



**About Nykredit 2012**  
CSR Report on Financial Sustainability

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# Foreword

Nykredit's objective is to carry on financial business for the benefit of our customers.

Nykredit is a customer-driven financial mutual. Nykredit was founded by its customers and exists for its customers. That has been the case for more than 150 years.

Consequently, Nykredit puts customers first. That is one of our fundamental business principles and it is in harmony with our business concept. We will advise and serve our customers in a manner that enables them to make their own choices on an informed basis. This places Nykredit under a particular obligation to provide responsible advisory services. Therefore, we train and certify our staff with a view to handling that task to best effect – and to an extent beyond statutory requirements.

By virtue of Nykredit's history and special ownership structure as a financial mutual, we stand out in a number of ways. Rather than focusing on short-term gains, our owners aim for long-term customer relationships and returns – what we call Financial Sustainability – and that is our business concept.

Like other financial institutions, Nykredit operates as a business and is as such also supposed to make a profit. Active lending requires equity in an amount that meets or exceeds the requirements of legislation and bond markets. Requirements which will be tightened in coming years. During the financial crisis, Nykredit's lending increased, and this trend has continued despite the prospect of higher equity requirements. Ensuring credit facilities for our customers is a central part of Nykredit's social responsibility. Thus, our social responsibility goes hand in hand with our business activities, providing a foundation for future growth in Denmark.

The increased capital requirements imply that Nykredit needs to raise earnings in order to maintain lending. This may imply price adjustments, combined with cost awareness, to safeguard our financial foundation for future lending.

We constantly strive to facilitate the role of the customer and to ensure that we meet our customers in a positive and professional atmosphere. One of our main concerns is the open and trusting dialogue, which is why we are constantly improving our online banking service with new features providing a better overview; why we have a customer ambassador; why we have a blog, and why in 2012 we launched a new central advisory centre, Nykredit Direkte®, to mention but a few initiatives.

Among our other significant initiatives in 2012 was a new mortgage advisory concept. We introduced five simple product packages, offering our customers different levels of security with regard to mortgage rate development, and different levels of home equity building by means of higher or lower repayments. The new concept simplifies the choice between different loan types.

While contributing to a stable and efficient financial market, Nykredit also assumes corporate social responsibility (CSR) in other areas. Our CSR activities include ambitious targets for more women in management, providing independent financial advice to battered women, and offering foreign residents a New Network, assisting them in finding education, training or jobs. Nykredit also works actively to improve the health of the Danish population via the website [vorespuls.dk](http://vorespuls.dk) and sponsorships for various running events. Further, we contribute to a greener Denmark through an ambitious climate and environment strategy, which encompasses business measures as well as Nykredit's own environmental impact.

"About Nykredit 2012" is Nykredit's CSR report on Financial Sustainability. It supplements our Annual Report and differentiates the picture of a company that is more than just numbers.

Enjoy the read!

Peter Engberg Jensen  
Group Chief Executive



# Meet Nykredit

02 |

Nykredit is one of Denmark's leading financial service providers with banking and mortgage lending as its core business areas. In addition, Nykredit has activities within insurance, leasing, pension and estate agency business. The Group serves both personal and commercial customers, providing advisory services that accommodate the financial requirements of families as well as small and medium-sized enterprises and the largest corporations.

The Nykredit Group is in contact with more than 1.1 million customers. This includes 430,000 personal customers, 75,000 commercial customers under the Nykredit brand, and just over 600,000 personal customers served by local and regional banks under the Totalkredit partnership.

Nykredit wants to assume corporate social responsibility (CSR). Consequently, Nykredit is running a number of CSR projects and promote climate and environmentally conscious behaviour. We also support the development of society by awarding Nykredit's architecture and research prizes.

Nykredit's long history and special ownership structure as a financial mutual set us apart in a number of ways. Rather than looking for short-term gains, Nykredit aims at long-term customer relationships and results – what we call Financial Sustainability. This distinguishes Nykredit from listed financial companies. However, in an international context, approximately one in five of Europe's financial service providers has an ownership structure similar to that of Nykredit.

Nykredit's business concept of Financial Sustainability implies that we

- operate on the basis of a sharply defined ethical frame of reference and long-term relations
- create new opportunities for customers and investors
- value balanced risk management and a long-term capital policy.

Balanced risk management means that we continuously adjust our business to market conditions – for instance, Nykredit has introduced two-tier mortgaging, and our refinancing auctions have been spread over the year.

A robust capital base and high earnings are prerequisites for our ability to maintain active lending activities – also in times of crisis – contributing to high bond ratings and consequently low interest rates, to the benefit of our customers.

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## 1.1 million costumers

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4,115 staff



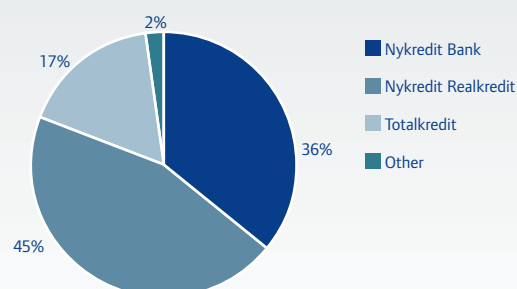
55 customer centres



252,000 mobile app downloads

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### Income from business operations





# Customers

Nykredit puts customers first. This is one of Nykredit's fundamental business principles, and it is important to us that customers gain valuable service focusing on their needs – now and in the future. We strive to facilitate the role of the customer and to ensure that we provide our customers with a positive and professional experience. We aim to have the most satisfied customers among key financial service providers.

