk types and special focus areas.

As a minimum, the risk reporting covers the areas of credit risk, market risk, liquidity risk, regulatory risks and non-financial risks, including operational risks, conduct risk, model risk, data quality risk as well as IT and compliance risks. Strategic and business, regulatory and sustainability risks are managed as part of the traditional risk types and are described in the reporting under the traditional risk types when applicable. An overview of risk reporting submitted to the Board of Directors etc is available at the end of the chapter.

2.5 Risk policy

The risk policy sets out the overall risk appetite, while a number of underlying policies determine the risk appetite for the individual risk types. Overall, Nykredit aims to ensure agreement between risk taking, risk appetite and current legislation in the context of a robust capital structure and stable earnings. Risk management should contribute to ensuring financial and sustainable solutions that are viable in the short, medium and long term.

Chart 2.3: Principles for risk management in the second line of defence

2.5.1 Risk appetite

The overall risk appetite is determined on the basis of Nykredit's strategy, regulatory and credit rating agency capital requirements and the internal capital targets. The risk appetite reflects Nykredit's overall tolerance for assuming risks in the context of its business model and the Group strategy. In some areas, it is directly measurable, while in other areas the risk appetite is expressed through more qualitative objectives.

The 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 risk policies and guidelines according to Executive Board 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 on an ongoing basis and prepares a capital budget annually. The budget should be seen in the context of the overall capital and strategy plan. Capital is allocated and prioritised among the business divisions according to risk profile, business returns and strategic considerations.

2.6 Management

Board of Directors

The Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S must be composed so that they possess the mix of skills required to undertake the overall and strategic management of the business and to take any measures to ensure prudent business management. Furthermore, Board members must possess the knowledge and experience required to be able to critically assess and challenge the work and proposals of the Executive Board.

The Board of Directors of Nykredit A/S counts 15 members, of whom 10 are elected by the Annual 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 of Nykredit Realkredit A/S counts 12 members, of whom eight are elected by the Annual General Meeting for a term of one year and four are elected by and among the staff for a term of four years. Further details on the composition of the Board of Directors as well as the CVs of the individual Board members are available at nykredit.com

The Boards of Directors review their skills profiles on an ongoing basis and have decided in this respect that they should have special skills and knowledge as regards:

- Strategic matters
- Sector and real estate expertise
- Economics, finance and accounting
- Capital markets, securities and funding
- Politics, public administration and associations
- Financial regulation
- Corporate governance, including ESG-related matters
- Digitisation, IT and processes
- Market conditions, customer relations and sales
- Organisation/HR and processes
- Risk management and credit matters

Group Executive Board

The Group Executive Board comprises five members and implements the Group strategy and is responsible for the day-to-day management and for implementing policies and guidelines laid down by the Board of Directors. The Executive Board has set up five Group committees, which support and assist with compliance with and implementation of risk policies, guidelines etc. The Group Executive Board has issued committee governance guidelines, which ensure, among other things, that decisions of importance to a Group company can only be made if explicitly endorsed by the company's Executive Board representative, as well as guidelines for internal documents, which ensure a uniform approach to the preparation, maintenance and use of internal documents in Nykredit, including policies, guidelines, mandates, role descriptions and business procedures.

Chief Risk Officer

The duties of the Chief Risk Officer are laid down in the Danish Executive Order on Management and Control of Banks, etc. A role description has been prepared for the Chief Risk Officer, approved by the Executive Board and adopted by the Board of Directors. The Chief Risk Officer must have a general overview of the company's activities, operations and risks in order to assess whether risk management operations are satisfactory. The Chief Risk Officer also assesses whether the decision-making basis of the Executive Board and the Board of Directors is sufficient in risk-related matters.

The head of Nykredit's risk management function is designated as Chief Risk Officer. Nykredit's organisational structure ensures that the risk management function is segregated from all risk-taking units and thus independent in relation to business-related decisions. Nykredit's risk management function performs Group-wide controls, monitors Group risks and prepares independent reports for Executive Boards and Boards of Directors on all risk areas.

Chief Compliance Officer

The duties of the Chief Compliance Officer are laid down in the Danish Executive Order on Management and Control of Banks, etc. A role description has been prepared for the Chief Compliance Officer, approved by the Executive Board and adopted by the Board of Directors. The Chief Compliance Officer assists Nykredit's Management in identifying, assessing, advising on, controlling, monitoring and reporting on Nykredit's compliance risks.

The head of Nykredit's compliance function is designated as Chief Compliance Officer. The compliance function assesses whether Nykredit meets the compliance rules applicable to the individual risk areas and oversees and determines whether the methods, procedures and controls implemented by Nykredit in the risk areas are adequate and effective in terms of identifying and mitigating compliance risks. The compliance function prepares independent reports for Executive Boards and Boards of Directors.

Anti-money laundering officers

The Group Executive Board and the Executive Boards of the Group companies have each appointed a Chief Anti-Money Laundering (AML) Officer at the executive level charged with delegating and ensuring managerial responsibility and focus on measures to prevent financial crime throughout the Group.

Moreover, an AML Responsible Officer has been appointed who is tasked with approving Nykredit's anti-money laundering policies, procedures and controls and approving business relationships with politically exposed persons and correspondent relationships.

Data Protection Officer (DPO)

The Group Executive Board and the Executive Boards of the Group companies have appointed a Data Protection Officer, who assists Management in ensuring that Nykredit complies with applicable data protection legislation at all times.

The Data Protection Officer's primary responsibilities are to monitor, assess, control and report on Nykredit's compliance risks relating to personal data processing. In the organisational structure, the Data Protection Officer falls under the compliance function, but with separate and independent reporting to, for instance, all relevant Executive Boards and Boards of Directors of Group companies.

Chief Outsourcing Officer

The Executive Boards of the Group companies have appointed a Chief Outsourcing Officer, who assists the Executive Boards and the Boards of Directors in ensuring Nykredit's compliance with the Danish Executive Order and legislation on outsourcing for credit institutions etc in force from time to time.. The overall responsibility is vested in the Boards of Directors, however. In the organisational structure, the Chief Outsourcing Officer falls within Procurement, but reports directly to the Executive Board.

2.6.1 Committees

Board committees

The Board of Directors of Nykredit Realkredit A/S has appointed a Board Risk Committee, a Board Audit Committee, a Board Remuneration Committee and a Board Nomination Committee. 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.

Group committees

The Executive Boards of the Group companies have set up a number of Group-wide committees that support and assist with compliance with and implementation of policies, guidelines etc in various risk areas. Decisions made by these committees are based on mandates laid down by the Executive Boards of the companies for which the committees perform tasks. At least one company representative from each company has been appointed to each Group committee. Group committees can delegate part of their work to Board committees.

As the Group committees are all part of the first line of defence, the Chief Risk Officer and the Chief Compliance Officer may attend committee meetings as observers. The Chief Risk Officer is a permanent observer at meetings of the Group Risk Committee, the Products Committee, the Contingency Committee and the Asset/Liability Committee, and attends Credits Committee meetings when and as required.

The Chief Compliance Officer is also a permanent observer at meetings of the Group Risk Committee, the Contingency Committee and the Products Committee, and attends Asset/Liability Committee meetings when and as required. The Chief Risk Officer and the Chief Compliance Officer may always request that a matter be resolved by the relevant Executive Board or Board of Directors, if deemed relevant.

Table 2.1: Nykredit's Board Committees

Board Risk Committee *At least six meetings a year*	The function of the Board Risk Committee is to oversee Nykredit's overall risk profile and strategy, including to assess the long-term capital requirement and the capital policy. It also assesses risks related to products, business model, remuneration structure and incentives as well as risk models and methodological basis. The Board Risk Committee also assists the Board of Directors in overseeing that the risk appetite defined by the Board of Directors is implemented correctly in the organisation.
Board Audit Committee *At least six meetings a year*	The principal tasks of the Board Audit Committee 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 etc, 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.
Board Remuneration Committee *At least three meetings a year*	The principal tasks of the Board Remuneration Committee are to qualify proposals for remuneration prior to consideration by the Board of Directors and to make recommendations in respect of Nykredit's Remuneration Policy, including guidelines on incentive pay, for the approval of the Board of Directors, as well as to assist in ensuring that these are observed. Moreover, the Board Remuneration Committee reviews and considers the criteria for and process of designating risk takers, and it assesses whether the Group's processes and systems relative to remuneration are sufficient, including whether they take into consideration the Group's risks and ensure that remuneration policy and practices are in alignment with and promote sound and effective risk management in accordance with the Group's business strategy, objectives, values and long-term interests. Finally, the Board Remuneration Committee 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. Details on bonuses to risk takers and on remuneration policy and practices can be found in Nykredit's Remuneration Policy.
Board Nomination Committee *At least three meetings a year*	The Board Nomination Committee 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 Committee also advises the Board of Directors with respect to targets for the under-represented gender on the Board of Directors and laying down a diversity policy applying to the same. In addition, the Board Nomination Committee, reporting to the Board of Directors, is ultimately responsible for defining the skills profiles of the Board of Directors and the Executive Board and for the continuous evaluation of their performance and achievements.

Table 2.2: Nykredit's Group committees

Group Risk Committee *At least six meetings a year*	The Group Risk Committee is charged with overseeing the Nykredit Group's overall risk outlook, assisting the managements of the respective companies in ensuring compliance with current legislation and risk management practices as well as supporting responsible business practices. The Group Risk Committee further oversees that the risk policies and guidelines defined by the Board of Directors are implemented correctly in the organisation. The Committee is also responsible for risk models and capital adequacy as well as monitoring and assessing the required own funds and internal capital adequacy requirement.
Credits Committee *At least two meetings a week*	The Credits Committee is charged with ensuring adequate credit risk management and approving and/or deciding credit applications and loan impairments as well as overseeing the management of risks in Nykredit's credits area. The Committee manages the Group's loan portfolio and submits recommendations on credit policies to the individual Executive Boards and Boards of Directors. The Committee lays down business procedures for the granting of credits within the limits of the guidelines laid down by the Group Executive Board and the Board of Directors.
Asset/Liability Committee *At least 11 meetings a year*	The Asset/Liability Committee undertakes the day-to-day responsibilities and tasks of the Executive Boards in the areas of capital, funding, liquidity and market risk according to guidelines approved by the Boards of Directors. The Committee has a governance mandate in these areas at Group as well as at company level.The Asset/Liability Committee has delegated responsibility to the Green Bond Committee for ensuring that the types of assets used to back green bonds comply with Nykredit's Green Bond Framework. The Green Bond Committee is composed, at a minimum, of the members of the Asset/Liability Committee, which is represented at meetings.
Products Committee *At least eight meetings a year*	The Products Committee's objective is to ensure that the Nykredit Group's products and services meet applicable business and regulatory requirements and are provided to the right target groups. The Committee must ensure that any development and launch of new or changes to existing products and services involving material risks for customers, the Group, the individual companies and/or counterparties are in alignment with the business models of the individual companies and comply with the current product policy and the Executive Boards' guidelines for development and approval of new products and services.
Contingency Committee *At least one meeting a year*	The Contingency Committee has the overall responsibility for compliance with IT security policy rules in relation to contingencies (major accidents or catastrophes) and the Group's entire spectrum of contingency plans covering IT as well as business aspects. In addition to an annual ordinary meeting, meetings are also held when necessary. For example, in the event of major accidents, catastrophes or situations which affect or may affect the Nykredit Group's safety or business operations.

Table 2.3: Risk reporting to the Board of Directors

Reporting	Description	Frequency	Recipient
Internal risk reporting	Complete review of the Group's risk outlook covering both financial and non-financial risks as well as capital structure. Also includes reporting on compliance with risk policies and pertaining guidelines.	Quarterly	Group Risk Committee, Board Risk Committee, Boards of Directors
External risk reporting	Description of the Group's risk profile, capital management, risk management, organisation, risk limits and policies. The report is published on Nykredit's website together with a number of Pillar III spreadsheets with detailed data.	Annually	Group Risk Committee, Board Risk Committee, Boards of Directors, general public
ICAAP	Assessment of the Group's required own funds and internal capital adequacy requirement. The Group's capital targets are assessed against the risk profile and business strategy. The assessment includes stress testing of REA, impairment charges etc.	Annually	Group Risk Committee, Board Risk Committee, Boards of Directors, Danish FSA
ILAAP	Assessment of the Group's liquidity position and liquidity management, including its funding profile. Reporting includes assessment of the liquidity risk exposure through stress testing and similar analyses and describes internal limits for liquidity reserves.	Annually	Asset/Liability Committee, Board Risk Committee, Boards of Directors, Danish FSA
Market and liquidity risk	Review of internal limits for market and liquidity risk.	Monthly	Asset/Liability Committee, Board Risk Committee, Boards of Directors
Compliance reporting	Overall assessment of the Group's compliance and control environment. The risk assessment is based on the compliance function's regular reviews and status updates on agreed measures.	Quarterly	Group Risk Committee, Board Risk Committee, Boards of Directors
Credit portfolio reports	Detailed review of credit risk exposures by segment, including industries, geographic areas and sub-industries, and evaluation of the credit policy. The reports cover segments such as personal customers, industry, trade, agriculture, transportation, property rental, cooperative housing, public housing etc.	Annually	Credits Committee, Board Risk Committee, Boards of Directors
Other risk areas and thematic analyses	Ongoing reporting on IT security, outsourcing, data governance etc as well as ad-hoc analyses selected according to risk, for example related to types of risk in individual segments or current topics such as covid-19, economic trends etc.	Ongoing/Ad hoc	Group Risk Committee, Board Risk Committee, Boards of Directors
Impairment reporting	Review of impairment basis and methodology.	Quarterly	Credits Committee, Board Risk Committee, Boards of Directors
Recovery plans	Determination of trigger levels, scenarios and possible scope for action as well as a description of the organisation for the purpose of capital and/or liquidity recovery of the Nykredit Realkredit Group and the Nykredit Bank Group.	Annually	Group Risk Committee, Board Risk Committee, Boards of Directors

3. Capital

The purpose of Nykredit's capital management is to support the Group's business model, strategy and objectives. Nykredit aims to have stable earnings, a strong capital structure and competitive ratings.

Nykredit's capital management is to support Nykredit's capacity to maintain its business activities throughout Denmark regardless of fluctuations in economic trends. At the same time, Nykredit aims to ensure own funds sufficient to support the distribution of dividend to its owners and to meet regulatory requirements and the expectations of the Danish FSA. The Board of Directors has set a Common Equity Tier 1 (CET1) capital target of 15.5-16.5% of the risk exposure amount (REA), whereas the overall target for own funds has been set at 20.5-21.5%. Nykredit is comfortably above these capital targets, which gives Nykredit strategic leeway.

The headroom against the targets is due in part to Nykredit already having set aside CET1 capital for full implementation of the new EU capital requirements (CRD6/CRR3), which will be phased in up to 2032. The level of this CET1 capital complies with the level required under a fully implemented EU political agreement and is expected to give rise to lower capital targets and less headroom going forward.

Nykredit may obtain new CET1 capital from its owners, through Forenet Kredit's capital resources and investment commitments from Danish pension companies. Given its access to funding, Nykredit ranks on a par with a listed SIFI in terms of capitalisation.

Risk appetite

In accordance with its business model, Nykredit aims to have stable earnings, a strong capital structure and competitive ratings. The capital requirement determined by Nykredit must therefore be significantly above the minimum regulatory level, ensuring that Nykredit can withstand an economic downturn and any consequent losses and meet new regulatory requirements. Lower capital thresholds are set for purposes of the ongoing capital management.

3.1 Policy and guidelines

Nykredit's capital policy is laid down by the Board of Directors and defines the Nykredit Realkredit Group's consolidated capital needs and targets for leverage ratio, eligible liabilities (MREL), debt buffer etc.

Nykredit's capital targets are determined on the basis of the Danish FSA stress testing approach and are comprised of regulatory capital requirements and buffers, and a stress buffer reflecting the impact on Nykredit's capital position of a severe recession. Nykredit furthermore applies internal capital buffers. Nykredit's capital targets are considerably higher than the regulatory minimum requirement. The Board of Directors may reassess the Group's capital targets in case of major unexpected events.

In addition to the capital policy, Nykredit's Board of Directors has issued guidelines on day-to-day capital management to the Executive Board, which may in turn delegate guidelines and limits to Nykredit's Asset/Liability Committee, see section 2.6.

The guidelines set out the scope for Nykredit's capital ratios, leverage ratio, eligible liabilities and debt buffer, and specify the governance structure, delegation scope, escalation procedures etc.

The need for capital is assessed regularly as part of our capital planning, which is based on balance sheet, earnings and risk exposure projections. Nykredit's capital planning allows for factors such as maturity profiles of existing issues, adopted upcoming regulation and stress tests.

The capital policies of Group companies are determined by the individual Boards of Directors on the basis of the Group's capital policy and recommendations from the Asset/Liability Committee.

3.2 Control and reporting

The capital positions of the Group and the Group companies are reported regularly to the Board of Directors and the Board Risk Committee, the Executive Boards, the Asset/Liability Committee and the Group Risk Committee.

The Asset/Liability Committee receives monthly reports on REA, own funds and capital plans. Nykredit's Executive Boards and Boards of Directors as well as the Asset/Liability Committee monitor and evaluate the current capital positions at least quarterly. The risk outlook is described in the quarterly reports to the Board of Directors, the Board Risk Committee and the Group Risk Committee. In case of breaches of the capital policies or guidelines, the Board of Directors, the Executive Board and the Asset/Liability Committee receive separate reports, including an action plan.

Nykredit's risk management function performs independent controlling and monitoring of capital policy compliance at company and Group levels. The capital policies and the Board of Directors' capital management guidelines are adjusted and approved annually.

CRR3 enters into force on 1 January 2025

CRR3 will be phased in up to 2032, while the output floor is expected to be binding for Nykredit from 2033. However, already at the entry into force on 1 January 2025, Nykredit expects a slight increase in REA. This is mainly due to the new approach to calculating capital requirements for operational risk. At the same time, the revised IRB approach will enter into force, which is only expected to have a limited net effect on REA due to opposing effects. As this report covers 2024 trends, the above effects are not reflected in the published data.

Capital management governance

Board of Directors and Board Risk Committee:

- Lay down the capital policy and capital management guidelines, including capital targets, maximum leverage and targets for eligible liabilities (MREL) and debt buffer.
- Receive quarterly reports on capital policy compliance.
- Receive separate reports in case of breaches of the policy or guidelines, including an action plan for approval.

Executive Board and Asset/Liability Committee:

- Approve and implement the capital policy and oversee compliance based on quarterly reports.
- Receive separate reports in case of breaches of the policy, including an action plan for approval. In addition, the Asset/Liability Committee receives monthly reports on REA, own funds and capital planning.

Risk management function (second line of defence):

- Perform independent controlling and monitoring of capital policy compliance at company and Group levels.
- Prepare independent reports for the Board of Directors and the Executive Board.

ICAAP:

- Nykredit prepares an annual Internal Capital Adequacy Assessment Process (ICAAP) report identifying, measuring, assessing and monitoring all relevant risks to ensure that Nykredit has the required level of own funds. Via the Group Risk Committee and the Board Risk Committee, the report is submitted to the Board of Directors for approval and to the Danish FSA for review.

3.3 Current own funds and development

The Nykredit Realkredit Group's own funds totalled DKK 111.4 billion at end-2024 against DKK 103.0 billion at end-2023. With a risk exposure amount (REA) of DKK 474.6 billion, this corresponds to a total capital ratio of 23.4% at end-2024 against 23.7% at end-2023. The table on the next page shows Nykredit's own funds and REA.

CET1 capital came to DKK 97.5 billion at end-2024, corresponding to a CET1 capital ratio of 20.5% against 20.4% at end-2023. The Nykredit Realkredit Group's CET1 capital increased by a total of DKK 7.0 billion in 2024, mainly driven by net profit for 2024.

In 2024 Nykredit distributed ordinary dividend of DKK 5.4 billion, corresponding to 50% of profit after tax for 2023, and extraordinary dividend of DKK 2.2 billion. A decision has been made not to distribute additional dividend for 2024, based on the financing plan relating to the tender offer for Spar Nord and Nykredit's aim of maintaining a strong capital position.

Nykredit's Tier 1 capital of DKK 101.2 billion consists mainly of Common Equity Tier 1 (CET1) capital, which is the key capital measure, as this is the type of capital required to comply with most of the regulatory capital requirements. Additional Tier 1 (AT1) capital totalled DKK 3.7 billion (EUR 500 million) at end-2024 and was issued by Nykredit Realkredit A/S in October 2020.

The Nykredit Realkredit Group's Tier 2 capital including regulatory adjustments totalled DKK 10.2 billion at end-2024. Nykredit Realkredit A/S did not redeem or issue Tier 2 capital in 2024.

At end-2024 Nykredit Realkredit A/S had furthermore issued about DKK 64.9 billion-worth of senior non-preferred debt. This does not count towards own funds, but is eligible for meeting the Danish minimum requirement for own funds and eligible liabilities (MREL) applying to the Group, the debt buffer requirement for mortgage banks as well as S&P's Additional Loss-Absorbing Capacity (ALAC) criterion for credit rating purposes. Senior non-preferred debt serves to protect unsecured creditors in case of the issuer's resolution or bankruptcy.

Table 3.1: Capital ratios of Nykredit's companies

% of REA End-2024	Capital ratio	Total regulatory requirement[1]
Nykredit Realkredit Group		
CET1 capital	20.5	13.5
Tier 1 capital	21.3	15.5
Own funds	23.4	18.0
Nykredit Realkredit A/S		
CET1 capital	16.1	12.3
Tier 1 capital	16.7	13.9
Own funds	18.4	16.0
Nykredit Bank Group		
CET1 capital	27.7	13.5
Tier 1 capital	27.8	15.5
Own funds	27.8	18.2
Totalkredit A/S		
CET1 capital	24.2	13.3
Tier 1 capital	26.7	15.3
Own funds	27.9	18.0

[1] The regulatory requirement includes requirements under Pillar I and Pillar II and the combined capital buffer requirement.

CET1 capital ratio

20.5%
(2023: 20.4%)

Total capital ratio

23.4%
(2023: 23.7%)

Tier 1 capital ratio

21.3%
(2023: 21.2%)

3.3.1 Capital adequacy differences between the Groups

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

1. Common Equity Tier 1 (CET1) capital
   CET1 capital totalled DKK 97.4 billion in the Nykredit Group and DKK 97.5 billion in the Nykredit Realkredit Group at end-2024. The difference is caused by a deduction from the CET1 capital of the Nykredit Group for intercompany balances with PRAS A/S and the ownership interest of PRAS A/S in Nykredit A/S.

2. Additional Tier 1 (AT1) capital in subsidiaries
   AT1 capital was issued by Nykredit Realkredit A/S and therefore cannot be included 100% in the Nykredit Group according to 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 Group.

3. Tier 2 capital in subsidiaries
   Tier 2 capital was also issued by Nykredit Realkredit A/S and is subject to the rules on minority interests described above for AT1 capital.

4. Risk exposure amount (REA) – credit risk
   As mentioned in 1 above for CET1 capital, intercompany balances and indirect ownership interests are eliminated in the Nykredit Group. This reduces total REA for credit risk in the Nykredit Group.

Table 3.3: Capital

DKK billion	Nykredit Realkredit Group		Nykredit Group
Year-end	2024	2023	2024
Equity for accounting purposes	**105.0**	**101.0**	**105.0**
AT1 capital etc	(3.8)	(3.8)	(3.8)
Other CET1 regulatory adjustments	(3.7)	(3.2)	(3.9)
CET1 capital	**97.5**	**88.6**	**97.4**
AT1 capital	3.7	3.7	2.7
AT1 regulatory deductions	0.0	0.0	0.0
Total Tier 1 capital	**101.2**	**92.3**	**100.1**
Tier 2 capital	10.2	10.7	8.4
Other Tier 2 regulatory adjustments	0.0	0.0	0.0
Own funds	**111.4**	**103.0**	**108.3**
REA			
Credit risk	413.7	374.4	413.2
Market risk	26.4	28.0	26.4
Operational risk	34.5	30.9	34.5
Total REA	**474.6**	**433.4**	**474.0**
Capital ratios (%)			
CET1 capital ratio	20.5	20.4	20.5
Tier 1 capital ratio	21.3	21.2	21.0
Total capital ratio	23.4	23.7	22.8

Table 3.2: Nykredit Realkredit Group

Loan capital, end-2024

	Interest rate	Call date	Maturity	Capital
AT1 capital	4.125%	15 April 2026	Perpetual	EUR 500 million
Tier 2 capital	0.875%	28 April 2026 to 28 July 2026 inclusive	28 July 2031	EUR 500 million
Tier 2 capital	3M Stibor + 1.25%	31 March 2026	31 March 2031	SEK 1,000 million
Tier 2 capital	6M Euribor + 1.71%	-	28 October 2030	EUR 50 million
Tier 2 capital	5.50%	29 September 2027 and 29 December 2027	29 December 2032	EUR 500 million
Tier 2 capital	6.88%	18 October 2027	18 October 2032	SEK 280 million
Tier 2 capital	3M Nibor + 3.65%	18 October 2027	18 October 2032	NOK 1,550 million
Tier 2 capital	3M Cibor + 3.9%	26 October 2027	26 October 2032	DKK 950 million

3.4 Risk exposure amount

Nykredit's risk exposure amount (REA) forms the basis of the calculation of the capital requirement. In 2024 the Nykredit Realkredit Group's total REA increased by DKK 41.2 billion, or 9.5%, to DKK 474.6 billion.

REA for credit risk grew by DKK 39.3 billion, or 10.6%, to DKK 413.7 billion. This rise is mainly driven by lending growth across companies, an increase in value-adjusted debt outstanding of mortgage lending, and the development in credit quality. However, risk weights are still low due to a long period of largely rising property prices and favourable macroeconomic conditions.

In addition, equity portfolios in the banking book have grown, also causing a rise in REA for credit risk.

At the same time, Nykredit holds a capital add-on under Pillar I to handle the effect of new legislation and regulation, which is implemented as part of IRB model development. For example, credit risk models must be developed and approved according to the new EBA guidelines on model estimation and default definition. In this process, Nykredit sets aside capital to cover the expected effect on REA of the model changes. In connection with an application to use a new LGD model for the personal customer segment, adjustments have been made to the capital add-ons held under Pillar I. The amount of this capital is expected to be reduced in connection with the final implementation of the new model, which is expected to take place in H2/2025. At end-2024 the Nykredit Realkredit Group held capital add-ons under Pillar I in the amount of DKK 76.9 billion, a rise of DKK 12.6 billion from end-2023.

REA for market risk reduced by DKK 1.6 billion, or 5.7%, during 2024. The decline is mainly due to a reduced portfolio of credit bonds. For details on changes in REA for market risk, see *5 Market risk*.

Operational risks caused a REA increase of DKK 3.5 billion, or 11.3%, to DKK 34.5 billion. REA for operational risk is calculated using the standardised approach, which means that the capital requirement is calculated as 15% of average gross earnings of the past three years.

Total
REA

DKK **474.6** billion
(2023: DKK 433.4 billion)

Chart 3.1: Nykredit Realkredit Group
Development in REA over the past year (DKK billion)

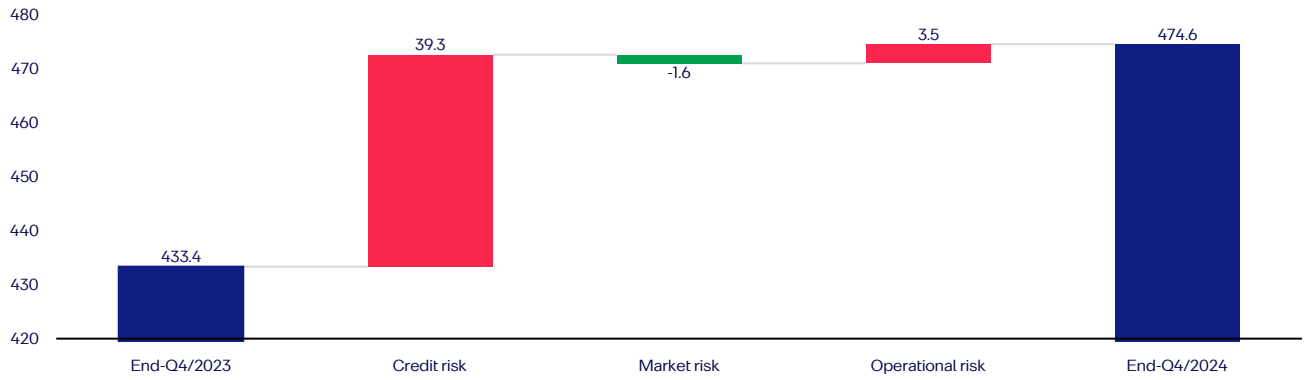


Table 3.4: Nykredit Realkredit Group
REA summary

DKK million	Risk exposure amount		Minimum capital requirement (8%)
Year-end	2024	2023	2024
Credit risk (excluding counterparty risk)	**405,157**	**366,106**	**32,413**
Of which the standardised approach	14,935	14,899	1,195
Of which the advanced IRB (AIRB) approach[1]	377,961	339,477	30,237
Of which equities under the simple risk weighted approach	12,261	11,730	981
Of which the foundation IRB approach (FIRB)	0	0	0
Counterparty risk	**8,554**	**8,323**	**684**
Of which the standardised approach	7,509	7,216	601
Of which exposures to a CCP	181	169	14
Of which CVA	392	695	31
Of which other counterparty risk	472	242	38
Settlement risk	1	0	0
Market risk	**26,414**	**27,980**	**2,113**
Of which the standardised approach	7,980	8,630	638
Of which the internal model approach (IMA)	18,434	19,350	1,475
Operational risk	**34,469**	**30,944**	**2,758**
Of which the basic indicator approach	34,469	30,944	2,758
Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
Total	**474,595**	**433,354**	**37,968**

[1] Includes Nykredit's capital add-ons held under Pillar I

3.5 Capital requirements

Nykredit's total regulatory capital requirement is composed of required own funds (internal capital adequacy requirement) and the combined capital buffer requirement.

3.5.1 Required own funds

Pursuant to the Danish Financial Business Act, it is the responsibility of the Board of Directors and the Executive Board to determine the required own funds. The required own funds are the minimum capital deemed to be required to cover all material risks. The determination takes into account the business objectives and capital policy targets by allocating capital for all relevant risks, including calculation uncertainties.

Required own funds are determined as the sum of Pillar I and Pillar II capital. Required own funds totalled DKK 49.4 billion at end-2024, equal to an internal capital adequacy requirement of 10.4%.

Pillar I

Under the Pillar I requirement, financial institutions must hold capital corresponding to 8% of total REA. See section 3.4 for the determination of REA for credit risk, market risk, counterparty risk and operational risk.

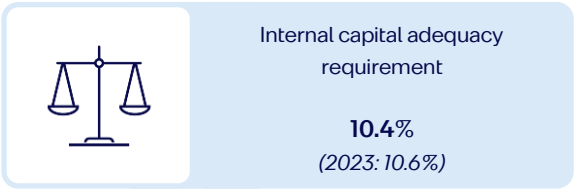
Pillar II

Pillar II comprises Nykredit's assessment of various risks not covered by the Pillar I capital requirement. The calculation of Pillar II capital thus supports the aim of maintaining a stable capital level even if the economic climate deteriorates.

Pillar II capital includes a buffer that factors in a weaker economic climate with changes in customer credit quality, falling property prices, etc.

In addition, a number of assessments are made of other risks that may lead to a Pillar II add-on. Other risks include, for example, effects of model updates, model risk, operational risks, validation and backtest results, data quality, concentration risk and interest rate risk.

Our risk management procedures include the identification and assessment of ESG risks through, for instance, analysis of the impact of transition and physical risks. These risks are currently deemed to be identified in the process of assessing elements of traditional risks, such as stability of property values, impairments and rating considerations in relation to customers. The area is monitored closely to ensure alignment with upcoming regulation and stress tests.



3.5.2 Capital buffers

Nykredit is subject to a number of capital buffer requirements in addition to the capital requirements under Pillar I and Pillar II. The combined capital buffer requirement is currently 7.7% of Nykredit's REA and must be met with CET1 capital.

As a systemically important financial institution (SIFI), Nykredit is subject to a special and institution-specific SIFI buffer requirement of 2%. In addition, Nykredit must meet the capital conservation buffer and countercyclical capital buffer requirements, each at 2.5%. These apply to all financial institutions.

On 30 June 2024, upon recommendation from the Danish Systemic Risk Council, the Danish Minister for Industry, Business and Financial Affairs activated a sector-specific systemic buffer for exposures to property companies at a rate of 7% of such exposures. Besides the Danish capital buffer requirements, Nykredit must hold CET1 capital for lending in countries where the countercyclical buffer has been implemented and where Nykredit has activities. However, lending in such countries is very limited.

3.5.3 Total regulatory capital requirement

The total capital requirement including combined capital buffers was 18.0% at end-2024, of which the minimum CET1 capital requirement represented 13.5%, including Pillar II. With a CET1 capital ratio and a total capital ratio of 20.5% and 23.4%, respectively, the capital levels are well above the capital requirements applicable to Nykredit.

Besides the specific capital requirements, the results of Nykredit's own stress tests as well as stress tests conducted by the European Banking Authority (EBA) and the Danish FSA must be incorporated in Nykredit's capital planning.

Nykredit's capital targets, which are described in detail in section 3.1, allow for the capital requirements combined with a deteriorating economic climate corresponding to the severe recession scenario in the Danish FSA stress test or a similar scenario.

3.6 Stress tests and capital projections

In addition to the regulatory capital requirements, Nykredit holds additional capital to be applied in particularly stressed economic circumstances. Accordingly, a stress buffer is determined in connection with the annual adoption of Nykredit's capital targets, reflecting the impact of a severe recession.

Model-based stress tests and capital projections are permanent elements of Nykredit's capital management. The stress tests are used to assess the impacts of different macroeconomic scenarios. The results are applied at both Group and company levels and are included in the annual assessments by the individual Boards of Directors of the internal capital adequacy requirement as well as in the determination of capital targets.

The stress test calculations include the macroeconomic factors of greatest importance historically to Nykredit's customers.
The capital requirement for credit risk builds primarily on correlations between the macroeconomic factors, the Probability of Default (PD) and Loss Given Default (LGD).

Nykredit applies a wide range of macroeconomic scenarios taken from its catalogue of scenarios, including a baseline scenario, which is a neutral projection of the Danish economy. The baseline scenario is supplemented with stress scenarios of varying severity, ranging from a weaker economic climate to a severe recession. Other relevant scenarios from external parties such as the Danish FSA or Danmarks Nationalbank, current risk scenarios or company-specific scenarios for Nykredit Bank and Totalkredit are also considered.

The most important macroeconomic factors:
- Property prices
- Interest rates
- Unemployment
- GDP growth

Stress scenarios: Severe recession

Nykredit's capital policy aims at ensuring a robust capital level, also in the long term and in a severe recession. Therefore, Nykredit regularly evaluates the impact of severe recession. Stress scenarios are used that reflect an exceptional, but plausible macroeconomic stress scenario.

Internal as well as external scenarios are used. The results of the stress scenarios reflect how much Nykredit's capital requirement would increase in case of plunging housing prices, falling or rising interest rate levels and high unemployment. The results are factored into the annual determination of Nykredit's capital policy.

Table 3.5: Nykredit Realkredit Group
Regulatory capital requirements

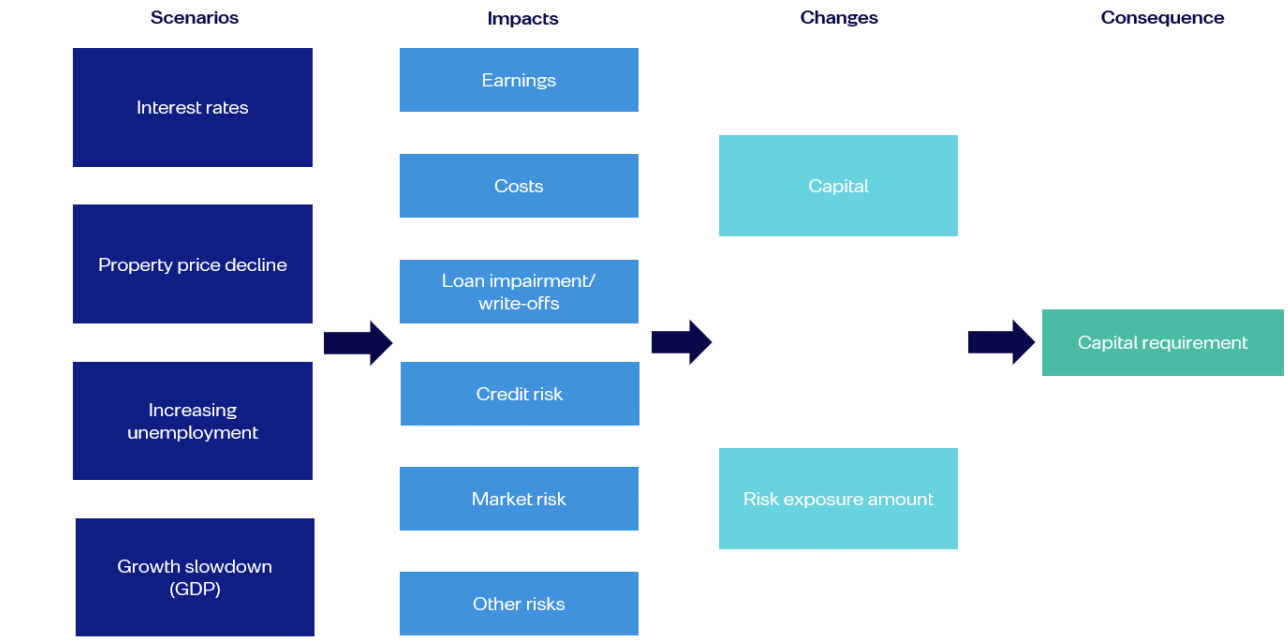
% of REA	2024	2023
Minimum CET1 capital ratio		
Pillar I	4.5	4.5
Pillar II	1.3	1.5
Combined buffer requirement	7.7	7.0
- Capital conservation buffer	2.5	2.5
- Countercyclical buffer	2.5	2.5
- SIFI buffer	2.0	2.0
- Systemic risk buffer	0.8	0.0
Total requirement	**13.5**	**13.0**
Minimum total capital ratio		
Pillar I	8.0	8.0
Pillar II	2.4	2.6
Internal capital adequacy requirement	**10.4**	**10.6**
Combined buffer requirement	7.7	7.0
Total requirement	**18.0**	**17.6**
Capital ratios		
CET1 capital ratio	20.5	20.6
Total capital ratio	23.4	23.7

Table 3.6: Nykredit Realkredit Group
Stress scenarios to determine the capital need

	2025	2026	2027
Baseline scenario			
Interest rates[1]	2.1%	2.0%	2.0%
Property price growth	4.1%	4.2%	4.2%
GDP growth	1.5%	1.3%	1.1%
Unemployment	5.1%	5.2%	5.3%
Severe recession			
Interest rates[1]	2.3%	2.0%	1.7%
Property price growth	(5.0)%	(15.0)%	(2.0)%
GDP growth	(1.0)%	(3.0)%	(1.0)%
Unemployment	7.6%	8.8%	9.4%

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

Chart 3.2: Nykredit Realkredit Group
Structure of stress tests and capital projections



Nykredit participated in the EU-wide stress test exercises of the EBA in 2023 and will do so again in 2025. The stress test in 2023 showed that Nykredit can withstand an even very severe macroeconomic downturn where large property price declines have a significant adverse impact on both personal and business lending.

Internal Capital Adequacy Assessment Process (ICAAP)
Through the ICAAP process, the Board of Directors annually assesses Nykredit's internal capital adequacy requirement, reflecting the capital requirements under Pillar I and Pillar II. The internal capital adequacy requirement is determined to reflect a cautious and forward-looking approach that supports the overall risk tolerance according to Nykredit's risk policy.

Despite continued macroeconomic uncertainties, the conclusion of the ICAAP process is that Nykredit has sufficient capital to withstand these risks, as well as far more severe downturns, and takes these risks into consideration in both its risk management practices and the capital policy.

Nykredit's capital planning factors in any upcoming regulation expected to result in changes to the required own funds. New requirements are subsequently incorporated into the ICAAP and the internal capital adequacy requirement upon coming into force. Based on the ICAAP and other aspects, Nykredit's Board of Directors determines at least annually the company's capital policy and the pertaining capital requirements, capital targets and capital plan.

3.7 Consolidation methods

REA is determined according to the rules of the Danish Financial Business Act and the Capital Requirements Regulation. 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.

Together with other enterprises, Nykredit controls the enterprise JN Data, which is not included in the Consolidated Financial Statements. This enterprise is recognised according to the equity method.

As at end-2024, the consolidated risk exposures concerned:

- Nykredit Realkredit A/S
- Totalkredit A/S
- Nykredit Bank A/S
- Nykredit Leasing A/S
- Sparinvest Group
- Nykredit Portefølje Administration A/S
- Nykredit Mægler A/S
- Svanemølleholmen Invest A/S
- Kirstinehøj 17 A/S

3.7.1 Differences compared with Financial Statements

There are differences between the Financial Statements and determinations under the CRR. This means that the figures in this report are not directly comparable with the determination of exposures in the Annual Report. This report has been prepared in accordance with Part 8 of the CRR, which defines the disclosure requirements.

Unexercised loan offers, undrawn credit and loan commitments, guarantees as well as potential future credit exposures to financial instruments are included in exposures used for the determination of REA. REA for securities is calculated at ISIN level. Detailed disclosures are available at nykredit.com.

3.7.2 Credit risk

Nykredit has obtained the approval of the Danish FSA to use the advanced IRB approach to determine 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

In connection with the implementation of the CRR on 1 January 2025, adjustments will be made to the IRB approach, including the use of the foundation IRB approach.

3.7.3 Market risk

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

- Equities
- Debt instruments
- Foreign exchange

Nykredit Bank A/S has obtained FSA approval to apply a VaR model to calculate general risk related to:

- Debt instruments
- Foreign exchange

For market risk in the remaining companies and the parts of the portfolio for which REA is not determined using VaR, the standardised approach is applied.

Nykredit has a number of procedures in place ensuring that the tradability of positions in the trading book is satisfactory, see *5 Market risk*. All positions in the trading and banking books are tested regularly for uncertainty related to applied prices against observed prices. These tests are applied in the prudent valuation calculations. A deduction is made from Nykredit's CET1 capital for prudent valuation.

For a description of the now postponed approach to capital requirement calculation, the FRTB, and resulting reporting requirements, see *5.3.5 Regulatory capital requirement*.

3.7.4 Operational risk

For all Group companies, the capital requirement for operational risk is determined using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings of the past three years. The approach will be adjusted in connection with the implementation of CRR3 on 1 January 2025.

3.8 Leverage ratio

The leverage ratio is defined as the relationship between Tier 1 capital and the balance sheet total (including off-balance sheet items). The lower the leverage ratio, the higher the leverage level. Under the applicable rules, the ratio does not factor in any collateral. The minimum regulatory leverage ratio is 3.0%. The leverage ratio is calculated separately for each company and included in their capital management.

In the capital policy, the Board of Directors of Nykredit Realkredit and the Boards of Directors of the individual subsidiaries have set targets for their respective leverage levels. The target is reviewed annually and determined based on a stressed scenario, factoring in other impacts on earnings and own funds as well as balance sheet movements, which may ultimately affect the leverage ratio.

Nykredit's balance sheet mainly consists of match-funded mortgage loans. Match funding ensures a match between the interest and principal payments of a loan and the underlying funding.

Because of the structure of Nykredit's balance sheet with a stable development in mortgage lending, the risk of excessive leverage is limited. Moreover, stress tests show that the leverage ratio remains largely unaffected in stressed scenarios, which mainly affect Nykredit's REA.

At end-2024 the Nykredit Realkredit Group's leverage ratio was 5.3%, up 0.2 percentage point since end-2023. In 2024 Nykredit recorded business growth, which has increased leverage ratio exposures. Tier 1 capital increased as a result of profit for the year and other factors.

Table 3.7: Nykredit Realkredit Group
Leverage ratio
DKK billion

Year-end	Regulatory requirement	2024	2023
Tier 1 capital		101	92
Leverage ratio exposures		1,878	1,791
Leverage ratio, %	**Min 3.0%**	**5.3%**	**5.1%**

3.9 Debt buffers and MREL requirements

Nykredit Bank must comply with the Danish minimum requirement for own funds and eligible liabilities (MREL). The purpose of the MREL requirement is to ensure that Nykredit Bank can be recapitalised and restructured through a principal write-down or conversion of capital and debt instruments in the event of a situation where the Bank meets the conditions for resolution.

At end-2024 Nykredit Bank had own funds and eligible liabilities corresponding to 39.8% of REA. The MREL requirement for 2024 set by the Danish FSA was 36.8%; this includes the combined capital buffer requirement of 7.7% of REA.

As Danish mortgage banks, Nykredit Realkredit and Totalkredit are exempt from the MREL requirement, but must meet the regulatory debt buffer requirements. The debt buffer serves to bolster the loss-absorbing capacity of a failing mortgage bank without impairing its lending capacity.

The debt buffer requirement consists of the stacked debt buffer requirement and the 8% debt buffer requirement. The stacked debt buffer requirement stipulates that eligible liabilities must amount to at least 2% of the Nykredit Realkredit Group's total mortgage lending in addition to the Group's capital requirement. The 8% debt buffer requirement stipulates that eligible liabilities must amount to at least 8% of the consolidated balance sheet.

At end-2024 Nykredit's stacked debt buffer was 4.3%, while the 8% debt buffer was determined at 9.6%.

Liabilities applied to meet the debt buffer requirement are determined after liabilities have been reserved to meet the Bank's MREL requirement, as the same liabilities cannot be applied to meet both requirements at the same time. Accordingly, by observing the debt buffer requirement, the resolution group will have sufficient MREL funds to meet the MREL requirement. The capital structure and capital planning must ensure that the MREL and debt buffer requirements can be met across economic cycles.

Table 3.8: Nykredit Realkredit Group
Debt buffer and MREL requirements
%

Year-end	Regulatory requirement	2024	2023
MREL funds	36.8	39.8	42.2
Stacked debt buffer	2.0	4.3	4.7
8% debt buffer	8.0	9.6	9.5

Note: MREL funds were calculated at the level of Nykredit Bank A/S. The stacked debt buffer and the 8% debt buffer were calculated at the aggregate level of Nykredit Realkredit A/S and Totalkredit A/S.

MREL funds

39.8%
(2023: 42.2%)

Debt buffer

4.3%
(2023: 4.7%)

3.10 FSA Supervisory Diamonds

3.10.1 Banks

The Supervisory Diamond for banks applies to all Danish banks. It is a strictly Danish initiative and does not stem from EU legislation.

The current benchmark values of the Supervisory Diamond model are shown in the table below. Nykredit Bank A/S operates within all benchmark limits.

The Supervisory Diamond model sets out the following benchmarks for four key ratios that indicate when a bank is operating at an elevated risk:

- The sum of large exposures should be less than 175% of CET1 capital.
- Lending growth should be less than 20% measured year-on-year. The limit value is determined exclusive of reverse repurchase lending and after impairments.
- Total exposure to the property segment should be less than 25% of total lending.
- The liquidity benchmark should be more than 100%. The benchmark indicates a bank's ability to withstand a liquidity stress for at least three months.

Table 3.9: Nykredit Bank A/S
Supervisory Diamond for banks

Benchmark	2024	2023
Large exposures (limit value <175%)	120.6%	108.3%
Lending growth (limit value <20%)	4.7%	9.0%
Property exposure (limit value <25%)	10.1%	11.2%
Liquidity benchmark (limit value >100%)	246.8%	223.3%

3.10.2 Mortgage lenders

The Supervisory Diamond for mortgage lenders is a strictly Danish initiative and does not stem from EU legislation. In parallel to the Supervisory Diamond, bank loans resembling mortgage loans will be subject to special supervision.

The current benchmark values of the Supervisory Diamond model are shown in the table below. No limits were exceeded.

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:

- Annual lending growth may not exceed 15% in each of the segments personal customers, commercial residential property, agriculture and other business.
- The sum of the 20 largest exposures must not exceed Nykredit's CET1 capital.
- 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 homes with an LTV ratio 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.

Table 3.10: Supervisory Diamond for mortgage lenders

Benchmark	Nykredit Realkredit Group	Nykredit Realkredit A/S	Totalkredit A/S
Lending growth in segment			
Personal customers (limit value <15%)	2.7%	(12.8)%	3.2%
Commercial residential property (limit value <15%)	6.9%	6.7%	14.9%[1]
Agriculture (limit value <15%)	(0.8)%	(0.8)%	0.0%
Other business (limit value <15%)	2.4%	2.2%	5.7%
Borrower's interest rate risk			
Loans to private individuals and for residential rental (limit value <25%)	13.2%	16.0%	12.6%
Interest-only loans			
Personal customers (limit value <10%)	4.7%	2.4%	4.7%
Loans with short-term funding			
Refinancing (annually) (limit value <25%)	14.1%	20.9%	10.7%
Refinancing (quarterly) (limit value <12.5%)	3.7%	10.2%	4.5%
Large exposures			
Loans and advances/equity (limit value <100%)	47.7%	46.6%	7.0%

[1] As Totalkredit's business lending is lower than Totalkredit's own funds, the segment is not subject to the 15% limit.

4. Credit risk

Credit risk reflects the risk of loss resulting from customers and counterparties defaulting on their obligations. It is Nykredit's policy to always offer responsible, sustainable and transparent financial solutions that match customers' financial position and needs. This approach serves to contain Nykredit's overall credit risk.

Nykredit's credit risk stems from mortgage and bank lending, but also from financial products. Most of the credit exposure derives from mortgage loans secured by real estate, which also serves to keep credit risk low.