## Nykredit's activities

Historically, Nykredit's business is mortgage financing. However, the banking activities have been expanded, and today Nykredit offers broad-based financial solutions meeting the financial requirements of families as well as small and medium-sized enterprises and the largest corporations. Being Denmark's leading lender, Nykredit provides 31% of all Danish bank and mortgage loans.

Nykredit's sound capital structure benefits our customers and has ensured steady lending growth in the years since 2008, also in periods when total market lending has been on the decline. Since 2008 Nykredit's lending has grown by some DKK 160bn, compared with a drop in lending of some DKK 250bn in the remaining financial sector over the same period.

In 2012 mortgage loans accounted for the greater part of lending growth. Because of the very low mortgage rates, mortgage loans were in higher demand among customers than bank loans. In the same period, the propensity to save was rising in Denmark due to the low economic growth. This was reflected in rising demand for Nykredit's savings concepts, investment funds and deposit products.

On 1 June 2012, Nykredit opened a new nationwide advisory centre, Nykredit Direkte® – a service platform offering the flexibility and accessibility that customers need. Seven days a week, professional advisers are ready to provide advisory services relating to banking, mortgage, investment and pension products.

The customer services offered at Nykredit's local centres have also been redesigned, and all centres now offer personal and commercial customer services under one roof.

### Mortgage lending of tomorrow

Nykredit plays a major role in the Danish financial market, having contact with more than 1.1 million personal and commercial customers. Nykredit therefore has an obligation to contribute to a stable and efficient financial market. This is in our interest and helps us retain our status as a financially robust group in the long term.

Because of our principle of putting customers first and our aim of ensuring long-term financial sustainability, we constantly strive to adapt our business for the future, focusing on customers' needs as well as external business conditions such as regulatory requirements.

Regulatory requirements regarding the capital that banks and mortgage lenders must post as security for their lending activities will increase significantly in the years to come. Nykredit therefore has to increase its earnings to be able to set aside more capital by way of equity. Also, banks' funding rates have gone up over the past few years. The prices of bank and mortgage products will have to reflect the new market conditions with higher funding and capital costs. Also the development in losses will affect the need for price adjustments.

In 2012 Nykredit changed the structure of homeowner mortgages, introducing two-tier mortgaging. Two-tier mortgaging will enable Nykredit to continue to offer customers attractive mortgage loans – also in the long run.

### Sustainable business model

In June 2012 Nykredit introduced two-tier mortgaging. Going forward, all mortgage loans offered by Nykredit will consist of a top loan only offered as a repayment loan and a base loan with an interest-only option.

Prepaying debt and building home equity will improve the finances of homeowners, reducing their risk of ending up with negative equity. This will future-proof the Danish mortgage system for the benefit of borrowers, investors and the Danish economy in general.

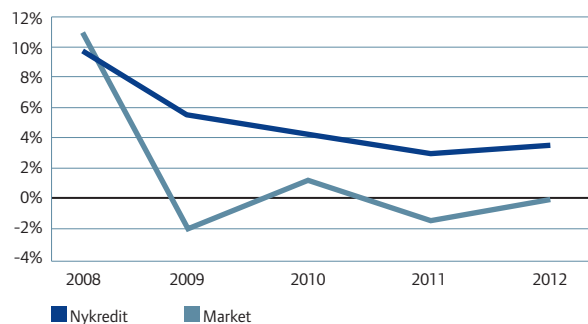
Two-tier mortgaging will reduce fluctuations in Nykredit's cost of capital while at the same time strengthening the finances of homeowners. This will make Nykredit's business model more competitive, securing Nykredit's ability to maintain active lending activities not only in good times but also in times of crisis.

### Nykredit's market position in Denmark

	DKKbn	Market share
Total bank and mortgage lending	1,127	31%
- of which bank lending	67	6%
- of which mortgage lending	1,060	43%
Assets under administration	514	40%
Assets under management	101	-
Portfolio of retail investment fund units	43	8%
Bond trading	-	27%

Note: Bank and mortgage lending is determined in nominal terms on the basis of the statistics on the balance sheets and flows of the MFI sector prepared by Danmarks Nationalbank.

### Lending growth in Nykredit and the market



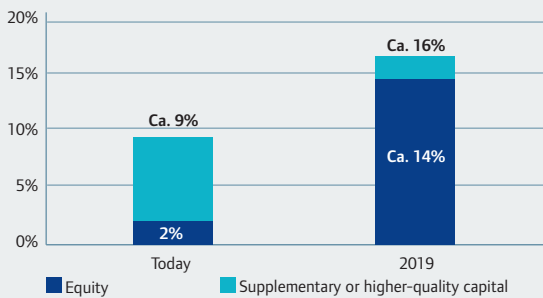
# Need for increased financial sector earnings and capital

New international capital requirements are expected to increase Nykredit's equity requirement to about DKK 70bn in the period up to 2019 given unchanged lending volumes. As Nykredit's equity is currently about DKK 58bn, significant earnings are required in coming years to maintain active lending activities.