In 2024 the credit quality of Nykredit's personal loan portfolio was supported by Danish economic trends, which were characterised by growth, high real wage increases and rising employment. This, in combination with falling interest rates from H2/2024 in particular, caused both sales activity and prices in the housing market to increase again. However, the higher interest rates in recent years have materialised in the business loan portfolio, where a deterioration of customers' financial ratios has been observed. Focus has increased on property rental in particular, due to a period of fewer transactions and higher interest expenses. In general, financial ratios in the business loan portfolio have deteriorated from strong levels.

Impairment provisions have been made to cover losses in the personal and business loan portfolios resulting from a weaker economic climate. Write-offs are still low. Risks of a weaker economic climate also affect Nykredit's capital planning, with capital being held to mitigate these risks as part of the internal capital adequacy requirement.

Risk appetite

Creditworthiness is the core element of credit granting. Credit granting must reflect Nykredit's strategy and factor in aspects such as sustainable transition towards climate change adaptation and mitigation, and the credit portfolio is structured around guidelines and portfolio targets. Nykredit focuses on long-lasting and sound relationships with customers who have the ability and will to meet their obligations. The objective is that physical assets used in the Group's business and management activities are believed to have durable and robust values, thereby ensuring the necessary security for the Group's bond issues.

4.1 Policy and guidelines

Nykredit has a nationwide presence across Denmark and a comprehensive distribution network. Customers are served by certified bankers at Nykredit's customer centres and bankers at the local Totalkredit partner banks.

Nykredit's credit risk profile and risk appetite are laid down in the credit policy. The credit policy is laid down by the Board of Directors. It is based on the Nykredit Group's strategy and the aim that customers should perceive Nykredit as a reliable, qualified and long-term financial partner. All credit applications are assessed in accordance with the credit policy by financially trained employees. The cornerstone of such assessment is a customer's creditworthiness, which reflects their ability and willingness to meet their obligations. An overall evaluation is made of the customer's financial circumstances and other risk elements, taking into account Nykredit's total exposure to the customer and any mortgage security provided. The credit policy specifies measurable characteristics of creditworthy customers and compensatory measures in case of deviation from these characteristics.

The credit policy complies with the Executive Order on Management and Control of Banks etc and ensures that credit is granted in accordance with the framework of the Totalkredit partnership, Danish mortgage legislation, the Danish Financial Business Act, good business practice, the guidelines on prudent credit assessment and any other relevant rules and regulations. The aggregate credit granting by the Group companies is undertaken within the credit policy limits for large exposures as well as limits for portfolio distribution by industry, geography and other risk types.

Nykredit wants to maintain close relationships with its customers to be able to prevent potential payment difficulties from arising. Prompt action benefits both the customer and Nykredit and limits arrears etc, making it more likely that the customer will recover. Alternatively, losses will be minimised to the advantage of both Nykredit and the customer.

Mortgage lending in Totalkredit is based on a strategic partnership comprising 41 Danish banks at end-2024. The Totalkredit partner banks undertake the distribution of loans, customer advisory services, creditworthiness assessments, case processing as well as arrears reviews and handling of non-performing exposures. Totalkredit loans are subject always to final approval by Totalkredit.

The credit policy describes a number of ESG factors to be considered as part of the credit assessment of business customers. The assessment includes, in particular, climate, physical and transition risks, but also other elements of a customer's individual ESG factors will be considered where relevant. The aim is to identify relevant risks and options, which will then form part of the overall assessment of a business customer's creditworthiness. Nykredit's ESG assessment is based on recognised concepts laid down in the EU Taxonomy Regulation. Compliance with Nykredit's Fossil Fuels Policy is also a priority; the policy defines Nykredit's position and approach to the financing of companies involved in the exploration, extraction or production of fossil fuels or energy from fossil fuels.

The focus is on inspiring and encouraging the sustainable transition through targeted value propositions, for example favourable opportunities for climate proofing, instead of limiting or preventing personal customers' access to financing, so that the transition does not take place at the expense of individual customers in exposed areas.

4.2 Lending guidelines and process

Nykredit's customer centres have been authorised to process most credit applications independently. The authority comes with a requirement of credit policy and business procedure certification every three years, in addition to the statutory certification. It is Nykredit's aim that most credit decisions should be made locally.

Which level of Nykredit's credit approval hierarchy determines a business customer's credit application generally depends on the size of the exposure. Nykredit has five regional credit units that process business customers' credit applications exceeding the authority assigned to the customer centres and Nykredit Direkte. Applications exceeding the authority of the regional credit units are processed centrally by Group Credits, unless they involve exposures requiring escalation to Nykredit's Credits Committee, the Executive Board or the Board of Directors.

Credit risk governance

Board of Directors and Board Risk Committee:

- Lay down the credit policy, including risk appetite and limits for portfolios, and credit guidelines. Receive quarterly reports on credit policy compliance.
- The Board of Directors receives separate reports in case of breaches of the policy, including an action plan for approval.

Executive Board and Credits Committee:

- Approve and implement the credit policy and oversee compliance based on quarterly reports.
- The Executive Board receives separate reports in case of breaches of the policy, including an action plan for approval.

Risk management function (second line of defence):

- Performs controlling and monitoring independently of the risk-taking units. Prepares reports for the Board of Directors and the Executive Board. The risk management function, including Credit Controlling, plays an important role in this respect. Credit Controlling reviews credit policy compliance by spot checking eg credit approvals from all Group companies.

Which level of the credit approval hierarchy determines credit applications of personal customers of Nykredit depends on a combination of exposure size and any credit circumstances requiring particular attention (credit approval rules). The level of the credit approval hierarchy determines whether credit applications are processed by the customer centres or centrally by Group Credits.

Which level of the credit approval hierarchy determines mortgage loan applications of personal customers of Totalkredit depends on the size of the loan applied for, including the market value of any prior-ranking loans in the individual property, unless otherwise stated. As for credit applications of business customers of Totalkredit, the level is determined by exposure size, in the same way as for Nykredit customers.

The Group's largest exposures are presented to the Board of Directors on an ongoing basis. The Board is also briefed quarterly about the largest write-offs and impairments.

Approvals are made in compliance with applicable rules and practices, including the Danish Executive Order on Management and Control of Banks, etc, the Danish Executive Order on good practice for residential mortgage agreements, guidelines on prudent credit assessment when granting housing loans in growth areas etc and guidelines on creditworthiness assessments.

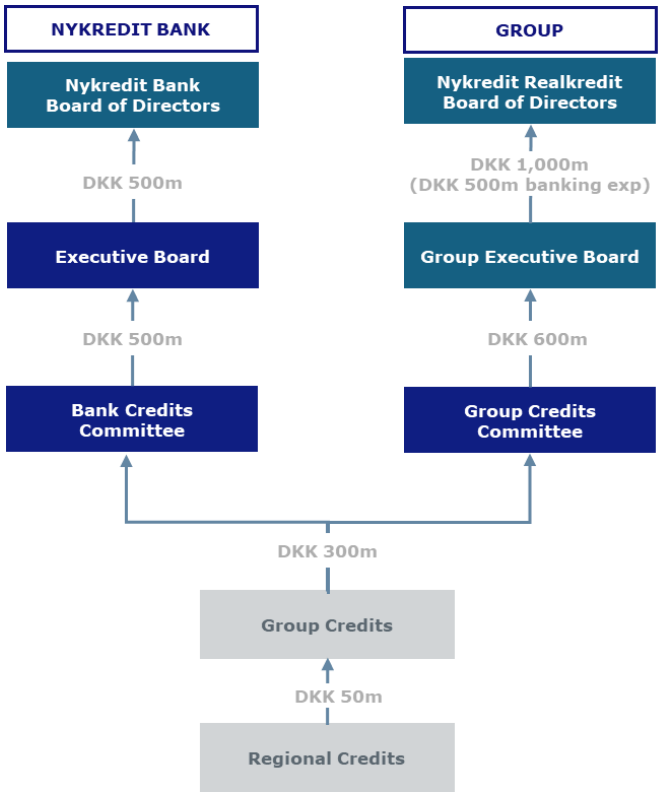
4.2.1 Nykredit's credit approval process

Nykredit's approval of loans is based on the customer rating together with an assessment of the customer's current financial position and resilience as well as other circumstances where relevant, such as, for businesses, their managerial strength and ESG factors. This assessment is based on credit approval rules and guidelines in the credit policy. The assessment also considers the quality of security provided. Security by way of mortgages on real estate is assessed by valuers.

Nykredit applies its own internally estimated ratings to the vast majority of its customers. Customer ratings are based on an estimation of the customer's Probability of Default (PD), which indicates the probability of the customer defaulting on its obligations within 12 months. Customer ratings are used for credit assessments and other purposes.

Chart 4.1: Nykredit Realkredit Group

Credit approval structure, Nykredit Bank and Nykredit Realkredit



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

4.2.2 Totalkredit's credit approval process

As regards Totalkredit loans, assessments of personal customers are primarily carried out by the regional and local banks, while the final approval of credit applications is undertaken by Totalkredit. Assessments of business customers and approval of business credit applications are carried out centrally by Totalkredit on the basis of a credit assessment by the partner bank.

A model is used for Totalkredit personal mortgages where the loss risk relating to the loans is shared according to principles set out in the collaboration agreement with the partner banks. The partner banks provide security to Totalkredit by way of a right of set-off and/or guarantees for the loans arranged by them. In return, Totalkredit passes on part of the administration margin payments from customers to the partner banks. This incentivises the partner banks to carry out a thorough and adequate assessment of customer creditworthiness, which minimises expected losses on customers. In case of high-risk loans where the ordinary business procedures are derogated from, the partner banks must provide a guarantee exceeding the security provided for ordinary loans. The security model thus reduces Totalkredit's credit risk.

Chart 4.2: Totalkredit A/S

Credit approval structure, Totalkredit – personal mortgages

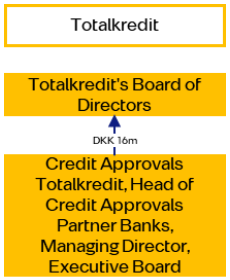
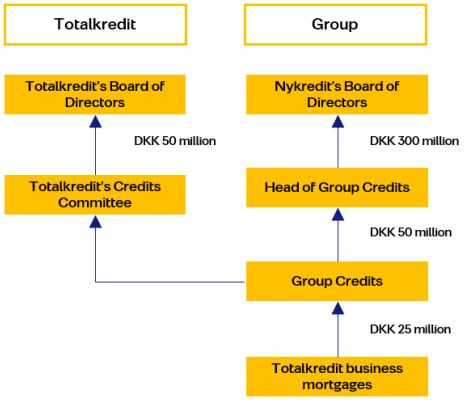


Chart 4.3: Totalkredit A/S

Credit approval structure, Totalkredit – business mortgages



Note: Amounts apply to the size of the total exposure to a customer.

4.3 Control and reporting

Group Credits is responsible for managing and monitoring credit risk in accordance with guidelines laid down by the Board of Directors and the Group Executive Board. The unit is also responsible for reviewing certain individual exposures as well as credit policy limits for large exposures and limits for portfolio distribution at Nykredit and Totalkredit.

Credit risk review is based on a portfolio management approach categorising customers according to industry and monitoring them against a number of credit parameters. Furthermore, individual exposures are reviewed to assure the quality of lending. This includes reviews of credit approvals and weak exposures. The controls are organised to be independent of the approving units, and independent reports are prepared for the risk management function.

The risk management function oversees the ongoing control and review of credit quality, portfolio limits etc and monitors the quality of credit processes. In its reports to the Board of Directors, the risk management function also explains the credit risk outlook.

4.3.1 Portfolio management

Portfolio mix and development are monitored by means of portfolio reports, sector and thematic analyses as well as the regular risk exposure reporting to the Board of Directors, which also includes monitoring of impacts from underlying ESG risks. This enables the Board of Directors to evaluate the credit policy and make the required adjustments in relation to lending at single-name level (guidelines) and portfolio level (portfolio limits and size criteria). The aim is to avoid any single-name risk or concentration of risk which may have a material impact on the Group in the event of default.

In addition to the above, a number of other elements are part of day-to-day credit management based on, for instance, large exposure limits and portfolio distribution criteria. This is supplemented with central credit instructions with respect to individual portfolios and industries, which should form part of customer assessments.

In addition to control of individual exposures, portfolio controls are performed in terms of data-driven monitoring of selected portfolio metrics for early detection of red flags.

4.3.2 Control of individual exposures

Individual exposures are controlled at decentralised and central levels in several areas. Credit Controlling, a unit of the risk management function, holds systematic meetings with the approving units to give them feedback on the relevant findings of the controls.

New approvals

With respect to decentralised reviews, the heads of Nykredit's customer centres are responsible for local day-to-day credit management, comprising spot checks as well as reviews. Controlling new approvals at individual exposure level is also part of the decentralised review procedure. The same applies to Totalkredit's business exposures. The individual banks are responsible for decentralised controlling of Totalkredit's personal exposures.

Centralised controlling is performed by Credit Controlling, which is responsible for credit controlling in all the Group's companies. New approvals are controlled against the credit policy, including consideration of risk appetite, credit assessment and decision-making basis. As regards Nykredit Bank, Nykredit Realkredit and Totalkredit's business exposures, monthly spot checks are carried out for each approving unit. Totalkredit's personal exposures and Nykredit Leasing are subject to quarterly controls, and spot checks are carried out for each Totalkredit partner bank. The samples must be large enough to ensure that they are representative of the entire population or a specific risk group. It is a requirement that the results describe, at a high confidence level, the risk tolerance of each approving unit and partner bank in relation to new approvals. The controls for Nykredit Bank and Nykredit Realkredit are risk-based, which means that higher-risk credit approvals are subject to more spot checks. The controls include checking for, for example, any overrun of credit approvals, processing errors and derogations from the credit policy guidelines. It is assessed whether the overall level of approvals is within the credit risk appetite.

Renegotiations

Decentralised reviews of renegotiations are part of the monitoring of credit exposures, and large business exposures are reviewed by the account manager at least annually. The review is based on financial statements, ratings and customer data and is a key element of the control environment. In addition, the heads of the customer centres conduct regular spot checks of the frequency and quality of renegotiations as part of the decentralised review procedure. Central reviews and control of the frequency and quality of renegotiations are performed by Credit Controlling on an ongoing basis.

Review of weak exposures

Nykredit identifies weak exposures based on the rating categories with the highest probability of default, with or without objective evidence of credit impairment. Objective evidence of credit impairment is determined on the basis of a number of statutory indicators of credit-impaired exposures. If Nykredit identifies objective evidence of credit impairment, the exposure will be assigned the lowest possible rating.

Weak exposures are reviewed by units that are specialised in handling weak exposures. Weak exposures are reviewed at least annually, except for personal customers with a rating of 2 (the highest possible rating in the category of weak exposures) where review is part of the daily customer relationship management. Business banking exposures are reviewed quarterly, with a few exceptions. The reviewing units are responsible for preparing a credit strategy including an action plan for the purpose of implementing loss control measures and restoring the customer's financial strength. The account manager is responsible for executing the credit strategy. Weak exposure reviews also include assessment of the customer's creditworthiness and consequently rating, data control and, in some cases, impairment calculations. Regular spot checks are made of the quality of weak exposure reviews conducted.

For Totalkredit mortgage loans, exposures are designated as weak if there is reasonable doubt as to whether the customers are able and/or willing to honour their obligations to Totalkredit. Totalkredit identifies weak personal exposures through Totalkredit's rating model, registrations made by partner banks in connection with loans, and Totalkredit's portfolio monitoring. Personal exposures where the PD is over 5%, where the customer is registered in RKI's bad debtor register and/or is subject to execution, or where other red flags indicate that the customer is in severe financial difficulties are assessed individually for objective evidence of credit impairment.

Central reviews and control of the frequency and quality of the weak exposure reviews conducted are performed by Credit Controlling on an ongoing basis. Credit Controlling controls Nykredit's reviews of weak exposures and Totalkredit's reviews of weak business exposures as well as the action plans implemented in relation to Totalkredit's personal exposures. The purpose of the spot checks is to assess whether the weak exposure reviews comply with relevant business procedures and process descriptions. This credit control serves to support the approving units' handling of weak exposures through ongoing dialogue about the results of controls performed.

It is verified that impairments, write-offs and provisions comply with the accounting rules, and the risk management function validates the models applied.

Controls in respect of impairments are performed as spot checks of Nykredit's impairment of stage 2 and stage 3 exposures including expert recalculation of impairments and comparison of the results with the level of current impairments.
Controls in respect of write-offs are performed as timeliness assessments of a sample of write-offs.

Credit Controlling also performs checks to verify the timely identification of objective evidence of credit impairment and the correct stage categorisation of weak exposures.

4.4 Current risk profile and development

4.4.1 Credit portfolio characteristics

Nykredit's credit exposures mainly consist of mortgage lending, which represents 75% of the total exposure. The rest of the loan portfolio primarily consists of bank loans and a small amount of financial instruments.
At end-2024, 49% of the Group's lending and guarantees were to personal customers in Denmark. The exposure to business customers in Denmark amounted to 32.8%. The exposure to customers outside Denmark accounted for 3.7% and was mainly to business customers.

Overall, Nykredit's customer portfolio is characterised by low LTV ratios and a low proportion of loans in default. At end-2024 the average LTV was 54.3%, and the proportion of loans in default was 1.2%. Customers' internal ratings are predominantly at the high end of the scale and consequently considered good. The calculated ratings are based on customers' financial position and payment behaviour, see *4.6 Models for determination of credit risk*.

Mortgage portfolio's share of total credit exposure

75%
(2023: 75%)

The economy and the real estate market

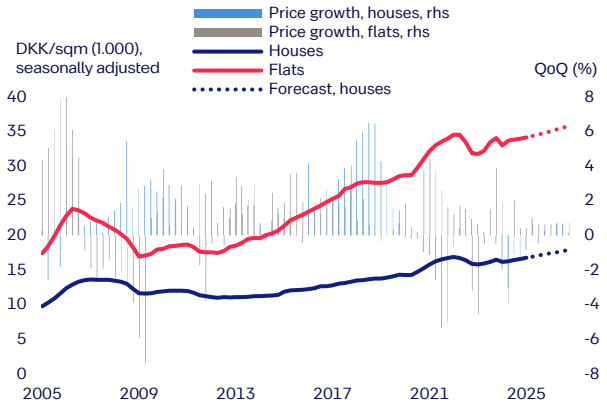
Despite geopolitical tensions and stagnation trends in Europe, the Danish economy grew significantly in 2024. A main driver was the successful pharmaceutical industry, but growth was generally broad-based. Danish households benefited from relatively high real wage growth, as well as a continued increase in employment and a very slight rise in unemployment. Many Danish homeowners also benefited from falling interest rates, and the average homeowner mortgage rates are no longer rising. The flat trend is despite the fact that some homeowners, not least those having ARMs with 5Y funding, remain unaffected by the interest rate increases in recent years.

Housing market activity declined at the beginning of 2024, when tax discounts for existing homeowners drove a wedge between buyers and sellers, especially in the flat market and relative to houses in the country's most expensive areas. However, housing prices fell only slightly, and since the spring of 2024, sales activity and prices have risen in most of the housing market, driven by a decent increase in real wages, falling interest rates and a strong labour market. In recent years, the Copenhagen housing market has shown resilience to interest rate increases, but the housing cost burden – the percentage of a household's income allocated to housing expenses – is still high.

The rental property market has been challenged by the rising interest rates in recent years, which has caused yield requirements to rise, putting pressure on property valuations. From a credit policy perspective, Nykredit has had an increased focus on commercial properties since 2020 and has tightened stress calculations for loan approvals. The Group's risk appetite and credit terms for rental properties have also been tightened in recent years. However, stress calculations have shown satisfactory liquidity in exposures, even at higher interest rate levels. Declining interest rates at the end of 2024 have again lent support to the segment. *Personal loan portfolio*

Nykredit's personal lending exposure accounted for 48.8% of the Group's total credit exposure at end-2024. The personal exposures of Nykredit's loan portfolio are generally of high credit quality,

Chart 4.4: House and flat prices

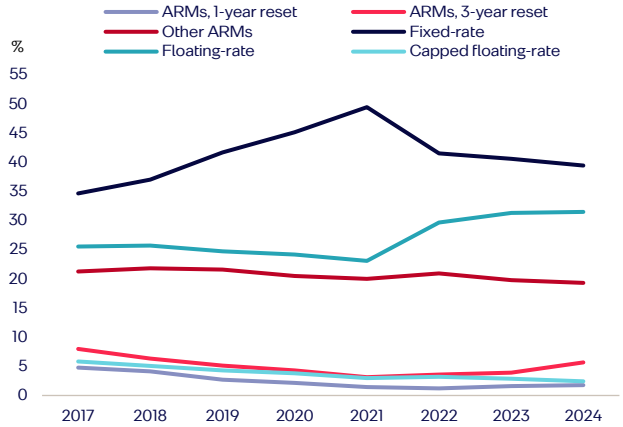


which should be seen in the light of factors such as the continued high level of employment and a high level of savings. Also, Nykredit's personal customers are mostly homeowners with low LTVs. Over the past year, personal customers have again experienced rising housing prices, as well as real wage growth as a result of declining inflation. At the same time, they have proved resilient to the interest rate increases in recent years, which has not given rise to fluctuations in the average arrears ratio. Short-term interest rates are expected to decline in the near term, while longer-term interest rates are expected to be more stable.

In 2024 Nykredit examined and analysed the resilience and credit quality of its personal loan portfolio. The examination identified how much of the personal loan portfolio was expected to fall into arrears if exposed to a stress scenario, and losses were estimated for the non-performing part. The results reflected high credit quality, as the personal loan portfolio proved resilient to stress scenarios including interest rate increases, higher consumer prices, declining employment, and housing price falls.

The personal loan portfolio generally appears more robust than in 2020 and 2021, when similar analyses were conducted, estimating significantly larger losses. The risk scenario reveals geographical differences in the resilience of the personal loan portfolio, but overall, the results of the analysis show that the portfolio is characterised by high credit quality and resilience.

Chart 4.5: Nykredit Realkredit Group
Private residential mortgage lending by loan type, EAD-weighted



Note: Other ARMs includes capped floating-rate loans and adjustable-rate mortgages with interest periods longer than 5 years.

Share of private residential mortgage lending

63.5%
(2023: 62.2%)

Business loan portfolio

In 2024 the credit quality of Nykredit's business loan portfolio declined slightly, mainly driven by the impact of higher interest rates and input prices, which has materialised in customers' financial statements and ratings. But the ratings fell from strong levels. The development in customer ratings differs across industries, with agriculture and property rental as the most affected segments. Lending to hotels was another focus area. The business loan portfolio remains of strong credit quality and is well-diversified across sectors. The prospect of continued declining interest rates, combined with the expectation of continued high levels of activity across the business loan portfolio, is expected to support the portfolio in 2025.

The levels of arrears and overdrafts as well as write-offs are still historically low.

Business exposure share of total exposure

36%
(2023: 33%)

The EU Energy Performance of Buildings Directive (EPBD) was finally adopted in June 2024 with expected implementation in national legislation by 2026. The purpose of the EPBD is to reduce greenhouse gas emissions from buildings. It provides new requirements as to the energy performance of properties, especially commercial properties, and sets out requirements for improvement of the energy performance of the least energy-efficient properties. In a stress scenario including energy renovation requirements for customers with office and retail properties energy labelled E, F or G, Nykredit expects only minor losses, which will be covered by the already existing provisions for losses from ESG-related risks. There is still uncertainty about the exact Danish implementation of the Directive, which makes it difficult to quantify its final impact. Similarly, initial indications show a relatively limited impact for private residential properties and softer requirements in the short term, but for homeowners, the impact will largely depend on the government's implementation, and we are therefore awaiting clarity before the exact consequences can be assessed.

Table 4.1: Nykredit Realkredit Group

Credit exposures, Exposure at Default (EAD)

DKK billion	2024	2023
Total business exposures in Denmark	**599.3**	**562.0**
Industry	70.3	65.8
Property rental	238.9	215.4
Trade	35.3	33.4
Cooperative housing	35.0	34.3
Holding and investment companies	7.3	8.6
Public housing	22.9	23.3
Agriculture	71.6	72.4
Finance and insurance	51.9	45.6
Services	46.9	44.6
Health, arts, public, education	19.1	18.5
Total personal exposures in Denmark	**891.8**	**841.7**
Property rental abroad	59.5	58.5
Personal exposures abroad	8.5	9.1
Other[1]	**267.4**	**255.7**
Total EAD	**1,826.4**	**1,727.0**

[1] "Other" includes exposures calculated according to the standardised approach (mainly non-distributable sovereign, institutional and business exposures).