At the same time, earnings in the financial sector are under pressure. Declining property prices have caused a rise in losses as well as costs of providing supplementary collateral behind the bonds. Also, income is low due to the low interest rate level. As a result of declining property prices and low interest rates, Nykredit's core earnings in 2012 were DKK 3bn-4bn lower than they would be under normal circumstances. In addition, banks' funding costs have soared in the wake of the financial crisis, as investors consider banks to be less safe investments than they used to be.

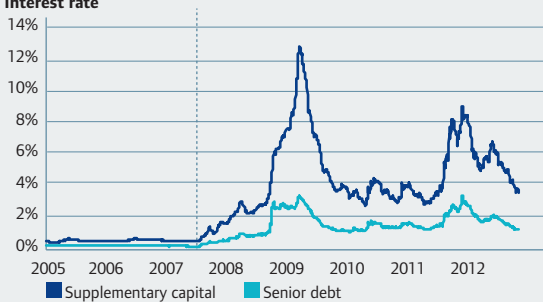
In other words, earnings are under pressure, at a time when the sector needs to build more equity. A significant rise in interest rates and property prices does not seem likely in the near future. The financial sector therefore has to adjust prices and costs. The alternative would be to reduce lending, which would be detrimental to economic growth.

## 1 Capital requirement expected to almost double



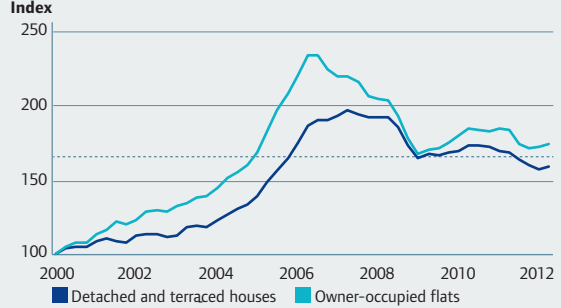
**Stricter requirements for the amount and quality of capital**  
Following the financial crisis, the regulatory requirements for the sector's financial strength have been tightened. This means stricter requirements for the amount and quality of capital that banks must hold as collateral in future. Going forward, a substantial part of the regulatory capital must be in the form of equity as opposed to previously when subordinate loan capital was also eligible.

## 2 Cost of capital up since 2007



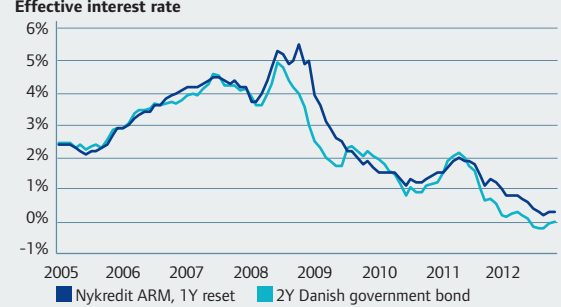
**Higher cost of capital for banks after financial crisis**  
Before the financial crisis, ordinary loans to banks (senior debt) were considered very safe investments, and banks were therefore able to raise funding at a low cost. The financial crisis changed investors' view of the financial sector, and they now demand higher interest rates.

## 3 Housing prices back to 2005 level



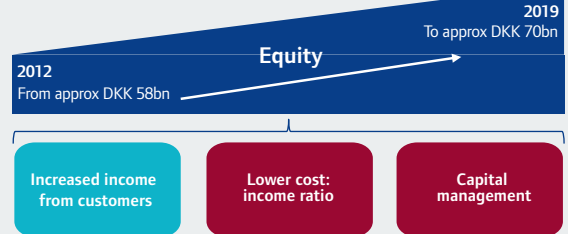
**Lower housing prices affect capital requirements and losses**  
The financial sector has incurred slightly higher losses due to the decline in property prices. Also, the property price fall has caused a rise in the sector's expenses, as it has to post supplementary collateral behind its covered bonds. Further, the capital cost of lending is up, as mortgage loans today equal 75% of property values compared with 65% earlier.

## 4 But mortgage rates are low



**The financial crisis also reduced mortgage rates**  
As mentioned above, interest rates on bank funding in international capital markets have gone up. Investors have turned to safe papers such as government and covered bonds from eg Germany or Denmark. Due to the high investor demand, governments and mortgage borrowers enjoy historically low interest rates.

## 5 Requirements to be met by Nykredit

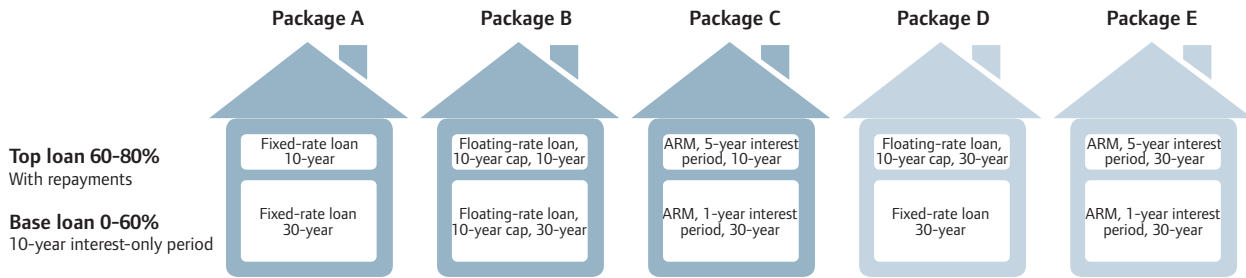


### Focus on earnings and capital

All in all, stricter regulatory capital requirements, increased capital requirements due to declining property prices and higher bank funding costs mean that banks and mortgage lenders are faced with a demand for higher earnings. Earnings may be improved through higher income from customers or cost restraint.

Nykredit's equity must be increased to about DKK 70bn with the current business volume. To this should be added an additional approx DKK 4bn per percentage point of annual lending (and capital requirement) growth.

## FIVE MORTGAGE PACKAGES



Under the concept of two-tier mortgaging, Nykredit's mortgage advisory services are, more than previously, based on dialogue with the customer about principal and mortgage payments: How fast does the customer want to repay the loan, and how much should mortgage payments be allowed to fluctuate – a little, a lot or not at all. This will shift the focus from individual

mortgage products to the customer's overall needs. Based on the dialogue with the customer, Nykredit recommends one of five possible mortgage packages including a top and a base loan, designed so as to meet the customer's needs, whether the customer wants high or low principal payments or mortgage payments that are fixed or allowed to fluctuate a little or a lot.

### Advisory services

For Nykredit, it is essential that our customers receive the best possible advice. For optimum results, Nykredit's advisory services must cover all aspects of a customer's financial position. Nykredit therefore takes a holistic approach to a the customer's finances and on that basis designs optimum, long-term solutions. The introduction of two-tier mortgaging has increased the need for customised advisory services.

The financial crisis has demonstrated the need for competent and professional advice, and Nykredit is making a targeted effort to provide all customer advisers with the best professional and personal competencies. Nykredit's adviser competency requirements are stricter than the statutory requirements. That way, we are sure that all advisers possess solid skills enabling them to offer customers sound and reliable advice.

In addition to a wide range of professional tools, advisers' ability to engage in dialogue with customers about their needs, options and any financial restrictions is an important element of good advisory services. Advisers must be able to offer customers simple alternatives, and the dialogue must provide customers with the knowledge required to make the right choice.

### Nykredit as digital partner

Today 3.8 million Danes use NemID and have a mailbox at e-Boks, to which pay slips, statements of accounts etc are sent. This paves the way for exchanging information, concluding agreements, etc without any use of paper printouts and physical signatures.

Nykredit expects the use of digital communication and digital solutions involving NemID to increase in the years to come. Indeed, the public authorities have set an ambitious target that all mail communication with citizens and businesses must be digitalised over the next few years.

### 90% digital communication by 2015

It is Nykredit's target that at least 90% of all Nykredit's communication with customers must be digitalised by 2015.

Besides the financial advantage of saving paper and postage, it will be easier for both Nykredit and our customers once customers are able to receive and sign all types of mail digitally.

Nykredit focuses on increasing accessibility across platforms. If customers with NemIDs allow information from the public pensions info site or their personal online tax folders to be transferred digitally to Nykredit's systems, manual processes will be reduced, and customers may quickly gain a clear view of their finances.

### How far have we come?

Today about 45% of Nykredit's total mail communication with customers, chiefly statements of accounts, receipts etc provided for their information, is sent digitally to their mailboxes at e-Boks. The number of customers contacting Nykredit by e-mail is rising, but ordinary e-mails do not comply with the statutory requirements for the forwarding of many

types of documents. A safer digital channel is required. Nykredit expects to be introducing safe digital viewing and forwarding of documents in early 2013. The solution will be continuously expanded with new functionality, for instance to enable digital signatures, and will only require that customers have NemIDs.

### Banking of tomorrow

Nykredit has launched the concept "Become a Bank customer in 5 minutes". New Bank customers can open an account and get access to Nykredit's online banking service without having to submit documents by mail. The customer is guided through the process using NemID and just has to upload a scanned proof of identity.

More and more customers use WebDesk as a supplement to call centre advisory services – the WebDesk allows the adviser to share his screen with the customer and show results of calculations etc.

Moreover, 2012 saw a new version of Nykredit's online banking service, which has been ranked no 1 in Denmark, as well as an iPad solution.

### Online activity

Number	2011	2012
Visits at nykredit.dk	12,876,536	12,456,171
Online calculations	2,452,446	1,486,527
Visits at Nykredit Blog	99,887	139,706
Visits at nykredit.tv	60,244	60,773
Video consultations with advisers	14,100	27,742
Downloads of mobile apps	178,632	252,182
Smartbudget users	24,588	29,112
Facebook likes	-	7,573

Note: Online calculations include calculations concerning home purchases, design of pension finances and size of homeowner's equity.