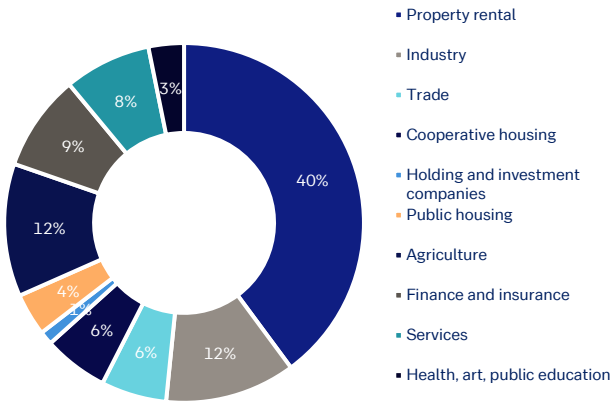
Property rental

In the business loan portfolio, the residential and commercial rental sectors represent the largest credit exposure. The segment is also sensitive to interest rate levels. About half the portfolio consists of unhedged variable-rate loans, and the interest rate increases in re-cent years have pushed up yield requirements and driven down property values. The portfolio therefore benefited from the de-clines in interest rates in 2024. Further, sensitivity calculations show that Nykredit's customers are generally resilient and that their fi-nancial ratios are affected to a limited extent by higher vacancy rates and rent increases. Customers are rather more challenged by higher yield requirements and interest expenses.

Nykredit also has exposures to property rental customers in Sweden and Germany. An increasing slowdown in the Swedish and German economies could be a challenge – especially for the commercial property sector. Nykredit has stress tested the largest

Chart 4.6: Nykredit Realkredit Group

Breakdown of business credit exposures



Swedish real estate customers and found them to be resilient, with low LTV ratios. The market is monitored closely, however, and with a focus on ensuring that the portfolio comprises the right loan customers. Despite the improving market conditions in Sweden in particular, Nykredit is still holding off on new exposures in the Swedish real estate market, with the exception of a number of existing customers.

Agriculture

Over the past year, the agricultural sector has seen fluctuating operating income depending on the type of production. On the other hand, land prices have gone up, driven by higher demand for agricultural land for energy parks and green projects, with a positive impact on the financial strength of farming businesses. Although a financial buffer has been accumulated in recent years, improving the sector's ability to absorb interest rate increases and a higher interest burden, weaker financial ratios and ratings have still been observed in the financial reporting for 2023. The agricultural loan portfolio continues to be characterised by high leverage and considerable interest rate sensitivity.

Over a long period of time, agriculture has undergone a structural development to being dominated by fewer, but larger, more robust and more specialised farming businesses.

Another key theme for Nykredit's agricultural loan portfolio in 2024 was sustainability, as the agricultural sector is among the largest carbon emitters in the portfolio. A Danish green tripartite agreement was concluded in 2024, implying that a carbon tax will be imposed on agriculture with a seemingly smaller impact on the sector than first assumed. As another result of the tripartite agreement, part of Denmark's agricultural land will be converted to woodland and natural areas. This will reduce the supply of land and put upward pressures on land prices.

4.4.2 Distribution of customer ratings

The ratings of Nykredit's business customers deteriorated slightly in 2024, driven by the higher interest rates and input prices in 2023, which materialise at a lag in customers' financial ratios due to the accounting processes. Overall, however, Nykredit's customers were still characterised by strong financial ratios and good ratings in 2024. The credit quality of 88.2% of Nykredit's exposures was in the range of ordinary to high (ratings 6-10) at end-2024. These customers typically meet their payment obligations and have robust finances and savings.

Share of high credit quality exposures

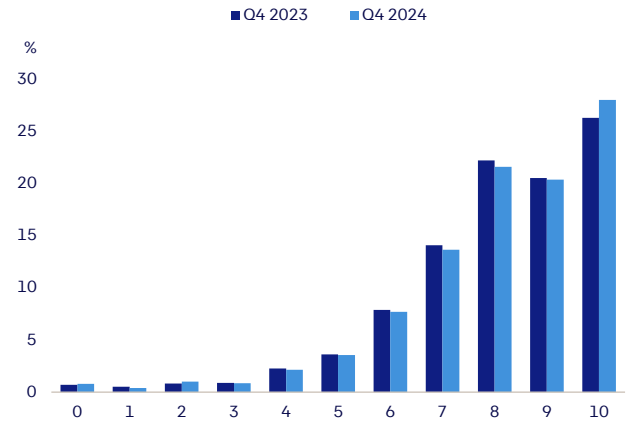
88.2%

(2023: 89.4%)

This type of customer made up 90.4% of Nykredit's personal customers, and for business customers, excluding corporate and institutional clients, the percentage was 75.3%. For 93.2% of Nykredit's corporate and institutional clients, with which Nykredit maintains particularly close contact, the credit quality ranged between ordinary and high.

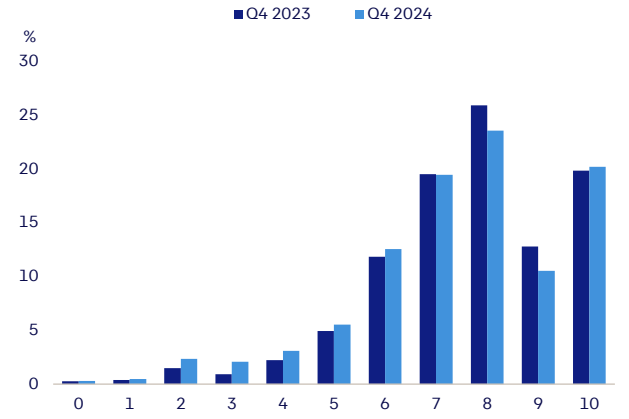
At end-2024 8.1% of Nykredit's customers were considered "ordinary exposures with minor signs of weakness" (ratings 3-5). These customers typically have less robust finances, but make timely payments. They made up 6.5% of personal customers, and for business customers, the percentage was 15.9%. The percentage for Nykredit's corporate and institutional clients was 5.8%.

Chart 4.7: Nykredit Realkredit Group
Personal customers – rating distribution, EAD-weighted



Note: Does not include exposures in default.

Chart 4.8: Nykredit Realkredit Group
Business customers – rating distribution, EAD-weighted



Note: Does not include exposures in default.

The remaining customers were weak exposures (ratings 0-2), accounting for 2.6%, and exposures in default, accounting for 1.2%. This category primarily consists of customers that have defaulted on their payments, customers with a negative net worth or negative equity, and customers with low or negative earnings.

4.4.3 Concentration risk

Concentration risk is the risk of being particularly exposed to credit events in groups of customers with identical or similar credit risks. Nykredit continuously strives to mitigate concentration risks. This is reflected in, for instance, internal targets for single exposures relative to own funds, which are constantly monitored and cannot be derogated from unless with the approval of the Board of Directors. Nykredit's largest credit exposure consists of mortgage lending in Denmark. At end-2024, 96.2% of Nykredit's exposure was to customers in Denmark, most of it being mortgage lending. Historically, the Danish mortgage market has proved robust and stable, involving limited risk. This was evident during the years of the financial crisis when Nykredit's mortgage lending grew by 5-9% a year, and loss ratios were consistently low at levels not exceeding 1.9%.

48.8% of total credit exposures are loans granted to personal customers in Denmark, the vast majority of them homeowners. Private residential lending is broadly diversified across loan type, age, region, maturity and debt outstanding. 3.7% of total credit exposures are mortgage loans financing properties abroad, most of them granted to customers with ties to Denmark. Most foreign exposures are mortgage loans to property companies in Sweden and Germany, and mortgage loans have also been granted to Scandinavian personal customers with homes in Spain and France.

36.0% of total credit exposures are loans granted to business customers. The Danish property rental segment represents by far the largest part of Nykredit's business mortgage lending, accounting for 36.2% of total business mortgage lending at end-2024. The loan portfolio is diversified across different property types, and property uses are diversified across industries. Agriculture represents the second-largest segment, at 10.8% of total business mortgage lending, while industrial lending accounted for 10.6%. Other segments all represented less than 10% of total mortgage lending. The remaining credit exposures are exposures to, for example, sovereigns and financial institutions.

Pursuant to the Capital Requirements Regulation (CRR), credit exposures to a single customer must not exceed 25% of Tier 1 capital in the three Nykredit Group companies Nykredit Bank A/S, Nykredit Realkredit A/S and Totalkredit A/S, see the rules on large exposures. Nykredit had no exposures exceeding this limit in 2024.

Nykredit Bank's largest single exposure to a non-financial counterparty amounted to 9.7% of Tier 1 capital at end-2024. Nykredit Realkredit's largest exposure amounted to 7.2% of Tier 1 capital at end-2024, and Totalkredit's largest exposure amounted to 1.2% of Tier 1 capital at end-2024.

About DKK 1.9 billion of risk exposures have been allocated under Pillar II to cover concentration risk in accordance with the Danish FSA's guidelines.

4.4.4 ESG risks

ESG risks are managed as an integral part of credit risk, meaning that they are assessed based on the same assumptions as other risk parameters. Sustainability risks are identified, assessed and monitored at portfolio level as part of the annual portfolio reviews and thematic analyses, which include a review of subsectors and the largest customers. Climate change adaptation and mitigation are still found to be the most material ESG risks in Nykredit's loan portfolio through their impact on customers. New consumer behaviour and new regulation will mean that business customers with high emissions of CO_2e (carbon dioxide equivalents) may experience increased costs from higher taxes, declining earnings and reputational loss if they fail to reduce their emissions. Furthermore, climate change may cause customers' assets to be more exposed to climate-related events.

Physical risks

For exposures secured by mortgages on real estate, Nykredit determines the proportion of lending exposed to physical risks. Due to Denmark's long coastline, geographical location and generally high groundwater level, damage by water is the key physical risk to Danish properties. Nykredit's assessment of physical risks is therefore based on climate events related to coastal erosion, groundwater rises as well as flooding from the sea and from rainfall.

The determination of physical risks is based on publicly available data points. This is combined with a number of event scenarios. The method partially allows for related uncertainties by adopting a conservative view. New data points are continuously being applied to further clarify the risk assessments.

At this point, the determination of physical risks does not take into account the impact on the value of a property, but only addresses whether the property is at risk of being impacted by an event, nor does it generally take into account any mitigating measures, such as dikes, drains etc, or that the borrower's costs of damage control will be fully or partially reimbursed by insurance companies and, in some cases, by the Danish Natural Hazards Council.

Transition risks

Transition risks arise in the transition to a greener economy, brought about by political, legal and technological changes as well as changes in consumer behaviour and markets, such as carbon taxes or changes in consumption patterns. Transition risks are therefore closely linked to the level of carbon emissions, as high-emission customers are more exposed to future regulation (eg carbon taxes). For this reason, high-emission industries must be assumed to be the most vulnerable.

Nykredit's recently published Climate Transition Plan sets the strategic framework for our efforts to reduce Nykredit's financed carbon emissions in relation to selected customer segments. The plan aims to help our customers make a successful transition for the benefit of society, thereby also reducing the inherent transition risk in the loan portfolio. The targets have been validated by the Science Based Targets initiative (SBTi), and the plan in its entirety has been approved by the Board of Directors.

The sectors of agriculture, industry and transport all account for high estimated carbon emissions relative to total lending. These are also the segments to be highly affected by new regulation in the form of the upcoming carbon tax on agriculture, the road charges for lorries and the green tax reform. These regulatory measures underline the transition risks faced by these sectors. In this context, Nykredit is particularly vigilant as to the agricultural sector.

The past year has seen a strong political focus on the future regulation and agricultural subsidy scheme in the form of the green tripartite agreement. The agreement aims to regulate carbon emissions and to encourage the implementation of approved climate solutions in agriculture. A political agreement has been reached which is considered to be less problematic for the agricultural sector than feared, as farmers who implement approved climate solutions by 2030 are widely expected to be able to avoid the livestock tax and will to some extent be able to obtain compensation. When it comes to nitrogen regulation, the agreement is largely based on voluntary efforts, but if it proves necessary in order to achieve the reduction targets, requirements may be introduced as to how farmers grow their crops. As another result of the tripartite agreement, part of Denmark's agricultural land will be converted to woodland and natural areas. This will reduce the supply of land and may lead to an upward trend in land prices.

Assessment of business customers' ESG risks

All business customers are subject to credit assessment, which among other things, includes an assessment of the customer's ESG matters, including a screening of whether the customer meets Nykredit's Fossil Fuels Policy. The credit assessment of a customer's ESG factors is based on two primary parameters: "environmental impact" (E) and "integrity" (S and G).

Environmental impact is assessed based on industry, climate footprint and transition plan, including the company's ambitions, targets and measures in order to address relevant climate risks. Integrity is assessed on the basis of the company's focus on social factors in its value chain, employee conditions, indicators of management's and the board of directors' conduct and actions such as diversity goals, control of subcontractors etc.

All new business customers were subject to credit assessment in 2024, and the same applies in the event of renegotiations and extension/changes to agreements with existing business customers. ESG credit assessments are based on internationally recognised standards in the area. The credit assessment is developed as new data becomes available and new concepts are introduced.

In 2024 the credit assessment was extended with a new credit tool for measuring the parameter that assesses a customer's environmental impact (E). A more thorough assessment is now being made of a number of factors in the individual business customer's climate transition plan. As at November 2024, the credit assessment includes several new points of measurement, in addition to concrete focus points on customers' carbon emissions, planned reduction measures, climate targets and validation under the Science Based Targets initiative or other recognised methods.

The extended credit assessment is intended to support a more accurate and transparent assessment of the large business customers. Also, it should continue to support sustainability as part of the ongoing dialogue with customers, at the start of the customer relationship and in the ongoing follow-up. The credit tool covers 80% of the relevant customer group's exposure and 90% of their emissions.

Nykredit's expectations for customers' sustainability profiles and transition plans are differentiated, and we expect the most from the largest companies and industries with the greatest impact on the climate.

Increasing focus on specific transition plans

Focusing on transition plans in the credit assessment of business customers helps to reduce the risk of Nykredit financing "stranded assets", ie assets losing their value prematurely as a result of, for example, new taxes or legislation. In addition, transition plans help ensure that Nykredit's business customers address the risks resulting from climate change and the green transition, thereby future-proofing their own business model.

As we obtain a deeper insight into customers' transition plans, gain more credit management experience in the area and get political clarification in crucial areas, such as carbon tax imposed on agriculture, Nykredit's approach and expectations of customers will be further developed.

To support our customers, Nykredit will continue the dialogue and provide relevant tools to facilitate the development of transition plans.

4.4.5 Impairments

Nykredit's impairment model calculations include forward-looking macroeconomic scenarios. The scenarios must reflect uncertainties relating to the economy as well as both improved and deteriorating outlooks. At end-2024 the scenarios had been updated to reflect the expected economic environment caused by geopolitical tensions and ESG-related risks and other resulting market conditions.

In addition to these scenarios, specific industry ratings are stress tested. The results of these stress tests may lead to a change of stage categorisation. The industries that are stress tested are assessed to be exposed to major risks that are not yet captured by the rating models. The severity of the stress is determined according to the scope of the risk faced by the individual industry, as well as the extent to which this risk has already materialised in ratings. According to IFRS 9, impairments are divided into three stages after stress testing:

Stage 1 covers loans and advances etc without significant increase in credit risk since initial recognition. For this category, impairment provisions are generally made corresponding to the expected credit losses over a 1-year period.

For the purposes of both financial reporting and capital determination, Nykredit calculates impairments in accordance with IFRS 9. The calculations are divided into four parts, applicable to all Group companies:

- A statistical model is used for impairment of all exposures without objective evidence of credit impairment, irrespective of exposure size.
- A mechanical model is used for impairment of personal exposures with objective evidence of credit impairment and business exposures below DKK 5 million at Group level with objective evidence of credit impairment.
- Expert judgement is used for individual impairment of large business exposures, based on the customer's financial position in an improved, an adverse and a baseline scenario.
- Management judgement (post-model adjustments) is used for impairment of loan portfolios based on factors not reflected in the above impairment models. Underlying reasons may be, for instance, expected credit losses that are difficult to quantify due to a changeable environment. These adjustments may generally affect credit risk beyond the outcome derived on the basis of model-based impairments.

Stage 2 covers loans and advances etc with significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the expected credit losses over the remaining life of the asset. Stage 2 is subdivided into the categories of "strong" and "weak", "weak" designating the highest-risk exposures where customers' ability to pay is characterised by significant signs of weakness.

Stage 3 covers credit impaired loans etc, which have been subject to individual provisioning based on an assessment that the custom-ers will default on their loans.
All mortgage and banking exposures above a certain limit as well as all weak exposures are reviewed individually on a regular basis for the purpose of identifying any objective evidence of credit impair-ment. If a customer is deemed to be in financial difficulties, impair-ment provisions will be made for the exposure in accordance with IFRS 9, and the exposure will be transferred to stage 3 or stage 2
(weak).

Provisions for loan losses

Nykredit's impairment provisions for potential future losses on mortgage and bank lending totalled DKK 8.6 billion at end-2024, equivalent to 0.5% of total lending. Provisions for mortgage loan impairment totalled DKK 5.3 billion (0.4% of mortgage lending). Provisions for bank loan impairment totalled DKK 3.1 billion (2.9% of bank lending).

Table 4.3: Impairment provisions

DKK billion	2024	2023
Total impairments provisions	8.6	9.1

The proportion of exposures provided for relative to exposures in default was lower for Nykredit Realkredit and Totalkredit than for Nykredit Bank, as mortgage exposures are secured by mortgages on real estate, which may be enforced in the event of default.
Total write-offs on the Group's exposures in 2024 were DKK 0.3 billion. Of this amount mortgage activities represented some DKK 0.2 billion and banking activities DKK 0.1 billion. About 75% of write-offs on mortgage loans concerned private residential lending, while 25% concerned business lending. The average 75-day arrears ratio is still low, at 0.15%.

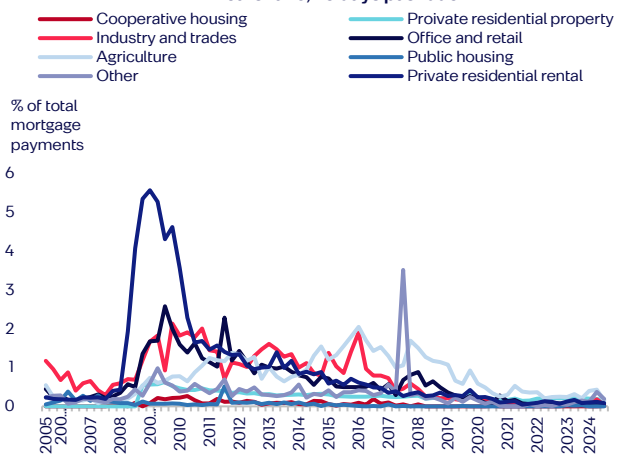
The portfolio of properties acquired by foreclosure counted six properties at end-2024 and is consequently still at a very low level. The portfolio has reduced significantly since 2012 when it counted 246 properties.

Average arrears ratio

0.15%

Chart 4.9: Nykredit Realkredit Group

Arrears ratio, 75 days past due



The share of non-performing loans is subject to ongoing monitoring. For this purpose, the determination of non-performing loans is based on financial statement data, as provided by legislation. The share of non-performing loans in the portfolio is relatively low, amounting to 1.6% of total lending at the end of the year.

Share of exposures in default

1.6%

(2023: 1.2%)

Post-model adjustments (PMA)

Accounting estimates – referred to as post-model adjustments – are used to determine credit risks. These estimates and assessments are made by Nykredit's Management in accordance with accounting policies and based on past experience and an assessment of future conditions. Post-model adjustments are used when credit models are unable to capture underlying risks.

In the Financial Statements 2024, risks associated with geopolitical tensions and ESG account for the largest share of PMA provisions.

The risk associated with geopolitical tensions is related to the lower economic growth, higher interest rates, rising inflation and value chain disruptions in 2023. This effect has started to materialise in the credit models in 2024; at the same time, some customers have not been affected as severely as previously expected. In addition, some industries experience a new risk relating to exports to the United States and Germany.

Loan impairments relating to macroeconomic uncertainty and geopolitical tensions are made for business exposures. Previously, impairment provisions were also made for the personal loan portfolio, but these provisions have been reversed following review of the portfolio, which now has a green risk score. The provisions for business exposures amount to DKK 941 million distributed on customers in exposed sectors as well as non-performing exposures, including DKK 17 million covering Nykredit Leasing A/S. The provisions were reduced by DKK 1.1 billion in 2024, as risk factors materialise in the underlying models upon Nykredit's receipt of updated financial data on customers. The macroeconomic outlook has further improved, but the provisions still need to accommodate the potential challenges of certain companies in relation to global exports.

Physical and transition risks related to ESG may lead to impairment provisions and write-offs in certain sectors and areas. At the same time, regulatory measures may have an impact on Nykredit's loan portfolio. On balance, the value of certain assets is expected to decrease. Provisions related to ESG totalled DKK 1.3 billion at end-2024 (DKK 0.7 billion at end-2023).

Chart 4.10: Nykredit Realkredit Group
Impairment provisioning components

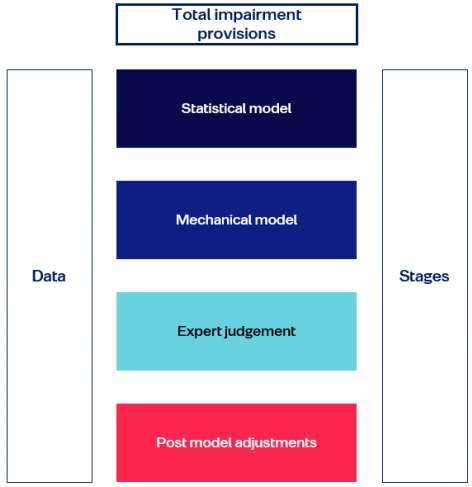
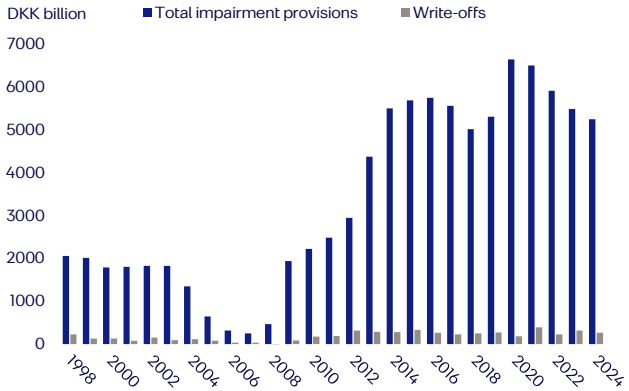


Chart 4.11: Nykredit Realkredit Group
Adjustments and losses on mortgage activities



For further information about the general impact of impairments on loans and advances and lending mix, please refer to Nykredit's Fact Book Q4 2024, available at nykredit.com.

A detailed description of impairment rules is provided in the Nykredit Group's Annual Report, available at nykredit.com. For a more detailed description and definitions of model parameters relating to credit risk, including default, see *4.6 Models for determination of credit risk*.

4.4.6 Debt collection

Nykredit's lending business inevitably involves arrears. In a minor number of these cases, the customer's inability to pay becomes long-term, while at the same time the security provided for the loan is insufficient to cover Nykredit's risk of loss. In these cases, the debt is written off when all possibilities of collection or recovery have been exhausted.

Customers with debt that has been written off will remain personally liable for this debt, and Nykredit will continue to pursue its claims to ensure that the customers will settle their debt should their financial situation so permit at a later date. At end-2024 Nykredit had approximately 18,800 of such cases and a total amount outstanding of about DKK 5.3 billion, exclusive of interest.

Nykredit transfers such personal debts to an external debt collection agency immediately after they have been written off. The debt collection agency is specialised and experienced in this area and has in-depth knowledge of debt collection law, statutes of limitation, legal processing of cases etc. Nykredit is in close dialogue with the debt collection agency about the cases transferred.

4.5 Security

The approval of loan applications is based on the customer's creditworthiness but supported by the security provided. The greater part of Nykredit and Totalkredit's lending is secured by mortgages

on real estate. Other types of security are guarantees and financial collateral.

4.5.1 Real estate

Mortgages on real estate reduce credit risk substantially. The mortgageable value of a property is determined initially at the time of loan granting. Valuations are based on factors such as the marketability, value stability and alternative use of the property, expected rental income as well as yield requirements in the real estate market. As a general rule, properties are valued by a valuer based on a physical inspection. In addition, a statistical model is used for the valuation of detached and terraced houses and owner-occupied flats where statistical valuation is particularly reliable and where the Danish FSA has approved the use of a property value model for the purpose of determining the mortgageable value. Such valuations are subject to approval by the valuer in the relevant geographical area and are monitored centrally.

In coming years Nykredit will be improving property valuations and training the Group's valuers in including any physical risks relating to individual properties.

Following the initial valuation, the market value of a property is monitored regularly. Nykredit's Group Risk Committee has set up a committee to monitor market trends and the quality of valuations, including valuations based on the Group's property value model. The committee is also responsible for identifying segments requiring special supervision.

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

- Determining maximum loan amounts for the purpose of loan approvals
- 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
- Calculating IFRS impairments, stages 1 and 2
- Calculating returns on individual customer exposures.

At end-2024 the average LTV level of the Group's total loan portfolio was 54%, compared with 53% at end-2023. The average LTV level of the Group's private residential lending was 59% at end-2024, against 58% at end-2023. The LTV level of the overall business loan portfolio ranged between 46% and 56% in the individual sectors at end-2024, compared with 46% and 56% in 2023.