# Customer's choice



**55 customer centres**  
Personal advice by specialists.

**Nykredit Direkte®**  
Access to advisers seven days a week.

**Opening hours:**  
Monday to Friday 8:00-20:00  
Saturday 11:00-15:00  
Sunday 11:00-15:00



**Nykredit.dk**  
Products, advisory services, guides, calculators, blog and much more.

**Online bank – mitNykredit**  
Accounts summary, advisory services and transactions.

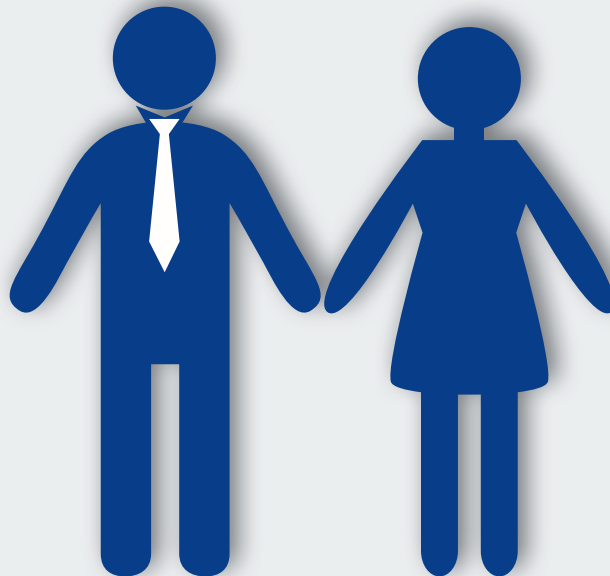
**WebDesk**  
Have video consultations with advisers and Customer Services.



**Mobile apps**  
Simplicity in everyday life. Mobile banking and four other mobile apps.



**iPad**  
Design your own online bank with spending and investment overviews. Hold iPad video conferences.





## Customer satisfaction

Nykredit aims to have the most satisfied customers among key financial market players, and tracking customer satisfaction is an important step towards delivering this objective.

High customer satisfaction increases the probability that customers will purchase more Nykredit products and reduces the probability that they will want to change banks. We regularly measure customer satisfaction by asking our customers about their expectations and experience regarding Nykredit's advisers, products and services. This provides us with valuable input from thousands of customers, and their time is not wasted. We use the many responses to improve in areas where we could do better, and we constantly strive to make it easier, better and more attractive to be a Nykredit customer.

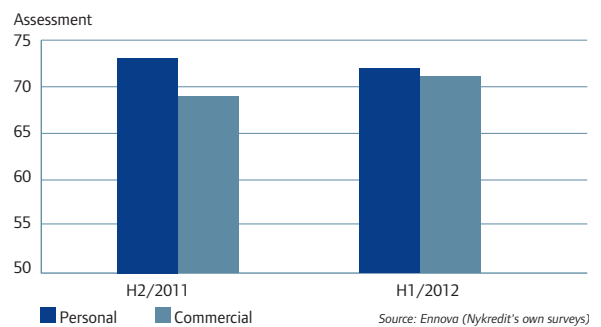
### Progress among commercial customers

In general, our customers are satisfied with Nykredit. Our latest customer satisfaction survey from spring 2012 showed that personal customers' satisfaction with Nykredit was largely unchanged since 2011, while commercial customers were more satisfied than they were in 2011.

### More satisfied customers

The surveys show that the most satisfied customers are those who receive solutions covering most of their financial requirements as well as broad-based advisory services relating to day-to-day finances, housing finance and savings products. The sur-

## Customer satisfaction



## Personal customer satisfaction, banking



veys also confirm that the closer the relationship between customer and adviser, the higher the customer's satisfaction with Nykredit.

### Nykredit's customer ambassador

In 2007 Nykredit introduced a customer ambassador whose particular focus is on assisting dissatisfied customers.

The customer ambassador's primary objective is to ensure that any dissatisfied customers feel that their complaints are handled fairly.

### Nykredit learns from complaints

By choosing to complain rather than simply changing banks, the customer gives Nykredit a chance to correct a mistake or misunderstanding. Also, a complaint directs Nykredit's attention towards any inexpedient processes which are inconvenient to customers. 11% of the complaints made to the customer ambassador in 2012 led to specific initiatives or general changes.

### Nykredit takes dissatisfaction seriously

As part of our efforts to provide good service to our customers – also when they contact Nykredit because they are dissatisfied – we measure the satisfaction level regarding our complaints handling. We strive to offer customers uniform, competent, thorough and fast complaints handling.

In 2012 57% of personal customers were highly satisfied or satisfied with Nykredit's dissatisfaction handling. Of these, 34% were highly satisfied.

Even though Nykredit strives to meet all customer needs and expectations, complaints are inevitable. Nykredit receives some 3 million customer e-mails and calls a year. In addition to that, we hold more than 250,000 meetings with customers. With that amount of communication, mistakes are bound to happen. Some of these give rise to actual complaints that are handled by the customer ambassador or the complaints unit.

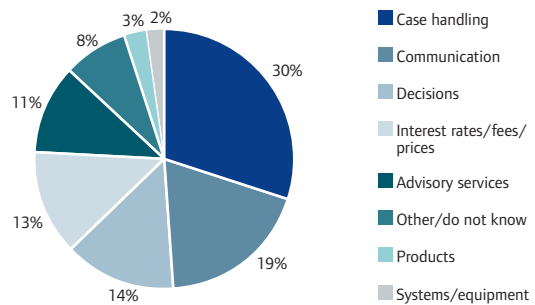
### Openness about complaints – status for 2012

2012 was characterised by a larger proportion of complaints from customers that were dissatisfied with prices and fees. Personal and commercial customers of banks and mortgage lenders recently find that the services offered are becoming increasingly expensive, despite the historically low general interest rate level.