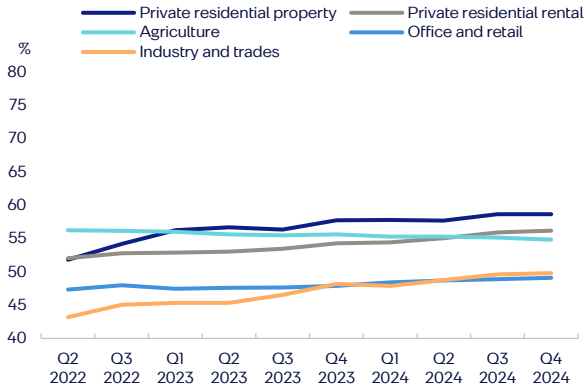
LTVs have trended down over the past years as a result of rising property prices and favourable economic trends.

4.5.2 Guarantees and financial collateral

Nykredit mainly receives guarantees from public authorities and other banks. Guarantees issued by public authorities mitigate credit risk; for instance the Danish government guarantees mortgage lending for public housing, against payment of commission.

Chart 4.12: Nykredit Realkredit Group

LTVs – property segments



The bank guarantees include land registration guarantees, guarantees for advance loans and loss guarantees.

Guarantees are widely applied in the day-to-day management of Nykredit's credit risk, particularly in customer relationships where a parent company supports the capitalisation of affiliated companies.

The Totalkredit partner banks provide security by way of a right of set-off and guarantees to Totalkredit for the loans distributed by them, see *4.2.2 Totalkredit's credit approval process*.

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 value to the different types of financial collateral depending on the risk involved. For the purpose of calculating the risk exposure amount (REA), Nykredit assigns internal collateral values based on internal estimates of the reduction in the value of the collateral in case of enforcement.

4.6 Models for determination of credit risk

Nykredit uses the advanced IRB approach to calculate the capital requirement for most of the Group's credit risk. Exemptions are exposures to governments and public sector entities, central banks and institutions, which are treated according to the standardised approach.

The determination of credit risk using the advanced IRB approach is based on three key parameters: Probability of Default (PD), expected Loss Given Default (LGD) and expected Exposure at Default (EAD). These three key parameters are referred to as risk parameters. Nykredit estimates risk parameters on the basis of Nykredit's default and loss history.

With the new Capital Requirements Regulation (CRR), effective from 1 January 2025, a number of changes to the use of the IRB approach to calculate credit risk will be implemented; for instance, parameter floors will be introduced, and the use of LGD models will be limited for the largest customers.

Table 4.4: Elements of credit risk determination

PD	Probability of Default (PD) is the probability of a customer defaulting on an obligation to Nykredit within a year.
LGD	Loss Given Default (LGD) is the expected loss rate of an exposure in case of the customer's default.
EAD	Exposure at Default (EAD) is the total estimated exposure to a customer in DKK at the time of default, including any drawn part of a credit commitment.
REA	Risk Exposure Amount (REA) is credit risk 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	For both mortgage and bank customers, a number of events have been defined that make it unlikely that a customer will be able to pay its credit obligations without realisation of collateral. The main ones are: events leading to IFRS 9 stage 3, bankruptcy, distressed restructuring and significant arrears/overdrafts (90 days past due).

4.6.1 Modelling principles

According to the CRR, PDs must be estimated on the basis of historical 1-year default rates while at the same time reflecting a suitable weighting between the long-term average and the current level. For the purpose of determining capital requirements, LGD estimates must always reflect an economic downturn.

The above principles applied to estimate the risk parameters ensure that the Group's REA remains more stable throughout an economic cycle than if the calculations had exclusively reflected the current economic climate.

4.6.2 Implementation of upcoming regulation

Nykredit remains focused on adjusting and developing new models, ensuring that Nykredit's credit models are always in compliance with relevant regulatory requirements and performing as intended. By way of example, Nykredit implemented the updated default definition in 2021. Also, new models are under development to ensure that, in the long term, all models comply with the European guidelines on PD and LGD estimation. In 2023 personal customer rating models were implemented to comply with the new legislation, and in 2024 an application was made to the Danish FSA for approval of an LGD model for private residential mortgage lending.

Nykredit operates under a precautionary principle and holds capital add-ons under Pillar I to cover the impact of new models that have not yet been finally implemented. Therefore, the final implementation of new models and adjustments to existing models are not expected to have a notable impact on risk exposures, as such Pillar I capital add-ons and other capital charges may be released.

4.6.3 Probability of Default (PD)

PD expresses the probability of a customer defaulting on an obligation to Nykredit within a period of one year. Nykredit calculates a PD for each individual customer.

PDs are calculated using statistical models. These models are based on, for instance, data on the customer's financial position and payment behaviour as well as any impairment. Corporate and institutional clients and farming businesses are also required to submit financial statements regularly, which will be applied in the determination of their PDs.

4.6.4 Ratings

The PDs of individual customers are translated into ratings from 0 to 10, 10 being the highest rating. Exposures in default are placed in a category of their own, outside the rating scale, while exposures with objective evidence of credit impairment are assigned a rating of 0. The individual rating categories have been defined based on fixed PD ranges, which means that, during an economic upswing, a high rating will be assigned to relatively more customers, while the opposite will apply during an economic downturn.

A rating reflects the customer's financial position and creditworthiness, and besides being included in the determination of capital requirements, the customer rating is also a key element of any customer assessment.
If supported by additional objective data, an override of the customer's rating may be performed.

4.6.5 Loss Given Default (LGD)

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

The LGD calculations factor in any security provided, including the type of security (typically mortgages on real estate), geography, the quality of the security etc.

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

4.6.6 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.

4.6.7 Other models

Besides rating, loss and credit exposure models, Nykredit has a variety of other credit-related models.

The property value model calculates the value of properties serving as security for the Group's lending. The results are used to determine the need for supplementary security, as inputs in rating and loss models and as a substitute for physical inspections of detached and terraced houses and owner-occupied flats that are subject to an exemption granted by the Danish FSA.

For the purpose of calculating impairments under the accounting standard IFRS 9, the Group uses internal models for determination of credit risk and methods developed particularly for impairment calculations.

4.6.8 Approval, validation and testing of credit risk models

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

Nykredit's credit risk models are subject to Nykredit's general model risk management, implying limits and a division of responsibilities as well as a structure of governance with respect to models and model changes.

Nykredit's Group Risk Committee, set up by the Group Executive Board, monitors and manages Nykredit's model risks. The Group Risk Committee has established domain-specific model committees, which are in charge of the current monitoring and management of model risks and also responsible for governance in respect of model approval and model changes. The overall conclusions on model risks and validation are also reported to the Board of Directors and the Executive Board.

To ensure a good forecasting ability and consistent estimates, relevant credit risk models are validated annually. The credit risk models are validated independently of Nykredit's risk modelling and credit approval units. The validation results are used in the ongoing internal capital adequacy assessment process (ICAAP). If validation shows that a model contains significant inaccuracies, mitigating actions will be taken by way of a capital charge under Pillar II or by setting aside a capital add-on under Pillar I until the model has been adjusted to capture the actual risk.

In addition to the annual validation, the models are monitored quarterly. Quarterly monitoring includes the models' customer ranking, the accuracy of model estimates compared with actual observations, rating distributions, migration, segmentation etc.

Annual validation includes more in-depth analysis of the functioning of a model, including its accuracy, the data applied, follow-up on observations from the quarterly monitoring and a qualitative review of the model and its elements, documentation, implementation, use etc.

Monitoring and validation of rating models include model-based PDs as well as PDs adjusted by overrides. In addition, the use of overrides for manual ratings adjustment is subject to an annual general validation.

4.7 Counterparty risk

Counterparty risk is the risk of incurring losses as a result of a counterparty defaulting on its obligations under a contract relating to financial derivates. The counterparty risk exposure is affected by the market value of the financial instruments as well as by the probability of counterparty default. Thus, counterparty risk involves a combination of market and credit risk.

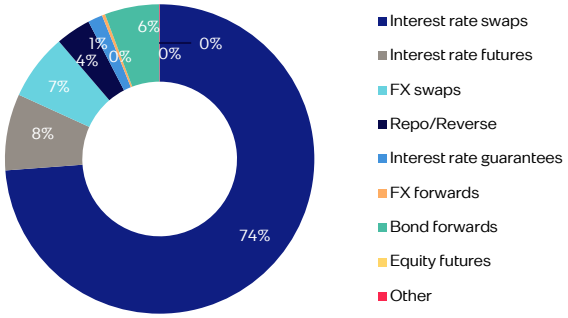
Nykredit applies financial instruments, such as interest rate derivatives and repo contracts, for serving customers. Nykredit also uses financial instruments to manage liquidity and market risks.

The market value of a financial instrument changes as a result of fluctuations in the instrument's underlying risk factors, such as interest rates and exchange rates. The value of the position may therefore develop in favour of either Nykredit or the counterparty. This can lead to an exchange of collateral security in the form of direct payments or the depositing of assets.

Chart 4.13: Nykredit Realkredit Group
Development in number of trades

Nykredit mitigates counterparty risk through financial netting agreements where the value of obligations to each counterparty is determined as an aggregate amount, and only net amounts are exchanged. At the same time, it is a requirement that agreements on loss limits and collateral are entered into with the counterparty. Nykredit's contractual framework is based on market standards such as ISDA, ISMA or CSA. Nykredit also monitors wrong way risk (the risk that the value of the exposure is correlated with the counterparty's creditworthiness). When clearing swaps and repo transactions with professional and institutional counterparties, Nykredit uses central counterparty (CCP) clearing. The CCP assumes the trading obligations of one or more counterparties and performs cross-counterparty netting to reduce the aggregate counterparty risk. Trades with business customers are OTC.

Chart 4.14: Nykredit Realkredit Group
Principal by product type



Nykredit performs value adjustment of derivatives (xVA) in Financial Statements. Value adjustments are affected by a number of factors, including interest rate levels, credit spreads, funding spreads, the maturities of contracts and customers' creditworthiness.

4.7.1 Risk management

Monitoring and reporting

Counterparty risk is monitored by Nykredit's risk management function and the individual risk-taking units. These units check on a daily basis whether counterparty risk relating to the individual counterparties falls within the approved limits. Any breach of limits is reported to the unit authorised to approve limits. Breaches exceeding the approval level of the Executive Board will be reported directly to the Board of Directors.

Nykredit monitors xVA on a daily basis and reports on xVA sensitivity to movements in interest rates, credit spreads and funding spreads. Weekly reports are submitted to the Executive Board of Nykredit Bank, and monthly reports are submitted to the Board of Directors of Nykredit Bank. The Board of Directors of the Nykredit Realkredit Group and the Board Risk Committee receive quarterly counterparty risk reports.

Approval of credit lines

The use of derivatives is governed by the general credit approval rules and credit policies, supplemented with a number of restrictions and guidelines. For example, to able to trade derivatives, customers must obtain a separate approval specifying requirements as to eg the type, size and creditworthiness of the customer as well as limits on amounts and maturities.

Collateral management

Nykredit is subject to the requirements relating to risk mitigation techniques, see the Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EMIR). Nykredit prevents any inconsistencies with non-cleared OTC derivatives contracts by daily monitoring and the implemented controls.

Nykredit's contractual framework does not include rating triggers, which means that any credit rating downgrade would not affect the required level of collateral in contracts.

4.7.2 Methods

Determination of capital requirements

For the purpose of determining capital requirements for financial instruments, counterparty risk exposures are calculated according to the standardised approach (SA-CCR), and risk-weighted assets are determined using both the IRB approach and the standardised approach. The IRB approach is used for business counterparties, while the standardised approach is used for credit institutions and sovereigns.

According to Articles 111 to 134 of the CRR, counterparties whose capital requirements for default risk are determine d using the standardised approach must be risk-weighted based on their credit quality step. S&P Global Ratings and Moody's provide credit rating information to Nykredit at sovereign, counterparty and issue level. The information is used as an integral part of Nykredit's daily capital requirement calculations. If the counterparty credit ratings provided by S&P Global Ratings and Moody's differ, Nykredit will use the lower rating. Mapping of credit ratings to credit quality steps is based on the EBA's mapping table.

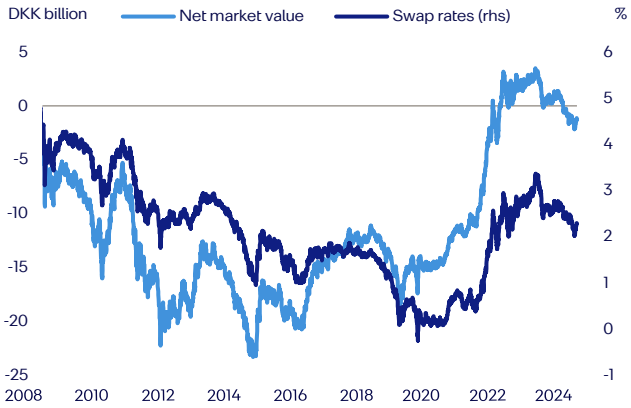
Besides determining the capital requirement for counterparty risk using the standardised approach (SA-CCR), Nykredit also determines the capital requirement for credit valuation adjustment (CVA) risk using the standardised approach according to the CRR. Nykredit has implemented the new regulatory rules under CRR3, effective from 1 January 2025. The changes include adjustments to the calculation of risk weights as well as more conservative haircuts in repo contracts.

Value adjustment of derivatives in financial statements

Nykredit's derivatives are fair value adjusted in accordance with the International Financial Reporting Standards (IFRS), which provide for PMA as well as valuation adjustments, CVA and FVA, for accounting purposes. Value adjustments include CVA based on customers' current credit quality, individual value adjustments of customers in IFRS stage 3 showing objective evidence of credit impairment, as well as management judgement, which is part of PMA.

The Danish FSA has encouraged the adoption of a prudent approach to customers with swap contracts. This means that swap contracts of customers categorised as IFRS stage 3 are value adjusted in full, regardless of whether these customers continue to meet their payment obligations to Nykredit.

Chart 4.15: Nykredit Realkredit Group
Net market value of derivatives contracts with business customers



Approved credit lines

For the purpose of monitoring approved credit lines, Nykredit determines exposures using other internal methods. These methods basically use the same components as the determination of capital requirements, estimating exposures on the basis of their current market values plus a charge for potential future exposure. Nykredit applies an internal model for valuation adjustments and internal risk management based on Monte Carlo simulations. The model simulates the counterparty's derivatives portfolio to estimate its potential future exposure when in the counterparty's favour. A third-party solution is used that is integrated into the Bank's trading system.

4.7.3 Current risk profile and development

At end-2024 the Nykredit Realkredit Group had 11,072 derivatives contracts involving counterparty risk. The vast majority (97%) of derivatives are traded by Nykredit Bank. The aggregate principal of the customer derivatives is DKK 1,758 billion, of which interest rate swaps and interest rate futures account for just under 82%, see Charts 4.13 and 4.15.

Nykredit designates part of its swap portfolio as legacy swaps, for example long-term interest rate swaps. The portfolio of legacy swaps is in run-off, and its market value and risk will therefore decrease steadily towards zero over time.

During the year, credit value adjustments were affected by interest rate changes and credit spreads as well as portfolio run-offs. At end-2024 Nykredit's total provisions amounted to DKK 428 million, of which CVA and PMA credit value adjustments represented DKK 240 million, see Table 4.5.

Table 4.5: Value adjustment of portfolio of customer derivatives (swaps)

30.12.2024 DKK million	CVA[1]	FVA[2]	PMA[3]	Initial adjustments	Realised losses and Other[4]	Total value adjustment (xVA)
Non-legacy derivatives	14	8	2	97	1	**122**
Legacy derivatives	114	59	110	17	6	**306**
Total	**128**	**67**	**112**	**114**	**7**	**428**

[1] Credit Valuation Adjustment, [2] Funding Valuation Adjustment, [3] Post Model Adjustment, [4] Other mainly consists of collateral interest, ie expenses relating to a lack of collateral derivatives.

5. Market risk

Market risk is the risk of loss as a result of market movements and includes eg interest rate, yield spread, foreign exchange, equity price and volatility risk.

Nykredit's market risk exposure consists of trading book positions and banking book positions. Assets that can be frequently traded and are held for trading are placed in the trading book, while assets of a long-term nature that are infrequently traded are placed in the banking book. Nykredit has laid down guidelines for the valuation of assets and financial instruments and their distribution between the trading book and the banking book.

Nykredit's most significant market risk is yield spread risk on bonds in the trading book and equity price risk on equities held for business strategic purposes in the banking book. Yield spread risk is the risk that the spread between bond yields and swap rates widens or tightens, which, depending on the exposure, can lead to losses. Equity price risk, however, is the risk of movements in equity prices affecting the values of Nykredit's equity portfolios.

Nykredit's mortgage lending and the underlying funding are regulated by the balance principle, which means that Nykredit incurs limited market risks on its mortgage lending and underlying funding, see *6.4 Balance principle and match funding*.

Nykredit's overall risk appetite is expressed as the maximum potential loss that Nykredit is willing to incur in particularly stressed market scenarios. This appetite should be seen in relation to balance sheet, equity and budgeted earnings.

Nykredit's management of market risks and the related market risk appetite aims to ensure that Nykredit's financial stability will not be compromised by market-related losses.

5.1 Policy and guidelines

The Board of Directors has laid down a market risk policy setting out principles for the overall market risk appetite in Nykredit's trading and banking books (collectively referred to as securities portfolios). The main principle of the policy is that the probability of losses from market risk exposures exceeding Nykredit's earnings must be low. This is monitored daily, for instance by calculating and reporting estimated losses in selected stress scenarios that may occur in the trading book or the banking book. Estimated losses are measured against the defined risk appetite. The Executive Board continuously assesses whether the risk appetite should be adjusted based on the market outlook and the development in returns.

In addition to the overall risk appetite in the market risk policy, Nykredit's Board of Directors has laid down market risk guidelines for the Executive Board, which delegates specific market risk limits to the Nykredit Group's companies via the Asset/Liability Committee, see *2.6.1 Committees*.

The market risk guidelines lay down measurable limits on the total portfolio risk and also permit the use of financial instruments. However, it is a condition that the risk relating to the financial instruments can be measured and managed sufficiently accurately on a day-to-day basis. Risk limits are applied to all types of financial instruments involving market risk in both the trading and the banking book.

It is Nykredit's policy to measure bond portfolios (assets) primarily at fair value, whereby value adjustments are recognised in profit or loss on a continuing basis. However, Nykredit has a bond portfolio in which part of the proceeds from Nykredit's self-issued bonds are invested. This is recognised at amortised cost, but is hedged using interest rate swaps, which are adjusted to fair value.

Mortgage covered bonds in issue and the loans funded by them are also recognised at fair value in the Financial Statements. Nykredit's other bond issues are generally recognised at amortised cost and are therefore not value adjusted in the Financial Statements. The interest rate risk of the issues is fully hedged using interest rate derivatives. This ensures that changes in interest rates do not result in large unrealised value adjustments in the Financial Statements.

5.2 Control and reporting

The risk management function continuously reports on the Group's market risk to the Board of Directors and the Board Risk Committee, to the Executive Boards and the Asset/Liability Committee and to the Group Risk Committee.

Nykredit's risk management function checks compliance with the market risk policy and the Board of Directors' market risk guidelines on a daily and an intraday basis. In addition, the current utilisation of market risk limits is reported to the head of Nykredit's risk management function, the Asset/Liability Committee and the risk-taking units. Any breaches of limits are reported to the Asset/Liability Committee, Executive Boards or Boards of Directors depending on the limit breached.

Nykredit's Executive Boards and Boards of Directors as well as the Asset/Liability Committee monitor and evaluate the current market risk and its elements at least quarterly. Nykredit's overall risk outlook is assessed in the quarterly risk reports to the Board of Directors, the Board Risk Committee and the Group Risk Committee. Moreover, the market risk policy and the Board of Directors' market risk guidelines are subject to annual assessment and approval.

The actual measuring and monitoring of Nykredit's market risks, including Value-at-Risk (VaR) and stressed VaR, takes place in internal systems. Here, position details and market data are sourced from different systems and then verified and linked to the utilisation of the relevant limit for each risk-taking unit.

5.3 Models for determination of market risk

Market risk is assessed on the basis of a range of different metrics that express sensitivity to movements in financial markets. At the same time, two separate VaR models are used to calculate the aggregate risk level in the trading books of Nykredit Realkredit and Nykredit Bank, respectively.

Both VaR models are applied in day-to-day internal risk management and in the determination of the regulatory capital requirement for positions involving market risk. The Danish Financial Supervisory Authority (FSA) regularly supervises the use of the models applied to determine capital requirements.

Market risk governance

Board of Directors and Board Risk Committee:

- Lay down the market risk policy and the Board of Directors' market risk guidelines, including risk appetite and risk limits for equities, bonds and other financial instruments.
- Receive monthly reports on compliance with the market risk policy and on the overall risk outlook.
- Receive separate reports, possibly including an action plan, in case of breaches of the market risk policy or the Board of Directors' guidelines.

Executive Boards and Asset/Liability Committee:

- Approve and implement the market risk policy and the Board of Directors' guidelines and oversee compliance based on quarterly and monthly reports.
- Receive separate reports and an action plan in case of breaches of the market risk policy or the Board of Directors' guidelines.

Risk management function (second line of defence):

- Performs controlling and monitoring independently of the risk-taking units. Prepares independent reports for Boards of Directors and Executive Boards.

The market risk models, including interest rate risk in the banking book (IRRBB, see section 5.4.2), are subject to the same internal approval, validation and control procedures as credit risk models so as to assure their quality. Read more in *4.6.8 Approval, validation and testing of credit risk models.*

CRR3 introduces the Fundamental Review of the Trading Book (FRTB), which sets a new standard for calculating market risk in trading books and related capital requirements. The EU has postponed the implementation of the FRTB until 1 January 2026. Nykredit therefore continues to calculate the capital requirement for market risk based on internal models, but reports on the FRTB.

5.3.1 Validation and verification of data

As a general rule, Nykredit uses mark-to-market in the valuation of financial instruments, but if an instrument is particularly illiquid and no consistent market prices are available, the position is marked to model. When using mark-to-model, validated pricing models are applied. These pricing models comply with Nykredit's internal model risk policy, including requirements of management reporting, independent validation of model appropriateness and frequent model review.

In addition, independent verification of market prices and model inputs is performed daily using closing prices of the most liquid financial instruments. Likewise, market data for the systems used for pricing and risk management is verified on a daily basis, as are calibrated yield curves and volatility surfaces serving as input to the pricing models.

5.3.2 VaR for day-to-day management

The VaR models are calculated at the 99th percentile of the distribution of daily returns over a rolling period of 250 banking days and capture the maximum loss that Nykredit can experience in one day at a 99% probability. VaR calculations are based on eg daily fluctuations in interest rates, yield spreads and equity prices over the rolling period. Approximations are used to estimate the return distribution. The model determines changes in risk factors in either relative or absolute terms depending on the risk type.

VaR calculations are reported against prescribed limits on a daily basis, at Group and company level as well as for organisational units.

5.3.3 Backtesting of market risk models

To assess the performance of VaR models, the model calculations are backtested against the realised returns on Nykredit's portfolios. In the backtests, daily earnings are measured against the model calculations of maximum losses. Since the models use a probability of 99%, the backtest will likely show 2.5 overshootings annually, indicating that losses exceed the VaR model estimate.

If losses exceed model estimates of maximum losses five times or more within a year, an additional regulatory capital charge will be added to Nykredit's VaR capital requirement.

In 2024 Nykredit Realkredit A/S had zero backtest overshootings, while Nykredit Bank A/S had one backtest overshooting, see Chart 5.1. The overshooting was due to yield spread widening.

5.3.4 Daily stress testing

The metrics and outputs from the market risk models are supplemented with a number of daily systematic stress tests that measure the risk of losses in turbulent market conditions. The stress tests are based on selected forward-looking scenarios characterised by significant, but plausible, market movements that could occur over the next 1-3 years. To this end, historical stress scenarios are used to calculate expected portfolio losses in particularly stressed historical periods. The scenarios are reviewed quarterly to ensure their adequacy and relevance to Nykredit's portfolios.

The forward-looking and historical stress tests are used collectively to estimate potential portfolio losses should similar events occur. The stress test results are also included when reporting on the Board of Directors' market risk policy, where they are measured against the market risk appetite set out in the policy.

5.3.5 Regulatory capital requirement

In determining the risk exposure amount (REA) for market risk, Nykredit uses a combination of models and the standardised approach, and the risk exposures are divided into general risk and specific risk. General risk involves factors affecting financial

markets broadly, while specific risk relates to idiosyncratic factors affecting only the individual issuer.

Nykredit applies the current VaR models for daily determination of the regulatory capital requirement for general market risk, scaling up the time horizon to 10 days. These models have been approved for use on the trading books of Nykredit Realkredit and Nykredit Bank. Totalkredit only applies the statutory standardised approach, as the company does not have an approved internal model.

VaR for the Nykredit Realkredit Group is the total of VaR for Nykredit Bank and VaR for Nykredit Realkredit. Table 5.1 shows risk calculations for the Group's companies and where pillar add-ons are included.

Total REA for general market risk in the portfolio is calculated daily under current as well as stressed market conditions using:

- The largest losses over the past 12 months based on the current portfolio (VaR)
- The largest losses over a historical 12-month period when markets were particularly distressed based on the current portfolio (stressed VaR).

The period used to calculate stressed VaR is under constant review and is determined based on the existing portfolio composition. Currently, the following three stressed periods are relevant:

- The financial crisis in 2008-2009, including the collapse of Lehman Brothers, was characterised by significant yield spread widening on short-dated bonds. This had a large impact on covered bond positions with maturities of up to 5 years.
- Correspondingly, the outbreak of covid-19 in 2020 was characterised by substantial widening of credit and yield spreads on callable covered bonds.
- The banking turmoil in 2023, caused by turbulence in relation to Silicon Valley Bank and Credit Suisse, drove corporate bond yield spreads as well as yield spreads between government bonds and interest rate swaps higher.

At end-2024 the financial crisis was used as a stressed period by both Nykredit Realkredit and Nykredit Bank.

Total REA for market risk decreased in the period under review, by DKK 1.6 billion to DKK 26.4 billion at end-2024. Nykredit's REA calculated using VaR amounted to DKK 3.4 billion at end-2024, while stressed VaR amounted to DKK 15.0 billion, see Table 5.2.

FRTB reporting requirement

The FRTB approach to determining the capital requirement for market risk is based on the Basel Committee's Fundamental Review of the Trading Book (FRTB) introduced as a reporting requirement in 2021.

Although the FRTB standards will change the existing framework for calculating market risk, the new standards will in several areas be comparable to Nykredit's current internal models used for accounting, management and capital adequacy purposes.

REA for market risk in the trading book

DKK **26.4** billion

The Nykredit Group's total risk exposures under the FRTB amounted to DKK 32.6 billion in 2024.

Table 5.1: Approach to determination of risk exposures

	Pillar I		Pillar II
	General risk		
	Internal model	Standardised	
Nykredit Realkredit A/S			
Interest rate risk	Yes	Yes	-
Credit spread risk	Yes	-	-
Equity price risk	Yes	-	-
Foreign exchange risk	Yes	-	-
Nykredit Bank Group			
Interest rate risk	Yes	Yes	-
Credit spread risk	Yes	-	Yes
Equity price risk	-	Yes	-
Foreign exchange risk	Yes	Yes	-
Totalkredit A/S			
Interest rate risk	-	Yes	-
Credit spread risk	-	-	Yes
Equity price risk	-	Yes	-
Foreign exchange risk	-	Yes	-

Note: As no internal model exists for the Nykredit Realkredit Group, risk exposures for the Group are a result of calculations in the underlying companies. For IRRBB under Pillar II, see section 5.4.2.

Chart 5.1: Nykredit Realkredit A/S
VaR model backtesting

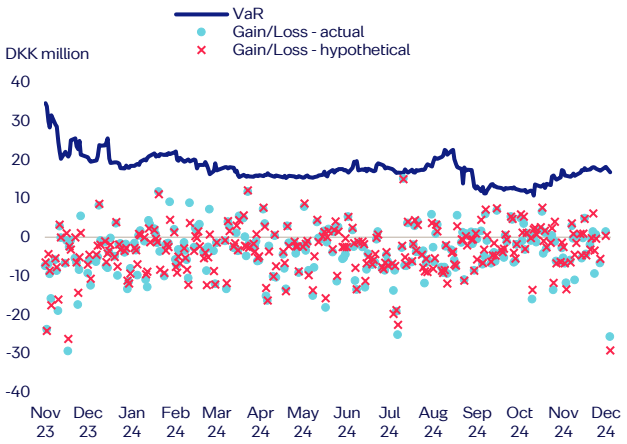
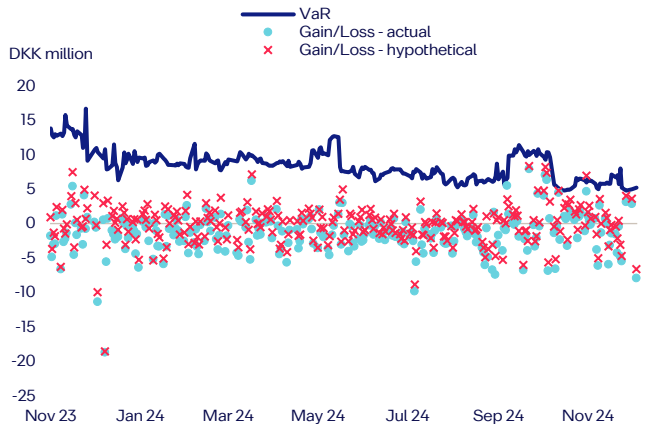


Chart 5.2: Nykredit Bank A/S
VaR model backtesting



5.4 Current risk profile and development

Market volatility was generally low throughout 2024, reducing Nykredit's VaR to a low level for the entire Group.

During H2 and towards the end of 2024, the European economy showed signs of growth slowdown, and Germany and France in particular were challenged. These uncertainties affected the relative pricing in bond markets and resulted in yield spread widening, also in the Danish covered bond market. In Nykredit's portfolios, this was reflected as periods of increased yield spread risk in 2024.

In 2024 Nykredit made an offer to buy Spar Nord Bank A/S and at the same time increased its ownership interest in Spar Nord. As a result, the equity price risk in Nykredit's banking book increased in 2024.

5.4.1 Trading book risk

Nykredit's main trading book risks are interest rate and yield spread risk. The determination of Nykredit's market risk is essentially based on sensitivity calculations. They are used to calculate the effect of market movements on the value of individual portfolios.

Sensitivity calculations indicate how much a portfolio's value will be affected if a given event occurs, but not the probability that the event will actually occur. Therefore, the day-to-day risk measurement is supplemented with VaR models, stress test calculations and scenario analyses.

Value-at-Risk (VaR)

In day-to-day risk management, Nykredit uses VaR to calculate one portfolio risk measure covering most of Nykredit's trading book positions. The Nykredit Group's VaR totalled DKK 21.9 million at end-2024.

VaR in
the trading book

DKK **21.9** million
(end-2023: DKK 29.8 million)

Chart 5.3: Nykredit Realkredit Group
Value-at-Risk in the trading book

Interest rate risk

Interest rate risk is the risk of loss as a result of interest rate changes. Nykredit's interest rate risk is measured as the change in the market value of Nykredit's portfolios resulting from a general interest rate increase of 1 percentage point in respect of interest-bearing assets. Nykredit's interest rate exposure in the trading book was DKK 419 million at end-2024.

Interest rate risk in
the trading book

DKK **419** million
(end-2023: DKK 275 million)

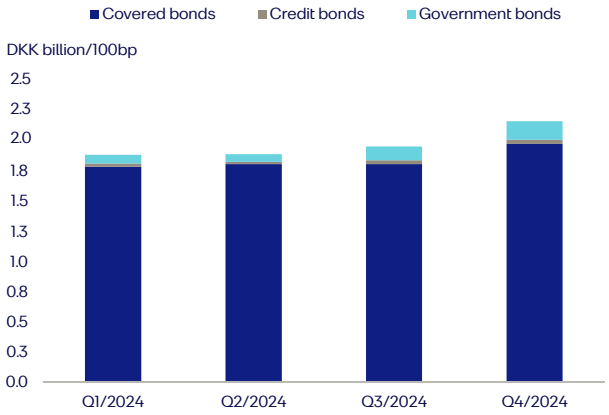
Yield spread risk

Yield spread risk is the risk of loss when the yield spread between bonds and the relevant swap rate widens by 1 percentage point. In the trading book, the yield spread exposure on covered bonds was DKK 1.98 billion at end-2024, while the yield spread exposure on government and corporate bond portfolios was DKK 152 million and DKK 36 million, respectively, see Chart 5.4.

Yield spread risk in
the trading book

DKK **2.17** billion
(end-2023: DKK 1.83 billion)

Chart 5.4: Nykredit Realkredit Group
Yield spread risk in the trading book



Other risks

In addition to interest rate and yield spread risk, Nykredit is also exposed to exchange rate risk, volatility risk and equity price risk; however, these risks only account for a small part of the aggregate market risk.

Nykredit hedges the foreign exchange risk of its investments and only holds minor foreign exchange positions. Nykredit's volatility risk is mainly related to investments in callable covered bonds, where the right of prepayment is equivalent to an option, as well as interest rate and equity derivatives.

Equity price risk is the risk of loss as a result of changes in equity prices, and it is expressed by the aggregate market value of Nykredit's equity portfolios. Nykredit's net equity price risk exposure in the trading book amounted to DKK 12 million at end-2024.

Table 5.2: Nykredit Realkredit Group
REA for market risk in the trading book[1]

DKK million	Specific risk	General risk	2024 Total REA	2023 Total REA
Internal models (VaR):	-	**18,434**	**18,434**	**19,350**
Value-at-Risk (99%, 10 days[2])	-	3,362	3,362	6,338
Stressed Value-at-Risk (99%, 10 days)	-	15,072	15,072	13,012
Standardised approach:	**5,637**	**2,344**	**7,980**	**8,630**
Debt instruments	5,629	2,323	7,953	8,598
Equities	8	10	18	23
Foreign exchange risk	-	-	-	-
Collective investment schemes	-	10	10	9
Settlement risk	-	1	1	0
Total market risk exposure			**26,415**	**27,981**

[1] REA for market risk in the banking book is addressed under Pillar II.

[2] The time horizon has been scaled up to 10 days from 1 day by multiplying by the square root of 10.

5.4.2 Banking book risk

Nykredit classifies securities that are infrequently traded and held for the long term, often until maturity, as belonging to the banking book. Basically, the same types of market risk are found in the banking book, but with regulatory restrictions applying to trading frequency.

The market risk for Nykredit's banking book primarily stems from equities held for business strategic purposes, which are concentrated in a few, but large, positions. In addition, the banking book includes a private equity portfolio, short-term corporate and covered bond portfolios and long-term interest rate risk-hedged bond portfolios relating to the lending operations.

Interest rate risk
Interest rate risk in the banking book is limited and derives mainly from Nykredit Bank's lending operations. The interest rate risk of the mortgage banks is very limited due to the match-funding principle governing covered bond issues. Also, interest rate risk in the banking book is hedged using interest rate swaps.
Interest rate exposure in the banking book totalled DKK 267 million net at end-2024.

Interest rate risk in the banking book

DKK **267** million
(end-2023: DKK 232 million)

Yield spread risk
Yield spread risk in the banking book primarily derives from the investment of proceeds from senior secured and unsecured debt issued by Nykredit for purposes such as meeting the debt buffer and MREL requirements. Secondarily, it derives from portfolios of covered bonds of all ISINs, facilitating customers' loan prepayments.

In the banking book, the yield spread risk amounted to DKK 1,163 million at end-2024; of this amount covered bonds accounted for DKK 1,109 million, while senior secured and unsecured debt in issue accounted for a negative DKK 233 million.

Yield spread risk in the banking book

DKK **1,163** million
(end-2023: DKK 867 million)

Equity price risk
Equities in the banking book comprise Nykredit's portfolio of Spar Nord equities, equities held for business strategic purposes and private equity holdings. Equities held for business strategic purposes are equities in regional and national banks in the Totalkredit partnership as well as in a few property companies. The total equity price risk in the banking book amounted to DKK 10.4 billion at end-2024, and equity price risk thus constitutes a substantial proportion of Nykredit's aggregate market risk. For capital adequacy purposes, the risk associated with equities held for business strategic purposes is determined as credit risk exposure.

Equity price risk in the banking book

DKK **10.4** billion
(end-2023: DKK 7.2 billion)

Interest rate risk in the banking book (IRRBB)
Interest rate risk in the banking book (IRRBB) is calculated for the banking book as well as for interest rate sensitive assets and liabilities outside the securities portfolio, mainly Nykredit Bank's deposit and lending operations.
IRRBB arises from changes in interest rate levels that affect the value of Nykredit's assets and liabilities and earnings therefrom. The calculation is therefore used to assess the need for capital held under Pillar II for the purposes of interest rate changes. The Board of Directors lays down a maximum risk appetite for IRRBB annually, which is monitored on a daily basis and continuously reported to Nykredit Realkredit's Board of Directors, the Executive Boards and the Asset/Liability Committee.

Nykredit's long-term interest rate risk is determined under IRRBB by the regulatory risk measure Economic Value of Equity (EVE), and the short-term interest rate risk is determined by the Net Interest Income (NII). EVE is calculated daily as the change in value adjustments (losses) on the balance sheet in different stress scenarios that affect the yield curve in terms of both shifts and changes of slope. NII is calculated quarterly as the net interest income impact over the next 12 months in scenarios where the yield curve is shifted by +/- 200bp. In 2024 Nykredit implemented a new IRRBB model.

At end-2024 EVE came to a potential loss of DKK 201 million in a scenario with an upward shift of the curve. NII came to a potential loss of DKK 562 million, driven by an interest rate shift of +200bp.

Nykredit holds additional capital under Pillar II to cover model uncertainty relating to the new IRRBB model.

Credit spread risk in the banking book (CSRBB)

Nykredit monitors the credit spread risk of corporate bonds in the banking book by reporting on the market risk policy and the Board of Directors' market risk guidelines.

6. Liquidity risk and funding

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

The structure of Nykredit's liquidity and funding is affected by regulatory requirements and rating criteria. Liquidity risk is subject to significant regulation, including the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Minimum Requirement for own funds and Eligible Liabilities (MREL), S&P's Additional Loss-Absorbing Capacity (ALAC), debt buffer and Supervisory Diamond benchmarks.

Throughout 2024 Nykredit maintained a high level of excess liquidity coverage, relative to regulatory requirements as well as to internal delegated guidelines and limits.

Risk appetite

Nykredit follows a prudent liquidity policy that promotes confidence in Nykredit and Nykredit's mortgage business. Nykredit's risk profile is designed to ensure competitive prices, customer access to loan financing regardless of market conditions, and high ratings of Nykredit and Nykredit's issues.

Nykredit Realkredit, Totalkredit and Nykredit Bank have been designated as systemically important financial institutions (SIFIs). Nykredit's liquidity policy and risk appetite have been defined taking into account this fact and with a view to ensuring sound business operations that contribute to a stable financial sector.

6.1 Policy and guidelines

Nykredit's liquidity policy is laid down by Nykredit's Board of Directors and defines Nykredit's overall risk appetite in relation to its liquidity risk profile and funding structure. The main purpose of the liquidity policy is to ensure that Nykredit's funding and liquidity management supports its mortgage and banking business and ensures competitive prices for customers and Nykredit, regardless of the market conditions. Furthermore, the liquidity management framework must sustain Nykredit's ability to maintain high credit ratings and its status as issuer of covered bonds (SDOs).

In addition to the liquidity policy, Nykredit's Board of Directors has laid down guidelines on the day-to-day liquidity management. In accordance with the guidelines provided by the Board of Directors, the Executive Board delegates liquidity management limits to the Group companies through the Asset/Liability Committee, see the chapter on governance and management. Liquidity and asset-liability management is coordinated centrally at Group level.

The guidelines provide limits for Nykredit's day-to-day liquidity management and for short-, medium- and long-term management. Limits have also been set for the composition of the stock of liquid assets, the LCR, the NSFR, the use and diversification of funding sources, leverage, MREL, the debt buffer and rating criteria.

Nykredit annually prepares a liquidity management report in the form of a Internal Liquidity Adequacy Assessment Process (ILAAP) report, which is submitted to the Board of Directors and the Danish FSA for their review.

6.2 Control and reporting

The risk control function continuously reports on the Group's liquidity and funding risk profile to the Board of Directors, the Board Risk Committee, the Executive Boards, the Asset/Liability Committee and the Group Risk Committee.

The current utilisation of risk limits is monitored and reported daily by Nykredit's risk control function and thus independently of the acting units. Also, the current utilisation of the limits set out in the guidelines is reported daily to the head of Nykredit's risk control function, the Chair of the Asset/Liability Committee and the heads and dealers of the acting units. Any breaches of these limits are reported by the risk management function to the Asset/Liability Committee, Executive Boards, the Board of Directors of Nykredit Realkredit or other Boards of Directors depending on the nature of such breaches.

Nykredit's liquidity risk is measured and monitored by internal systems based on the collection and control of risk data from different source systems. Measuring and monitoring takes place at different company levels.

Nykredit's Executive Boards and Boards of Directors as well as the Asset/Liability Committee oversee and evaluate the current liquidity and funding risks on a monthly basis, and this forms the basis for an annual review and approval of the liquidity policy and guidelines. The risk outlook is described in the quarterly reports to the Board of Directors and the Board Risk Committee as well as the Executive Board and the Group Risk Committee.

6.3 Current risk profile and development

Nykredit pursues a prudent liquidity policy.

Throughout 2024, Nykredit maintained liquidity reserves adequate to counter periods of financial turmoil and accommodate business growth. Over a number of years, Nykredit has tightened its internal guidelines and limits to obtain liquidity reserves that are robust and able to withstand severe liquidity stress and property price declines.

Since the summer of 2024, central bank rates have been gradually lowered, and markets are focusing on interest rate signals and outlooks. In 2024 Nykredit maintained its business activities in a changing monetary policy environment, including the selling and issuing of bonds to fund its day-to-day lending and scheduled refinancing operations. Market liquidity was robust, and Nykredit was able to conduct auctions and tap selling of bonds at attractive and competitive levels.

Nykredit has a detailed internal limit management framework, implementing the Board of Directors' liquidity management policy and guidelines. Limit management and monitoring ensures

Liquidity and funding governance

Board of Directors and Board Risk Committee:

- Lay down the liquidity policy and the Board of Directors' liquidity risk guidelines, including risk appetite and limits.
- Receive monthly reports on compliance with the liquidity policy and on the risk outlook.
- Receive separate reports, possibly including an action plan, in case of non-compliance with the policy or guidelines.

Executive Board and Asset/Liability Committee:

- Approve and implement the liquidity policy and the Board of Directors' guidelines and oversee compliance based on quarterly and monthly reports.
- Receive separate reports and action plans in case of non-compliance with the policy or guidelines.
- Liquidity management is coordinated centrally at Group level to ensure efficient use and management as well as compliance with regulatory and internal requirements at alle levels.

Risk management function (second line of defence):

- Performs controlling and monitoring independently of the risk-taking units. Prepares independent reports for the Board of Directors and the Executive Board.

compliance with the defined risk appetite. The internal limit management is detailed and includes limits relating to portfolio and asset mix, the Group's funding structure and maturity profile, as well as stress testing.

6.4 Balance principle and match funding

Nykredit's mortgage lending is governed by the balance principle, which provides limits to the financial risks Nykredit may assume in relation to lending and funding.

Nykredit's mortgage lending is in practice match funded. As a result, Nykredit's lending and related funding activities only involve negligible financial risks. Nykredit operates according to the general balance principle, which allows the use of derivatives for risk hedging under certain conditions. Nykredit currently does not apply derivatives in connection with mortgage lending.

To eliminate interest rate and foreign exchange risk, the interest rate and foreign exchange terms of mortgage loans match those of the bonds funding the loans. Long-term fixed-rate loans maintain the same funding throughout their terms. Adjustable-rate mortgages (ARMs) and floating-rate loans are funded by bonds with maturities shorter than the terms of the underlying loans, which are refinanced on maturity of the bonds. The loan rate is adjusted upon refinancing based on the interest rate of the new bonds sold.

The outstanding funding is reduced by principal payments and loan redemptions. Borrowers cover Nykredit's costs of loan prepayment.

The due dates of payment of interest and principal are fixed so that Nykredit receives the funds on or before the dates when the payments to bondholders fall due, if borrowers make timely payments.

Thus, match funding ensures a match between the interest and principal payments of a loan and the underlying funding. Nykredit's earnings margin consists of a separate so-called administration margin, which is most often calculated on the basis of borrowers' debt outstanding. In addition, various fees may be charged.

6.5 Liquidity risk

Legislation lays down a number of requirements for the structure and amount of Nykredit's liquidity and funding in the short, medium and long term. At end-2024 all requirements had been met.

6.5.1 Liquidity Coverage Ratio (LCR)

The regulatory requirement of LCR is used to assess Nykredit's short-term liquidity risk. Nykredit's LCR is determined as the portfolio of liquid assets relative to net cash outflows over a 30-day period and must be at least 100%. Under this requirement, Nykredit must hold an adequate stock of liquid assets to withstand a liquidity stress for a period of at least 30 days.
As it appears from the table below, Nykredit's LCR was 454% and the excess liquidity coverage was DKK 82 billion at end-2024. The aggregate LCR of Nykredit's mortgage banks was 276% (Pillars I and II), while Nykredit Bank's LCR was 229%. Liquid assets used to comply with the requirement of supplementary collateral in Nykredit Realkredit and Totalkredit are considered to be encumbered and consequently ineligible for the purpose of LCR determination. For more details, see *6.5.5 Supplementary collateral*.

Excess liquidity coverage

DKK **81.9** billion
(2023: DKK 71.6 billion)

Chart 6.1: Balance principle and match funding

The Danish FSA has granted Nykredit permission not to include mortgage lending and its funding in the calculation of LCR for Nykredit Realkredit and Totalkredit. The permission was motivated by the fact that match funding limits liquidity risk in relation to mortgage lending and its funding.

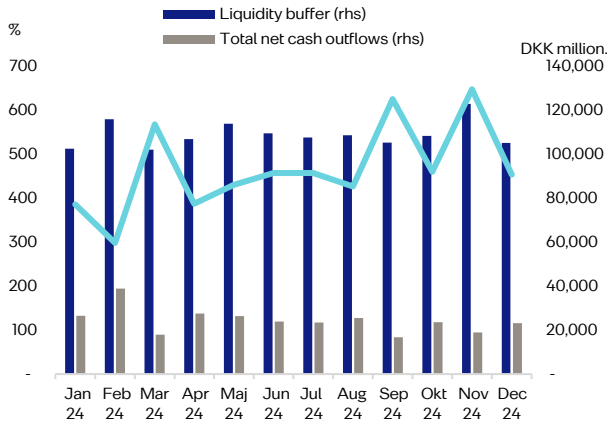
However, the mortgage banks are subject to a Pillar II requirement ensuring that they hold adequate liquidity to cover specific mortgage-related liquidity risks.

Table 6.1

DKK billion	31.12.2024	31.12.2023
Nykredit Realkredit Group		
LCR (%)	454	310
Excess liquidity coverage (DKKbn)	81.9	71.6
LCR, EUR (%)	399	400
Nykredit Realkredit and Totalkredit		
LCR (Pillars I+II) (%)	274	254
Excess liquidity coverage (DKKbn)	25.8	26.7
Nykredit Bank		
LCR (%)	229	191
Excess liquidity coverage (DKKbn)	36.4	29.8

At end-2024 the Pillar II A requirement was DKK 12 billion. This requirement will cover the risk of a liquidity need resulting from remortgaging cases where borrowers have terminated an existing loan for prepayment but have not raised a new loan, as well as the liquidity risk related to borrowers in arrears. The Pillar II B requirement was DKK 18.8 billion at end-2024 and will cover risks related to refinancing.

Chart 6.2: Development in LCR, buffer and cash flows



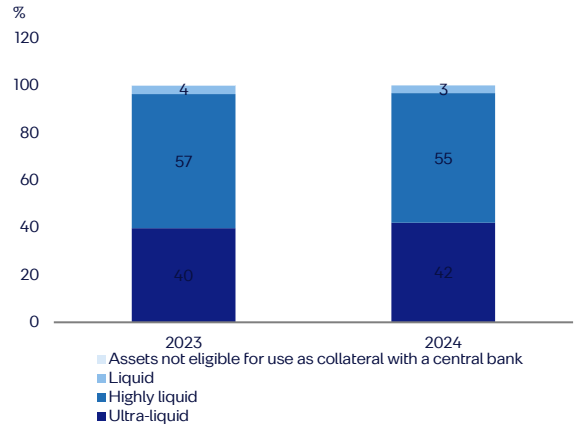
The Pillar II B requirement was covered using liquid assets, which therefore cannot be included as HQLA (High Quality Liquid Assets), making the assets ineligible for the purpose of LCR determination. Total LCR (Pillar I and Pillar II) for Nykredit Realkredit and Totalkredit was 274% at end-2024, equal to excess coverage of DKK 25.8 billion.

The Danish FSA has introduced an additional liquidity requirement concerning foreign currencies. This requirement, which for Nykredit only concerns EUR, applies to the Nykredit Realkredit Group. The LCR in foreign currencies must be 100% or more. At end-2024, Nykredit's LCR in EUR was 399%.
Nykredit is under a statutory obligation to disclose derivatives exposures and their effect on the LCR. Nykredit uses derivatives to hedge risks relating to the stock of liquid assets. The market value of the derivatives portfolio will vary over time, which will impact Nykredit's posting of collateral. Therefore, when calculating the LCR, an amount is allocated to cover any negative fluctuations in required collateral.

6.5.2 Liquidity reserves

Nykredit's liquidity reserves are exclusively made up of assets that can readily be converted into cash or which are eligible as collateral to obtain cash when required.