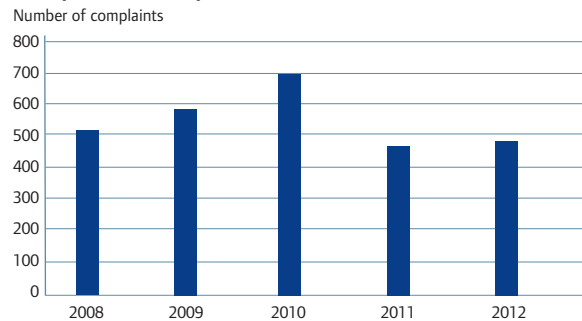
Nykredit wants to set an example as regards openness about complaints. In 2012 Nykredit's customer ambassador and the complaints unit handled a total of 478 complaints. The complaints typically pertained to case handling (often length of time), communication or a specific decision (eg loan refusal).

49% of the complaints brought to the customer ambassador or the complaints unit were decided entirely or partly in the customer's favour.

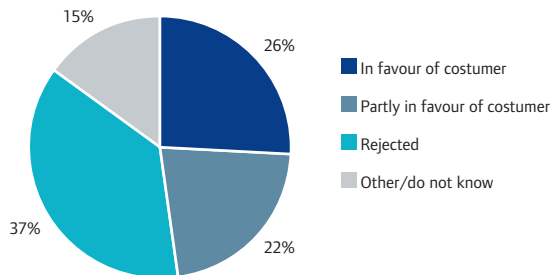
### Distribution of complaints



### Development in complaints



### Outcomes of complaints received by customer ambassador or complaints unit



### Complaints handling at Nykredit

- If a customer is dissatisfied with a decision, with the way a case has been handled or with Nykredit's products, the customer must first contact the person or centre that handled the case. If the problem can be solved that way, it is easier and faster for both the customer and Nykredit.
- If the customer finds it necessary to proceed, the customer is welcome to contact Nykredit's customer ambassador or complaints unit.
- If, contrary to expectations, a satisfactory solution cannot be found, personal customers are advised to contact one of the private complaint boards.



## GLOBAL FOCUS EQUITIES

Nykredit Invest's Global Focus Equities subfund is just one of several products that systematically include sustainability assessments from MSCI's extensive database when picking individual investments.

Morten Gregersen, head of Nykredit Global Equities, explains: *"Sustainable investment is very much a question of identifying risk and opportunities. Sustainability is an important additional dimension that provides us with a more accurate picture of the risk and potential of each company. We do it to be able to offer our clients better results."*

### Concepts

- **Global Compact:** UN Global Compact is the world's largest volunteer network for companies that take measures to fulfil their social responsibility. Global Compact is based on ten principles within four areas: Human rights, labour standards, environment and anti-corruption. The individual company selects the areas and the measures relevant to its core business.
- **UNPRI:** The UN's six principles for responsible investment. The principles constitute a set of common global guidelines for responsible investment behaviour, incorporating environmental, social and corporate governance issues into the entire investment process.

## Sustainable investment

Like all Nykredit's business activities, Nykredit asset management is based on sustainability. When investing through Nykredit's investment funds or investing the Nykredit Group's own funds, Nykredit therefore supplements conventional investment research with sustainability considerations. This is in compliance with the UNPRI's six principles for responsible investment, which Nykredit adopted in 2009. Nykredit's sustainable investments policy covers investments worth DKK 211bn.

Nykredit has set up screening procedures to identify any breach of generally accepted UN conventions and the Global Compact principles. These procedures are applied for all 2,000 companies in which Nykredit invests, and in case of breach Nykredit considers whether active ownership will be sufficient to rectify the company's behaviour and practices. If the breach is deemed to be too serious, or active ownership is not deemed to remedy the situation, the company will be excluded. Nykredit currently pursues active ownership of 19 companies and has excluded 13.

Nykredit's investment research also considers the risks and potentials of companies from a sustainability perspective. In order to support these efforts, Nykredit is working with a new investment adviser, thereby obtaining access to a database of extensive individual research on more than 2,500 companies and the ratings of these companies relative to competitors in the sector.

### Nykredit is at the forefront of emerging market sovereign debt investment

The economic development of emerging market countries provides opportunities to investors that seek higher yields in a low-yield environment. This had led to the creation of an important market for emerging market sovereign debt investments, to the benefit of investors as well as the countries whose development they help finance.

However, investing in the sovereign debt of emerging market countries means that a number of new factors must be considered before an investment is made. In 2012 Nykredit therefore expanded its sustainable investments policy with a set of guidelines for sovereign debt investment.

Facts on Nykredit's guidelines for sovereign debt investment:

- Nykredit excludes countries that are subject to sanctions against financial transactions with the regime or leading members of the regime.
- Nykredit's external asset manager, Investec, incorporates democracy and human rights considerations in its investment process.
- The observation list is based on the OECD country risk classification, which is based on a number of financial and political criteria.

If a portfolio manager or an external manager wants to invest in sovereign debt from a country in the lowest or second-lowest category of the OECD country risk classification, a sustainability assessment of the investment must be made. Based on the assessment, Nykredit decides whether the bond issue should be placed on Nykredit's exclusion list.

### Read more at [nykredit.com](http://nykredit.com)

We want openness and dialogue in relation to our work to ensure sustainable investment. For this reason, we have disclosed our reports to the international investor network, UNPRI, on Nykredit's website. There you can read about our work in detail. You can also express your opinion at the Nykredit Blog.



# Social responsibility

Nykredit's business concept of Financial Sustainability describes how values such as balance, long-term relations and a broad social responsibility are active and integral parts of our dialogue with customers, business partners, investors, staff and the rest of society.



## GRI

GRI (Global Reporting Initiative) is an international network working to promote global sustainability reporting. GRI is the reporting standard most widely applied when companies prepare reports in accordance with the principles set out under the UN Global Compact initiative.

Nykredit is a member of the UN Global Compact network. This publication describes part of our efforts to implement the ten Global Compact principles for corporate social responsibility. Nykredit's report on corporate social responsibility is based on the Global Reporting Initiative (GRI) guidelines. In addition, Nykredit's investment policy complies with the UN's principles for responsible investment, UNPRI. These are but a few examples of Nykredit's broad effort to actively incorporate our social responsibility in, and sometimes also outside, our day-to-day business activities.

### **Nykredit's anti-corruption policy**

Nykredit resents any type of corruption that may undermine democratic values and open market principles.

By all accounts, Denmark is among the least corrupt countries in the world, but still, situations may arise that leave people in doubt of what is right and what is wrong. In 2012 Nykredit therefore laid down an anti-corruption policy. The policy includes Nykredit's general principles for countering corruption, and it also describes a number of specific focus activities/areas where the risk of corruption is particularly high. Examples are bribery and secret commission, the provision or receipt of improper gifts, entertainment or food, political donations, nepotism and money laundering.

### **Dialogue with the world**

Nykredit is an agenda setter in the financial marketplace and as such pursues an active communications policy. We wish to share our knowledge about financial conditions and the financial sector in general with our stakeholders through dialogue, and we seek the input of stakeholders to help us continue the development of Nykredit's activities.

An example of this dialogue with stakeholders is the Nykredit Blog where a wide variety of issues are being debated – issues relating to matters such as personal finances, customer service, social responsibility and sustainable investment. Another example of our external dialogue is the ongoing communication with our investors. We travel round the world to ensure that our foreign investors are well informed about Nykredit's activities. But just as importantly, we listen to their needs. When Nykredit introduced two-tier mortgaging, we had, in advance, made sure that investors would find the new bond types attractive.

Obviously, Nykredit's most important stakeholders are our customers. Through our customer satisfaction surveys, we aim to clarify what our customers think we could and should do better.

### **Contribution to society**

Nykredit's most important contribution to society is our lending to personal and commercial customers. Nykredit grants 31% of all bank and mortgage loans in Denmark and consequently plays a crucial role in the Danish economy.

In addition, Nykredit contributes directly to society by way of 4,115 jobs as well as costs of corporation and payroll taxes totalling DKK 439m for 2012.

### **Social initiatives**

Nykredit possesses a number of competencies which we make available for a number of ongoing social partnerships: A social partnership with both Mødrehjælpen (Mothers Help) and crisis centres, and the New Network project. Nykredit supports and facilitates the projects, and Nykredit's staff provide their professional and personal skills and experience on a voluntary and unpaid basis.

### **Social partnership**

Since the beginning of 2009, the Mary Foundation, headed by HRH Crown Princess Mary, Mødrehjælpen and Nykredit have been partners in a project offering free and independent personal, financial and legal counselling to battered and other vulnerable women in the metropolitan area. Based on the very positive experience gained from the project, it was expanded in 2010 to include similar counselling in Aarhus. Nykredit's staff do voluntary work as financial mentors under the project at the premises of Mødrehjælpen.

So far, over 1,100 women have received counselling in Copenhagen or Aarhus. Surveys indicate that the number of women who feel that they can cope with their financial situation after they received counselling has more than doubled. 71% of the women state that their quality of life has improved.

Under the social partnership with crisis centres, Nykredit is still working together with the Mary Foundation, but also with the National Organization of Shelters for Battered Women and Children (LOKK) and local law firms. The counselling provided at the crisis centres is similar to what is offered at Mødrehjælpen. The counsellors are lawyers and Nykredit staff working on a voluntary basis and the social workers at the crisis centres. The project is being expanded to include more crisis centres across Denmark. By the end of 2012, counselling had been established at 12 crisis centres.

A total of 40 Nykredit staff members were working as financial mentors under the projects in the course of 2012. They offer their help on a voluntary basis, using their profes-

sional skills and a good deal of human insight to help these women gain control of their financial situation. The counselling is based on the principle of helping the women to help themselves and thereby facilitating their escape from violence.

Based on the positive results achieved, Nykredit together with Østifterne will continue to provide financial support for the two social partnership projects in 2013 and 2014.

### **New Network helps foreign residents get jobs**

Since 2011, 60 Nykredit staff members have served as mentors to 60 foreigners living in Denmark and learning Danish at Hellerup Language School.

The mentorship period is typically five months, and the ultimate goal is to bring the mentees closer to the Danish labour market so that they can get a job.

The project is called New Network, and the principal tasks of the mentors are to help the mentees expand their networks and advise them on Danish society, labour market and workplace culture. Nykredit is facilitating the project, and Nykredit staff members work as voluntary mentors to the foreign mentees.