Chart 6.3: Development in liquidity reserves



Nykredit's liquidity reserves may include:

- Ultra-liquid assets; ie assets placed with Danmarks Nationalbank or the ECB
- Highly liquid assets; ie assets such as Danish and European government and covered bonds
- Liquid assets not eligible for use as collateral with a central bank; ie negotiable securities with longer realisation periods. Securities in this group are mainly bonds not qualifying for the highly liquid category, corporate bonds and equities.

In its liquidity policy, Nykredit has an overall policy for the size and quality of the liquidity buffer, based on the balance sheet structure and risk profile of the Group. At end-2024 the Group's liquidity reserves amounted to DKK 105 billion against DKK 106 billion at end-2023.

6.5.3 Liquidity benchmark

The liquidity benchmark is included in the Supervisory Diamond for banks. The liquidity benchmark is determined for Nykredit Bank.

The liquidity benchmark is based on the LCR and must be 100%, but over a 3-month period. It means that Nykredit Bank must have sufficient liquid assets to withstand a liquidity stress for a period of at least three months. At end-2024 Nykredit Bank's liquidity benchmark was 247%, with excess coverage of DKK 55 billion kr..

6.5.4 Intraday liquidity risk

Nykredit Bank's intraday liquidity risk is the risk that the Bank will not be able to meet its intraday financial obligations. Nykredit Bank actively controls, manages and monitors its intraday liquidity risk.

The intraday liquidity risk of Nykredit Realkredit and Totalkredit is limited, as the mortgage lending model is designed so as to eliminate any structural intraday liquidity requirement.

6.5.5 Supplementary collateral

In order for issues made through Capital Centres E and H to comply with CRR requirements for covered bonds (SDOs), Nykredit must provide supplementary collateral for loans in case of property price declines where the LTV ratios exceed the statutory LTV limits.

Supplementary collateral is not required for public housing loans issued through SDO Capital Centre J, as these loans and bonds are government guaranteed. Nykredit also issues small amounts of covered bonds of the RO type. Unlike in Nykredit's SDO capital centres, supplementary collateral will not be required in case of property price declines in Nykredit's RO capital centres, as RO capital centres are not subject to the same requirements of supplementary collateral.

The supplementary collateral requirement is essentially unchanged from end-2023 to end-2024, amounting to DKK 7.4 billion at end-2024, against DKK 7.2 billion at end-2023.

It is Nykredit's policy to have a collateral buffer in case of declining property prices. The minimum buffer is determined by means of stress testing. In 2024 Nykredit tightened its management of risks relating to the provision of supplementary collateral and increased minimum buffer requirements. The measures include significantly stricter assumptions about property price falls in the internal stress tests. In addition, Nykredit has adapted its management to allow for changed requirements in connection with the phasing-in of CRR3, which amends the rules relating to eg the inclusion of guarantees from unrated banks as collateral for SDO issues.

Thanks to Nykredit's buffer, the Group would have been able at end-2024 to absorb an immediate property price decline of about 20% without the need for additional funding. The funding of the debt buffer and MREL requirements raises Nykredit's ability to absorb a property price decline.

6.5.7 Stress testing

To sustain Nykredit's business model and also to ensure that Nykredit has sufficient liquidity to meet regulatory requirements, liquidity stress tests are conducted for the short, medium and long term. They show the development in excess liquidity coverage in an expected scenario and in stress scenarios, taking into account regulatory requirements, including LCR and supplementary collateral, and rating criteria.

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, while at the same time external factors have an adverse impact on liquidity in the stress scenarios.

The stress tests are based on a number of scenarios: An expected scenario, an institution-specific scenario, a market-specific scenario and a combination stress scenario in which the institution-specific and market-specific scenarios occur at the same time.

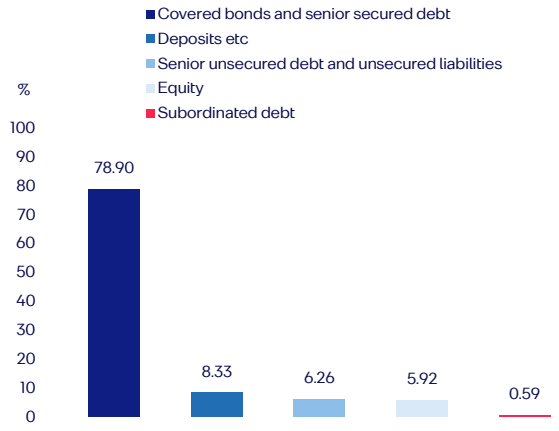
The Board of Directors and the Asset/Liability Committee have set limits for excess liquidity coverage in an expected scenario on a 12-month horizon and for the most severe of the three above stress scenarios on a 6-month horizon.

6.6 Funding

Nykredit has extensive market activities for the purpose of funding the Group's lending. This includes daily tap issuance to fund Nykredit's mortgage lending. Moreover, Nykredit regularly refinances ARMs, floating-rate loans etc. Nykredit also issues capital market funding to comply with regulatory requirements and rating criteria.

As shown in the chart Funding sources below, covered bond issues are the primary funding source. For the Bank, the primary source is customer deposits.

Chart 6.4: Nykredit Realkredit Group
Funding sources



Nykredit raises funding in the following markets:

- Covered bonds (SDOs and ROs)
- Senior secured debt (currently not issued)
- Secured and unsecured bank loans
- Senior unsecured debt
- Senior non-preferred (SNP) debt
- Tier 2 and Additional Tier 1 capital

6.6.1 Net Stable Funding Ratio (NSFR)

The purpose of the NSFR is to ensure that credit institutions apply sufficiently stable, long-term funding when issuing loans or holding other assets on their balance sheets. In this context, stable means that the funding is considered to be reliable in the long term and under stressed conditions. The NSFR is the ratio of an institution's amount of available stable funding to the amount of its required stable funding. To meet the NSFR regulatory requirement, this ratio must be at least 100%. The level of stable funding is calculated by weighting assets according to their liquidity and maturity. The stability of the funding is calculated by weighting liabilities based on counterparty category and maturity. Funding with times-to-maturity of more than one year, for example, is considered more stable than other types of funding.

At end-2024 the NSFR was 142%, compared with 147% at end-2023.

6.6.2 Covered bonds

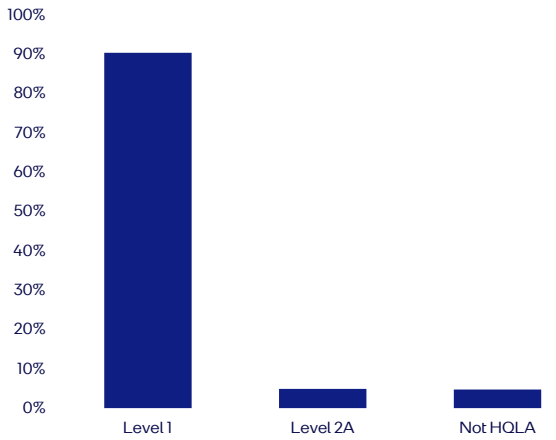
Nykredit's balance sheet mainly consists of lending secured by mortgages on real estate funded through the issuance of covered bonds (SDOs and ROs). These bonds are issued through daily tap issuance coupled with refinancing auctions for ARMs, floating-rate loans etc.

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

In 2024 Nykredit had primary dealer arrangements with a number of securities brokers for the purpose of underpinning liquidity in the bond series and ensuring consistent market making in and efficient pricing of bonds issued by Nykredit.

Due to the rules determining which liquid assets are eligible for the LCR calculation, many banks prefer to invest in bonds with outstanding amounts of more than EUR 500 million and high credit ratings. As shown in the chart, as much as 90% of the outstanding amounts of Nykredit's active bond series are today classified in the top LCR category (Level 1), while 5% are in the second-best category (Level 2A).

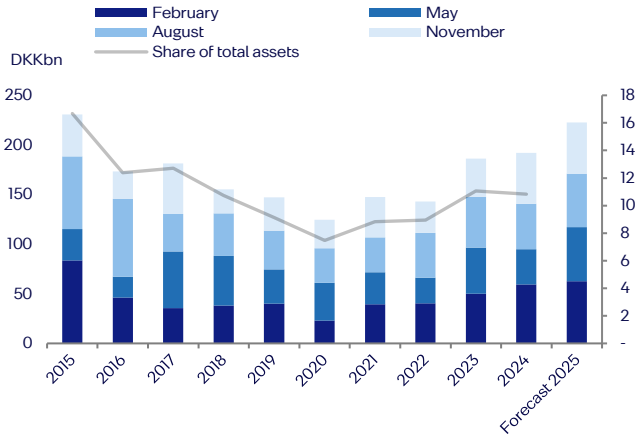
Chart 6.5: Nykredit Realkredit Group
Covered bonds by LCR category (percentages, end-2024)



Nykredit strives to have a range of bonds that best suits customers' needs while at the same time meeting investors' increased preference for very liquid bond series. The chart below shows Nykredit's products and the distribution by loan type of Nykredit's mortgage lending.

Nykredit is actively managing refinancing risk. In recent years, issuance patterns have changed as a result of the interest rate development, and short-dated bonds have increasingly been issued rather than long-dated callable covered bonds.
Nykredit aims to minimise refinancing risks, for example by keeping refinancing volumes stable across quarters. The chart shows the volumes of the individual refinancing auctions.

Chart 6.6: Nykredit Realkredit Group
Refinancing auctions, SDOs and ROs

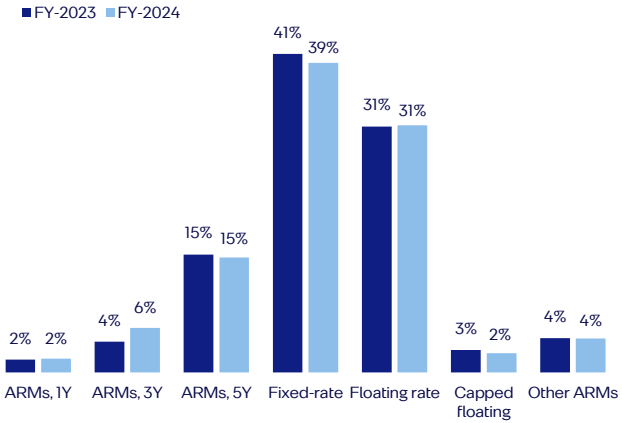


6.6.3 Green bonds

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

Since 2019 Nykredit has been offering green mortgage loans to finance energy-efficient buildings. Nykredit also offers green mortgage loans to finance renewable energy, and utility and electricity networks.

Chart 6.7: Nykredit Realkredit Group
Mortgage lending by loan type



The criteria for obtaining green financing and green asset classes are constantly changing. Nykredit actively considers whether the criteria are in keeping with legislation and stakeholder expectations. This is evident in Nykredit's continuous efforts to be in close alignment with the EU taxonomy, as reflected in our latest Green Bond Framework.
DKK 36.6 billion of green covered bonds and about DKK 650 million of green senior debt had been issued at end-2024. Further, Nykredit offers a series of green banking products.

Green bonds

DKK **36.6** billion
(2023: DKK 35.9 billion)

6.6.4 Funding schedule

Nykredit's future funding requirement depends on the volume of loans with refinancing, expected new lending as well as new regulatory requirements and rating agency criteria.

The funding of senior and subordinated debt is centralised in Nykredit Realkredit, meaning that funding is managed and issued by Nykredit Realkredit and distributed as internal funding to Totalkredit and Nykredit Bank as required.

Nykredit issues covered bonds (SDOs and ROs) to fund new mortgage lending and the refinancing of existing mortgage loans. See *6.6.5 Issuance schedule* for expected issuance at refinancing auctions in 2025.

Bond issuance is distributed evenly over the quarters, reflecting Nykredit's aim of deconcentrating loan refinancing across payment dates. Also, Nykredit seeks a funding profile with a limited amount of short-term funding.

Senior non-preferred debt issued to meet debt buffer requirements will largely replace senior secured debt and senior preferred debt, which has been used historically by Nykredit to meet the existing supplementary security and overcollateralisation (OC) requirements.

6.6.5 Capital market funding

Nykredit raises capital market funding mainly for the purpose of meeting regulatory capital requirements. Nykredit's funding requirement is driven by a stacked requirement consisting of the capital requirement, the 2% debt buffer and the MREL requirement. This stacked requirement must correspond to at least 8% of the consolidated balance sheet.

Instruments used to fund Nykredit Bank are issued mainly by Nykredit Realkredit and distributed to Nykredit Bank as long-term intercompany funding. In addition, Nykredit Bank issues euro commercial paper (ECP) for short-term management of liquidity and funding requirements.

Senior debt totalling

DKK **74.8** billion

(2023: DKK 57.0 billion)

In 2024 Nykredit refinanced senior non-preferred debt to meet the debt buffer/MREL requirements.

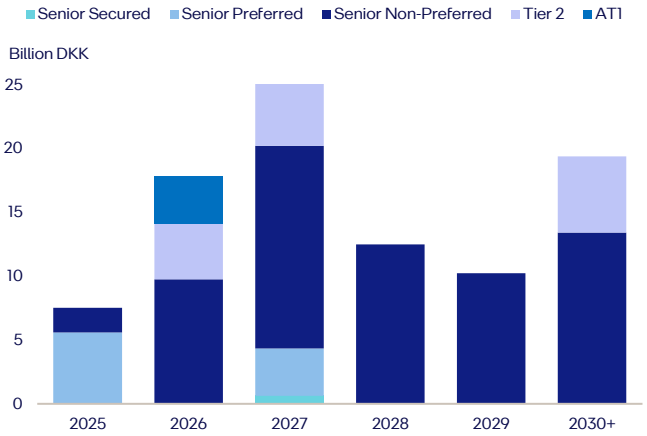
The chart Maturity profile of capital market funding shows the current maturity profile of Nykredit's capital market funding.

Table 6.2: Nykredit Realkredit Group DKK million

Bonds in issue	31.12.2024	31.12.2023
Covered bonds (ROs)	105,923	113,043
Covered bonds (SDOs)	1,488,156	1,412,023
Senior secured debt	540	651
Senior preferred debt, Nykredit Realkredit A/S	9,324	9,317
Senior non-preferred debt	64,889	47,049
Tier 2 capital	10,472	10,394
Additional Tier 1 capital, Nykredit Realkredit A/S	3,763	3,660
ECP issues, Nykredit Bank A/S	11,634	5,925

The total funding and ECP issuance need will depend on the development in customer deposits and lending as well as the Bank's other business activities. In addition, Nykredit Bank's senior unsecured debt consisted of short-term ECP of DKK 11.6 billion as at 31 December 2024.

Chart 6.8: Nykredit Realkredit Group
Maturity profile of capital market funding



6.6.6 Issuance schedule

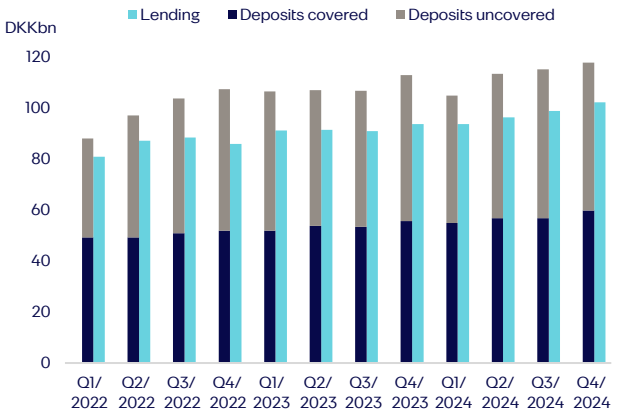
Nykredit Realkredit will continue to issue covered bonds through tap issuance and at refinancing auctions.

Nykredit holds refinancing auctions four times a year to reduce refinancing risk as much as possible. Nykredit expects to refinance DKK 63 billion and DKK 55 billion of SDO and RO covered bonds at the auctions in February and May 2025, respectively, and DKK 54 billion and DKK 52 billion at the auctions in August and November 2025, respectively. This corresponds to refinancing volumes of about DKK 223 billion over the next year.

Apart from the issuance of SDOs and ROs, Nykredit's need to issue other capital market funding depends on the balance sheet development and interest rate levels.

Nykredit has made a tender offer to buy Spar Nord. The transaction is expected to result in issuance of Tier 2 capital and senior non-preferred debt totalling DKK 15 billion in Q1/2025. The total issuance need towards end-2025, in addition to the issuance of SDO and RO covered bonds, is expected to amount to DKK 30 billion due to the transaction and refinancing of outstanding debt.
After the closing of the accounts,

Chart 6.9: Nykredit Bank A/S
Deposits by deposit guarantee protection, and lending



Nykredit has issued DKK 11.2 billion of senior non-preferred debt and DKK 5.6 billion of Tier 2 capital. Nykredit expects the remaining issuance need towards end-2025 to be DKK 10-15 billion.

ECP issuance will continue through Nykredit Bank.

6.6.7 Deposits at Nykredit Bank A/S

Customer deposits are a significant source of funding to Nykredit Bank. About half of Nykredit's deposits are protected under the Danish deposit guarantee scheme. Historically, the percentage has been stable at around 50%.

Deposits not protected under the deposit guarantee scheme are mainly from business customers and financial counterparties, while deposits protected under the scheme are mainly from personal customers.

Nykredit Bank funds its lending activities through, for instance, deposits, and Nykredit is therefore focused on ensuring that deposits are robust and developing in parallel with lending growth.

As shown in the chart, Nykredit Bank's deposits have developed in parallel with lending growth. Deposits generally exceed lending, and Nykredit Bank A/S's surplus of deposits was just over DKK 15 billion at end-Q4/2024.

Nykredit Bank conducts daily liquidity stress tests, including significant stress testing of deposits. The stress scenarios reflect a severe stress on deposits, based on, for instance, experience from the banking turmoil in the spring of 2023.

6.7 Ratings

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

6.7.1 S&P Global Ratings

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

Senior non-preferred debt has a BBB+ rating with S&P. Covered bonds (SDOs and ROs) issued by Nykredit Realkredit and Totalkredit through rated capital centres are all rated AAA by S&P, which is the highest possible rating. The rating outlook is stable.

6.7.2 Fitch Ratings

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

Senior non-preferred debt is rated A+ by Fitch.

6.7.3 S&P Global Ratings key ratios

In its rating criteria, S&P Global Ratings (S&P) has included a number of key ratios defined by S&P itself. These key ratios form part of S&P's overall credit rating of an institution.

Additional Loss-Absorbing Capacity (ALAC)

S&P's criteria provide for a rating upgrade if the level of additional loss-absorbing capacity (ALAC) is sufficiently high. ALAC consists of Tier 2 capital and senior non-preferred debt designated to absorb losses in case of Nykredit's recovery or resolution, thus protecting ordinary senior debt.

ALAC is expressed as a percentage of risk-weighted assets determined according to S&P's calculation method (S&P RWA). An ALAC maintained at 6% of S&P RWA or higher will currently trigger a 2-notch uplift of Nykredit's Issuer Credit Rating/senior rating. At end-2024 Nykredit's ALAC was 8.7%.

Overcollateralisation behind bond rating

When rating the Danish covered bonds issued by Nykredit Realkredit and Totalkredit, S&P applies its criteria to assess the collateral posted in the capital centres. In addition to the security by way of mortgages on real estate, Nykredit posts overcollateralisation (OC) in the form of liquid securities. To obtain the highest possible rating (AAA), Nykredit provides OC of at least DKK 63.9 billion. The required OC is determined as the result of S&P's individual assessments of the OC requirement for each individual mortgage loan. Each assessment includes a large number of parameters, including property type, location, LTV ratio, loan type and payment history.

6.7.4 ESG ratings

Society's growing focus on sustainability and governance is increasingly reflected in the focus of investors and issuers. ESG ratings (Environmental, Social and Governance) are a tool used by investors and other stakeholders to assess Nykredit's position in terms of sustainability, corporate responsibility and governance. ESG ratings are a parameter in many investment decisions and may potentially affect Nykredit's funding terms.

Nykredit currently focuses on ESG rating agencies MSCI and Sustainalytics, which consider all ESG factors, as well as on the CDP, which assesses the environmental impact of businesses.

The table below shows Nykredit's ESG ratings.

End-2024	Nykredit's rating
MSCI	AAA
Sustainalytics	Low risk
CDP	A-

Table 6.3: Nykredit Realkredit Group

Credit ratings			
End-2024	Nominal DKK billion	S&P	Fitch
Covered bonds (SDOs, ROs)			
Nykredit Realkredit A/S			
- Capital Centre C (covered bonds, RO)	0.1	AAA	
- Capital Centre D (covered bonds, RO)	9.6	AAA	
- Capital Centre E (covered bonds, SDO)	586.3	AAA	
- Capital Centre G (covered bonds, RO)	65.0	AAA	
- Capital Centre H (covered bonds, SDO)	857.8	AAA	
- Capital Centre I (covered bonds, RO)	3.6	AAA	
Totalkredit A/S			
- Capital Centre C (covered bonds, RO)	2.0	AAA	
Other ratings			
Nykredit Realkredit A/S			
- Short-term Resolution Counterparty Rating		A-1+	
- Long-term Resolution Counterparty Rating		AA-	
- Short-term Issuer Credit Rating		A-1	F1
- Long-term Issuer Credit Rating		A+	A+
- Short-term senior unsecured debt		A-1	F1+
- Long-term senior unsecured debt		A+	AA-
- Senior non-preferred (SNP) debt		BBB+	A+
- Tier 2 capital		BBB	A-
- Additional Tier 1 capital		BB+	BBB
Nykredit Bank A/S			
- Short-term Resolution Counterparty Rating		A-1+	
- Long-term Resolution Counterparty Rating		AA-	
- Short-term Issuer Credit Rating		A-1	F1
- Long-term Issuer Credit Rating		A+	A+
- Short-term senior unsecured debt		A-1	F1+
- Long-term senior unsecured debt		A+	AA-
- Short-term deposits		A-1	F1+
- Long-term deposits		A+	AA-

[1] Bonds in issue at nominal value at 31 December 2024.

6.8 Encumbered assets

Nykredit's main activity is to provide loans secured by mortgages on real estate. Nykredit's mortgage lending to customers is match funded through the issuance of bonds. The loans remain on Nykredit's balance sheet until they mature, and they are ring-fenced to ensure timely payments to bond investors in the event that Nykredit should default. Ring-fencing assets for creditors/investors is referred to as asset encumbrance. Liquid assets used to comply with the requirement of supplementary collateral are considered to be encumbered for the purpose of LCR and NSFR determination.

Moreover, Nykredit provides collateral in connection with derivatives trading and repo transactions. Nykredit provides collateral to other credit institutions for movements in the market value of Nykredit's OTC derivatives contracts and margin collateral in connection with exchange-traded derivatives. Nykredit also provides collateral to central clearing counterparties (CCPs). Such collateral is also considered to be encumbered assets.

Encumbered assets made up 80% of Nykredit's total assets at end-Q3/2024, the same level as at end-2023. 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. The vast majority of the encumbered assets are in DKK. After netting for accounting purposes, encumbered assets in EUR are not significant.

Totalkredit's mortgage lending is also encumbered. The lending activities of Totalkredit and Nykredit Realkredit are jointly funded, which means that most of their mortgage lending is subject to intercompany encumbrance.

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

Table 6.4: Encumbered assets

DKK million	30.09.2024	30.09.2023
Total encumbered assets	**1,441,364**	**1,331,549**
- of which derivatives collateral	3,828	5,745
- of which repo contracts	2,601	10,846
- of which central bank funding	-	-
- of which SDO issues	1,432,035	1,309,843
- of which other assets	2,900	5,116
Total encumberable assets	**1,784,168**	**1,654,030**
Asset encumbrance ratio	**81%**	**80%**

Note: The Q4 level will not be known until after release of the Risk and Capital Management 2024 report, and the Q3 level is reported instead.

7. Non-financial risks

Nykredit is exposed to a number of non-financial risks related to factors that may affect the operations, processes and regulatory obligations of the business. Nykredit's non-financial risks comprise operational risk, IT risk, conduct risk, model risk, data quality risk and compliance risk.

Nykredit monitors and manages non-financial risks as part of its day-to-day operations. Specific policies have been prepared for the individual types of risk. Each policy sets risk appetite limits and defines the responsibility for management of the relevant risk. Nykredit's Boards of Directors and Executive Boards receive quarterly reports on non-financial risks and any changes to the risk outlook.

In 2024 Nykredit allocated substantial efforts to strengthening the risk management framework and the robustness of risk management, including preparations to increase the maturity of the Group's control set-up, which will be rolled out and operationalised in the coming years.

Risk appetite

Non-financial risks must be low relative to financial risks so as to ensure that they cannot compromise the financial stability of Nykredit and/or the individual subsidiaries. Tolerance thresholds have been determined for annual accumulated losses resulting from operational risk events, which supplement and specify the risk appetite of the individual companies.

7.1 Policy and guidelines

Nykredit's non-financial risk policy is adopted by the Board of Directors. The policy sets out the overall framework for non-financial risk management to ensure that non-financial risks are managed according to the objectives of the Board of Directors and the risk appetite defined. The policy should be read in conjunction with underlying guidelines and other policies.

Nykredit's objective is to support and develop an organisation where non-financial risk management is an integral part of both day-to-day operations and long-term planning, including to promote a culture where openness and awareness of non-financial risks are natural elements of the everyday work of all employees.

The Executive Board has delegated responsibility for the ongoing monitoring of non-financial risks to the Group Risk Committee. The Committee regularly reviews material risks and events and determines whether specific risks should be presented to the Board of Directors. Risks that fall outside Nykredit's risk appetite are always presented to the Board of Directors for consideration.

7.1.1 Identification and management of non-financial risks

Non-financial risks are identified as part of the ongoing risk activities in the units where the risks are taken and managed. All Nykredit's organisational units must continuously identify, record, assess and manage the risks associated with their operations. At least quarterly, the units must review and report on all their risks, classifying the risks according to the Group's risk taxonomy. The reports must describe the risk mitigation activities and controls implemented or expected to be implemented. Non-financial risks are also assessed in connection with the approval of new products, major strategic and business decisions, model validations, process and compliance reviews and identification of risks in connection with calculations of capital requirements.

Identified non-financial risks are assessed based on the probability that a given event will occur and the estimated impact of such event. Identified risks are scored on a four-point scale from low to critical.

To ensure implementation of efforts related to addressing and mitigating non-financial risks in the individual business area, one or more Assistant Risk and Compliance Officers (ARCOs) have been appointed, see *2 Governance and management*.

Nykredit's risk management and compliance functions hold regular risk meetings with the Group's organisational units; all units have at least one meeting a year. At the meetings, the risks reported by the relevant unit are reviewed and challenged, and it is assessed whether the risks are adequately managed through controls and other risk mitigation measures, or additional measures are required. Based on the total reported risks, the risk management function considers whether any risks require special management attention and should be submitted to the Group Risk Committee.

7.1.2 Non-financial risks in the area of sustainability

Risks related to sustainability also affect non-financial risks and are managed within the existing risk limits and risk appetite in the area. ESG-related non-financial risks thus adhere to the already established governance framework in the area, and management of these risks is an integral part of the ongoing risk management efforts.

Table 7.1: Examples of ESG-related non-financial risks

Operational risk	Physical damage to own locations, loss of key persons with sustainability expertise.
Conduct risk	Accusations of greenwashing. Unambiguous focus on carbon emissions and not the other environmental targets. Lack of focus on diversity and inclusion among employees or discrimination against customer groups.
Compliance risk	Failure to comply with regulation in the area of sustainability.
IT risk	Physical damage to and breakdowns in data centres, IT solutions or Internet connections.
Data quality risk	Lack of access to data can make reporting to authorities difficult.

Non-financial risk governance

Board of Directors and Board Risk Committee:

- Lay down policies and guidelines for non-financial risks. In its guidelines to the Executive Board, the Board of Directors sets out tasks and responsibilities for ensuring that non-financial risks are mitigated and managed in accordance with the principles and limits of the policy. Receive quarterly reports on compliance with the respective policies, as well as separate information about risks with critical risk scores and events with critical impacts and a description of the response to such risks or events.

Executive Board and Group Risk Committee:

- Approve and implement the policies and regularly review compliance based on quarterly risk outlook reports.

- Receive separate information about risks with high risk scores and events with high impacts and a description of response and risk mitigation.

Risk-taking units (first line of defence):

- Identify, record, assess and manage risks and are responsible for internal controls and other risk mitigation measures.

Risk management function (second line of defence):

- Performs controlling and monitoring independently of the risk-taking units. Prepares independent reports for Boards of Directors and Executive Boards.

Climate change is currently the most material sustainability risk that can drive new or already identified non-financial risks, especially related to new products, new regulation and new conduct resulting from the transition towards a more sustainable economy.

The most material non-financial sustainability risks are currently deemed to be the risk of being accused of greenwashing and the compliance risk arising from non-compliance with sustainability regulation.

7.1.3 Control and reporting

The main objective of the risk management function is to monitor, assess, control and report on Nykredit's non-financial risks.

There is continuous monitoring of whether the non-financial risks remain within the limits established by the Board of Directors, and any breaches are reported to the Group Risk Committee and the Board of Directors. The Board of Directors, the Executive Board and the Group Risk Committee receive quarterly reports on the current risk outlook and any changes in the quarter as well as a statement of the total loss events.

Compliance with the non-financial risk policy and Nykredit's Corporate Culture Policy is reported on an annual basis.

7.1.4 Current risk profile and development

In 2024 efforts to ensure robust management of the Group's non-financial risks particularly focused on the following areas:

• Processes. Mapping the Group's main customer-facing and business-supporting processes, including identification of risks associated with these processes and establishment of controls to mitigate them.

• System support. Continued system support of risk management activities and increasing use of standardised frameworks and procedures. The Group's operational risk management in both the first and second lines of defence is conducted in a governance, risk and compliance system that is continually adapted and improved. In 2024 there was particular focus on enhancing the data quality of recorded non-financial risks and fostering the integration of the system in the business units.

• Controls. Guidelines for controls have been adopted. In addition, preparations have been made to increase the maturity of the Group's control set-up, which will be rolled out and operationalised through a gradual implementation process in the coming years.

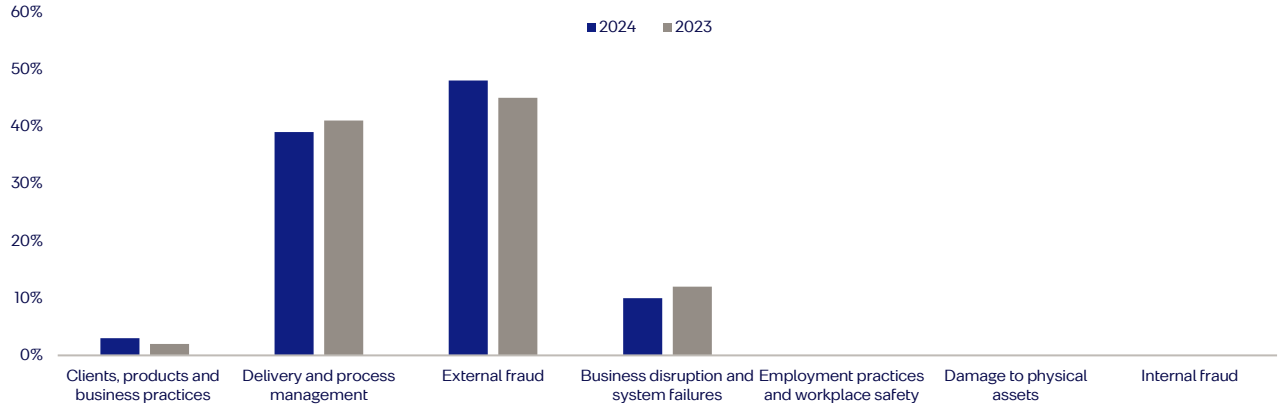
• IT risk management. The control function in the second line of defence in the IT area was fully implemented in 2024. Established in 2023, the control function focuses on monitoring and enhancing operational IT risk management.

• Data quality and processing. Focus on ensuring data quality and further improving data collection, adding more data points, in order to be able to meet future reporting requirements arising from CRR3.

7.1.5 Managing non-financial events

In addition to the identification of non-financial risks, all non-financial risk events involving a loss of DKK 10,000 or more, or a change in REA of DKK 100 million or more, are systematically recorded, categorised and reported. Moreover, non-financial risk gain events, potential non-financial loss/gain events and events that did not lead to a loss or a gain (near-miss events) are recorded. Finally, flawed reporting (internal or external) or flawed decision-making events that resulted in, at minimum, minor regulatory sanctions or delays in key activities, or which must be submitted to Nykredit's Group committees or committees reporting to Nykredit's Group committees for consideration, are recorded.

Chart 7.1: Operational events by Basel event category (% of number)



The above chart provides an overview of the Nykredit Realkredit Group's events categorised into the seven Basel event categories, based on the number of events.

For events that are material in terms of size or number, an assessment will be made of the need to implement new risk mitigation measures. The Group Risk Committee and the Board of Directors are presented with all major events and make an assessment of whether the associated risk is sufficiently mitigated. Material events are reported quarterly to the Board of Directors and the Executive Board as part of the overall risk outlook. The reports also specify initiated measures aimed at reducing the risk of a recurrence of an event.

7.1.6 Capital requirement for non-financial risks

Nykredit determines the capital requirement for non-financial risks using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings of the past three years. REA for non-financial risks was DKK 34.5 billion in 2024.

Based on the reported non-financial risks and risk events, it is assessed whether the total internal capital adequacy requirement for non-financial risks is appropriate. This assessment is conducted quarterly in connection with the determination of the internal capital adequacy requirement and is documented annually in the ICAAP.

7.2 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. Operational risk management is governed by the Group's non-financial risk policy.

REA for non-financial risks

DKK **34.5** billion
(2023: DKK 30.9 billion)

7.2.1 Prevention of money laundering, terrorist financing and breach of financial sanctions

Nykredit works consistently to strengthen monitoring, controls and processes so as to have an effective safeguard at all times against misuse of the Group's products and services for purposes of money laundering, terrorist financing or breach of financial sanctions.
Activities are based on Nykredit's policy for the area, and responsibility for them has been broadly delegated across the Group. A member of the Group Executive Board has been charged with delegating and ensuring managerial responsibility and focus on the prevention of money laundering, terrorist financing and breach of financial sanctions throughout the Group. The Executive Boards of the Group companies have each appointed a Chief AML Officer at the executive level. The Nykredit Group also has an AML Responsible Officer covering all relevant Group companies.

The complexity and scope of the sanctions packages continued to increase in 2024 as a consequence of the geopolitical situation. Nykredit has maintained that it does not facilitate transactions to and from Russia and Belarus. In 2024 Nykredit ramped up its efforts to reduce the risk of money laundering, terrorist financing and breach of financial sanctions, including by enhancing system support and implementing new and improved processes and business procedures in the area.

Employees' awareness and vigilance are important elements of the defence against money laundering, terrorist financing and breach of financial sanctions. To ensure that all employees possess the requisite knowledge, a mandatory e-learning programme on preventing money laundering, terrorist financing and breach of financial sanctions has been introduced. All relevant employees complete the e-learning programme annually.

7.2.2 Fraud prevention and control

Nykredit works actively and continuously to prevent, combat and manage fraud regrettably committed against our customers by criminals.

On 25 November Finance Denmark published the report and recommendations from the Fraud Task Force, which worked intensively with the area throughout 2024. Nykredit supports the recommendations and seeks to implement the initiatives based on a balanced approach, considering our current safeguards and how we can best prevent fraud in the future.

An important element is information campaigns and awareness initiatives, and we support Finance Denmark's safe banking campaign, which will continue into 2025. In parallel, we are actively working with several awareness initiatives aimed at Nykredit's customers as well as customer-facing staff. These are implemented across various media, including Nykredit's platforms, nykredit.dk, newsletters and social media.

7.2.3 Personal data protection (GDPR)

Nykredit focuses strongly on ensuring that personal data is treated as confidential and processed in compliance with the General Data Protection Regulation (GDPR) and the data protection legislation. Relevant policies and business procedures have been laid down, and processes have been established to ensure that personal data is processed in compliance with applicable law.

Responsibility for personal data processing has been delegated to the relevant business units and is supported by Privacy Leads in all units. Privacy Leads must ensure that data protection rules are complied with locally, including by identifying possible challenges and solutions. Privacy Leads also increase awareness of Nykredit's policies and guidelines in this field locally in the organisation. All employees must complete an e-learning programme on personal data processing once every three years. In 2024 the completion rate was 92%. The rate is lower than 100% because of leave, illness, change of jobs etc. In addition, tailored cases will regularly be sent out to relevant target groups.

Nykredit's compliance function includes a Data Protection Officer (DPO) tasked with assessing, monitoring and reporting on the effectiveness of Nykredit's methods and procedures relating to personal data processing.

Data breaches must be reported and treated in compliance with the guidelines of the Danish Data Protection Agency. Nykredit continuously monitors for personal data breaches in the Group. Most data breaches in Nykredit have been related to procedural errors involving a few customers, for instance e-mails sent to the wrong recipient or with the wrong document attached.

7.2.4 Outsourcing

Nykredit takes a responsible approach to outsourcing based on a robust and efficient process for the outsourcing of Nykredit's core activities to service providers. Nykredit has prepared an outsourcing policy that specifies two key outsourcing principles: a risk principle and a proportionality principle. Under the risk principle, any decision to outsource must be made according to a risk-based approach, ensuring that all material risks are identified and that the necessary measures are taken to mitigate the risk to a level that is within Nykredit's risk appetite. An activity will not be outsourced if measures cannot be taken to mitigate the risk to a level that is acceptable to Nykredit. Under the proportionality principle, Nykredit must meet the requirements of Nykredit's outsourcing policy and the Danish Executive Order on outsourcing, taking into account the proportionality of the requirements to Nykredit's risk appetite, business model, size, structure and business complexity.

Responsibility for outsourcing has been delegated to the relevant business units and is supported by the Procurement unit, which coordinates and runs the outsourcing process. The Procurement unit includes a Chief Outsourcing Officer. The Chief Outsourcing Officer is tasked with managing, monitoring and controlling outsourcing activities, thereby assisting Nykredit's Executive Board and Board of Directors in ensuring compliance with outsourcing legislation through continuous monitoring and control. The Chief Outsourcing Officer reports to the Executive Board and the Board of Directors on the effectiveness of Nykredit's methods, procedures and controls relating to outsourcing. In addition, the Chief Outsourcing Officer is responsible for increasing awareness of outsourcing rules across Nykredit and for maintaining an outsourcing register.

Critical or important outsourcing is subject to approval by the Board of Directors, who receive regular reports from business units on the results of controls and monitoring conducted to ensure that the service providers perform the outsourcing satisfactorily.

7.2.5 Product development

The Nykredit Group's product development follows a centralised process ensuring that the regulatory requirements for product development are met across the Group's business areas.

Nykredit's Products Committee was set up by the Executive Boards of the Group companies. It considers all types of products according to the same governance and documentation requirements. The Products Committee consists of representatives from the business areas and is chaired by a Group Managing Director. In addition, the second line of defence is represented on the Products Committee as an observer.

Responsibility for ongoing product management has been delegated to the relevant business units, but all new products and significant changes to existing products are subject to the same formalised process in which the product owner, with input from all relevant units, describes the product risks to customers, the Group and potential counterparties, including any risk mitigation measures implemented or planned. Reports are regularly submitted to the Boards of Directors and Executive Boards of the Group companies and to the Products Committee.

Specifically on climate risks related to investment products

Nykredit has set climate targets for investments to be Paris-aligned. In 2021, Nykredit joined the Net Zero Asset Managers initiative and committed to making the Group's investment portfolio climate-neutral by 2050. At the same time, Nykredit has set a target of reducing the total emission intensity by 60% from 2020 to 2030.

All our investments – both in own portfolio and on behalf of customers – are subject to Nykredit's Fossil Fuels Policy and Sustainable Investment Policy. This means that investments are screened beforehand against a number of criteria, including in the area of extraction and use of fossil fuels. In general, Nykredit does not invest in companies that expand their production in contravention of the International Energy Agency's (IEA) conclusions, nor will Nykredit invest in companies involved in unconventional extraction of fossil fuels or production of thermal coal. In addition, the investment universe undergoes continuous screening for companies that do not comply with Nykredit's Sustainable Investment Policy and Fossil Fuels Policy. At the end of 2024, Nykredit's exclusion list included just over 1,400 companies.

Nykredit always makes sustainability assessments of our actively managed investment products to understand the risks and opportunities related to ESG factors. The sustainability assessments give us an indication of whether a company is developing in a more sustainable direction. Therefore, companies with low exposure to climate-related risks, and companies with higher exposure, may be considered, as long as they have a credible transition plan. For passively managed investment products, product guidelines are formulated to ensure the management of sustainability risks. For both types of investment, compliance with guidelines and policies is continuously being monitored, and sustainability characteristics, financial sustainability risks and adverse impacts on sustainability are continuously being monitored and reported on.

ESG factors have become part of all phases of the investment process – from idea generation to Nykredit's active ownership. These

measures contribute to mitigating climate change while at the same time helping to reduce the transition risk in Nykredit's investment portfolios.

7.3 Conduct risk

Conduct risk is the risk of reputational damage or financial losses as a result customers or the general public perceiving Nykredit's business practices as inappropriate or, at worst, irresponsible. Conduct risk management is particularly focused on risks related to products, conduct, advisory services and third parties. Conduct risk management is governed by the Group's non-financial risk policy. Also, Nykredit's Corporate Culture Policy and Code of Conduct help provide an up-to-date and clear framework defining responsible conduct in day-to-day work.

Conduct risk is a fixed part of the Group's established risk management practices and is identified, assessed and addressed on a par with other non-financial risks, for instance by adjusting practices or conduct. Assessment of conduct risk is also included in the credit approval process.

Nykredit has a wide range of sustainable financial products and works every day to ensure that the products meet all internal and external sustainability standards, so that both customers and investors can rest assured that greenwashing does not occur in our products, investments or practices.

The risk management function therefore has a special focus on the identification and management of any sustainability-related non-financial risks, both at the regular risk meetings with the Group's business units and in the product approval process.

All Nykredit employees are responsible for contributing to and ensuring responsible business practices, and responsibility is a behavioural skill against which all members of staff and management are assessed. Nykredit's leaders have a special responsibility for promoting a safe and open atmosphere and supporting a corporate culture that encourages employees to openly share opinions or concerns if they become aware of any conduct that is not in accordance with Nykredit's objective of being a responsible business, thus ensuring that Nykredit's practices and conduct can be explained and justified in all areas.

7.4 Compliance risk

Compliance risk is the risk that legal or regulatory sanctions are imposed on Nykredit or that Nykredit suffers financial losses or reputational damage caused by non-compliance with legislation, market standards or internal rules.

7.4.1 Policy and Chief Compliance Officer

Nykredit's Board of Directors has adopted a compliance policy that defines the risk appetite in the compliance area. Like other non-financial risks, compliance risks should be low relative to other types of risk of the Group.

The policy sets out a number of objectives and compliance principles that management and all employees must observe, including in particular the objective that Nykredit must comply with current legislation, market standards and internal rules applying to Nykredit's activities. The compliance policy supports the aim of promoting proper, honest and ethical conduct in Nykredit and among its staff and a culture where openness about and awareness and handling of compliance risks are a matter of course.

Further, the compliance policy contains a description of the responsibilities, authority and organisation of the compliance function. Based on the policy, the Board of Directors has issued a role description for the Chief Compliance Officer, providing a detailed description and delimitation of the Chief Compliance Officer's tasks, authority, duties and responsibilities. The role description also specifies the compliance function's duties and organisation, including capabilities and resources, and the division of responsibilities relative to other relevant units of Nykredit.

7.4.2 Control and reporting

The main purpose of the compliance function is to monitor, assess, control and report on Nykredit's compliance risks. The compliance function oversees whether Nykredit meets the compliance rules applicable to the individual risk areas and assesses and determines whether the methods and procedures implemented by Nykredit to identify and mitigate such compliance risks in these areas are adequate and effective.

The following is reported to the Boards of Directors and the Executive Boards on a quarterly basis:

- an assessment of compliance with the compliance policy
- an assessment of the overall compliance risk
- a description of the findings from the compliance function's reviews completed in the reporting period
- progress on agreed measures from previous reports.

7.4.3 Compliance plan, reviews and follow-up

According to a risk-based approach, the compliance function every year selects a number of risk areas that will be included in the compliance plan for the coming year. The risk areas are selected on the basis of, for instance, input from the Executive Boards, the Chief Risk Officer and the business management as well as experience from previous reviews, etc.

The risk areas identified are reviewed during the year. Following its review of an area, the compliance function prepares a compliance report for the business management. The report provides a description of the findings from the review and an assessment of whether appropriate and adequate measures have been taken to address the most significant compliance risks or whether additional measures have been agreed to reduce the risks in the area concerned. Agreed measures are recorded in a central system, and the compliance function regularly follows up on agreed measures not yet implemented. In conclusion, the report contains an assessment of the overall compliance risk in the area after the review. Compliance risk is assessed on the basis of the probability of a given event occurring and the potential impact of such event. The compliance function thus uses the same risk classification model as for other non-financial risks.

7.5 IT risk

IT risk is the risk of a threat exploiting a vulnerability in an IT system or a weakness in a process that supports IT security. Threats can be external or internal and include intentional harmful actions, inappropriate conduct and human or technical errors.

Regular controls are performed to check that Nykredit and relevant IT service providers comply with policies and underlying guidelines and business procedures. As most of Nykredit's IT operations have been outsourced, there is a strong focus on the performance of

service agreements and on service providers maintaining a satisfactory IT security level. To ensure increasingly robust IT risk management, the second line of defence continues to place strong focus on the Group's identification, assessment and management of IT risks.

IT risk assessments are conducted regularly to ensure that risks are identified, assessed and managed according to a risk-based approach. The objective is to ensure that risks are within the risk appetite and to identify risks and make the right decisions on how to manage them. Neither threats nor Nykredit's IT landscape are static, so Nykredit's defence and controls must be continuously adapted to reflect current conditions. Nykredit continuously develops and improves its IT risk management framework, and in 2024 we continued our efforts of ensuring a more granular breakdown of IT risks to enable more accurate management. In 2024 no IT incidents exceeded the Board of Directors' risk appetite.

To ensure that all employees have satisfactory knowledge of IT security, all new employees must regularly complete mandatory e-learning programmes on IT security as well as phishing tests. In 2024 the completion rate was 92% for the mandatory IT security e-learning programme. The rate is lower than 100% because of leave, illness, change of jobs etc.

As reported in the media, cyber threats are increasing, especially from criminals and pro-Russian hackers. Consequently, the number of attacks is expected to increase, and attacks may become more advanced. In light thereof, there is continual focus on ensuring that both IT risk management, cyber defence and contingency measures are capable of handling the growing threat, including ensuring that the most critical parts of the business are also the most resilient.

In addition, Nykredit conducts penetration testing and/or Red Team testing where professional hackers challenge Nykredit's cyber defence, testing Nykredit's capacity to handle security incidents in practice. Any potential risks identified are subsequently reduced through mitigating measures. Further, Nykredit has participated in the Danish Financial Supervisory Authority's (FSA's) cyber stress test and also participates in various sector collaborations to ensure continued robust risk management.

The Digital Operational Resilience Act (DORA) is an EU Regulation that entered into force on 16 January 2023 and must be complied with from 17 January 2025. DORA will replace existing IT risk management requirements, introducing much stricter detailed requirements. Nykredit generally expects to be in compliance with the Regulation by its commencement date.

7.6 Model risk

Model risk is the risk of loss resulting from decisions based mainly on model results. Nykredit uses mathematical and statistical models for the purpose of business decisions and to determine risk limits, capital usage, capital adequacy, impairments etc.

Model risk occurs as a result of model weaknesses. Such weaknesses may result from operational errors or weak data in connection with the development or implementation of the models. They may also result from weaknesses in the data to which the models are applied or incorrect usage of model results. Over the past few years, the focus of authorities on model risk as an independent risk area has increased significantly.

Nykredit's model risk policy adopted by the Board of Directors and guidelines provided by the Board of Directors reflect the current Executive Order and define Nykredit's risk appetite in this area. These documents lay down requirements for framework, structures and responsibilities which ensure active management and monitoring of model risk and structured governance of models and model changes. The requirements include ongoing reporting and review of model risk.

Nykredit has a comprehensive model register that provides an overview and clear definitions of roles and responsibilities, and which is used as a tool for measurement and assessment of model risks.
Model risk is monitored closely by domain-specific model committees, which report to the Group Risk Committee.
This includes governance in connection with the approval and change of models, ensuring that model risk is managed and assessed in a uniform way across the Group and that model risk becomes visible in Nykredit's overall risk landscape.

7.7 Data quality risk

Data quality risk is the risk of unintended consequences as a result of data quality failing to meet business needs. The Nykredit Group is dependent on the quality of the data it uses, as it often forms the basis for business decisions. A strong data governance set-up is therefore crucial to minimise the risk that data quality across the Group does not satisfy Nykredit's business needs and relevant regulatory requirements.

Nykredit's data governance policy lays down the overall principles and standards for data governance at Nykredit. The purpose of the policy is to ensure that Nykredit complies with current legislation in this area and to support existing and future business processes, and it aims to ensure professional and effective data governance development. Further, Nykredit's data ethics policy, adopted by the Board of Directors, provides a clear framework defining responsible conduct in relation to the use of data.

Data in Nykredit has been divided into ten data domains, together comprising all data used by Nykredit. Ownership lies with data domain owners in the business, each holding overall responsibility for data governance and for defining and maintaining data standards in their respective areas.

Nykredit has made substantial investments in recent years to strengthen data governance of critical data across the Group. Data governance efforts are progressing, but remain a focus point as new data will continuously emerge.

The sustainable transition also entails new reporting requirements, and Nykredit has a continuous focus on ensuring that Nykredit, alone and in concert with other financial sector participants, is able to deliver timely reporting based on the right data quality. This way, through our reporting, Nykredit can provide assurance to customers and investors about the sustainable elements.

Nykredit

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