So far, about 50% of the participating mentees have found jobs, and most of the remaining 50% are receiving training or education. All the mentees have expanded their networks and have become better equipped socially, professionally, culturally and language-wise to tackle the challenges in the Danish labour market.

Based on the positive results achieved in Copenhagen, a similar project was launched in Aalborg in the autumn of 2012. Here, Nykredit staff members work as voluntary mentors to a dozen foreign residents who have already completed Danish courses and are now registered with the job centre in Aalborg. The task of the Nykredit mentors is to support and facilitate the mentees' ongoing job search.

### **Sponsorships**

Sponsoring agreements with institutions of arts, culture and sports as well as educational establishments are a natural part of Nykredit's social commitment. The sponsorships strengthen and expand relations with important groups of stakeholders.

In 2012 Nykredit spent about DKK 16m on sponsorships, of which the main ones were:

- The Royal Danish Theatre – main sponsor
- National Gallery of Denmark – main sponsor of x-rummet
- Louisiana – sponsor of Louisiana Contemporary
- The Royal Danish Academy of Fine Arts' Schools of Visual Arts – main sponsor
- Heart – sponsor of Herning Museum of Contemporary Art
- Copenhagen Business School – Premium Career Partner
- Vorespuls.dk – partnership agreement with the Danish Gymnastics and Sports Associations (DGI)
- Nykredit Copenhagen Marathon – main and title sponsor

### **Vorespuls.dk**

In 2010 Nykredit entered into a partnership with DGI on creating a joint, online physical activity universe with sports events taking place throughout Denmark. The objective of vorespuls.dk is to improve public health by inspiring and motivating Danes to engage in physical activity as a natural part of their everyday life.

With over 50,000 monthly hits, vorespuls.dk is a popular site where visitors can find information and subscribe to newsletters about running, cycling, mountainbiking, swimming, kayaking and a healthy lifestyle in general. In autumn 2012, the agreement was extended by four years.

### **The Royal Danish Theatre**

For the 16th consecutive year, Nykredit is the main sponsor of the Royal Danish Theatre, sponsoring performances, open-air operas and two great summer events with ballet, opera and acting at Rosenborg and Skamlingsbanken. In open-air opera concerts, singers from the Royal Danish Opera performed extracts from the next opera season to an audience of more than 16,500. More than 27,000 people visited the two great summer events at Rosenborg and Skamlingsbanken. In 2012 Nykredit hosted various events for customers and business relations.

### **Totalkredit partner of men's national handball team**

In 2011 Totalkredit signed an agreement with the Danish Handball Association (DHF) as main sponsor and partner of the Danish men's national handball team for three years. The agreement is not a sponsorship as such, but a strong partnership beyond a typical one-way sponsoring agreement.

In cooperation with DHF, Totalkredit has launched the Facebook page "Håndboldherrerne", which is updated regularly with news, pictures, results etc. In addition, together with TV2, Totalkredit has developed the game Playmaker for TV 2's handball app. With Playmaker, all Danish handball enthusiasts can join the game from home when the national team is playing.

See more on [Facebook.com/haandboldherrerne](https://www.facebook.com/haandboldherrerne).



## The Nykredit Foundation

The object of the Foundation is to support initiatives within Danish trade and industry relating mainly to the construction sector as well as other purposes relating to Nykredit's activities. The Foundation also offers financial support for research and cultural projects and initiatives that benefit society at large. The Foundation has a capital of DKK 100m. The Nykredit Foundation awarded about DKK 5.5m in 2012, of which DKK 1.35m for Nykredit's prizes.

### Nykredit's Research Prize 2012

The Research Prize was first awarded in 2010. The prize is awarded for original and innovative, high-quality research in the financial, HR or CSR area. As from 2012, the prize is comprised of three merit awards. A research prize for a senior researcher and two research talent prizes for young researchers.

The Research Prize 2012 of DKK 500,000 went to Professor Lasse Heje Pedersen, Copenhagen Business School, who has performed research in the field of financing, specialising in liquidity risk and pricing of financial assets.

Associate Professor Sabina Nielsen, Copenhagen Business School, received the Research Talent Prize 2012 of DKK 100,000. Ms Nielsen does research on the value of different types of diversity in corporate management and on boards of directors. Lastly, Associate Professor Linda Sandris Larsen, University of Southern Denmark, received the Research Talent Prize 2012 of DKK 100,000 for her research on the optimum composition of individuals' financial wealth.

### Nykredit's Architecture Prize and Motivation Prize

The Architecture Prize of DKK 500,000 was in 2012 awarded to COBE, a firm of architects, represented by Dan Stubbergaard, owner and architect MAA, which among other projects is behind the design, planning and realisation of the new Nørreport train station and the development of Nordhavn – one of Scandinavia's largest and most ambitious urban development projects.



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Lasse Heje Pedersen  
MSc (Math and Econ),  
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Associate Professor  
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Copenhagen Business  
School



Associate Professor  
Linda Sandris Larsen  
MSc (Math and Econ),  
PhD in Finance  
University of Southern  
Denmark

The Motivation Prize of DKK 100,000 went to Powerhouse Company, represented by Nanne de Ru and Charles Bessard, partners. Powerhouse Company is an example of the new global-Danish architectural practices starting to mark their presence on the Danish architectural scene and represents one of the most talented up-and-coming firms of architects.

Also in 2012, a special merit award of DKK 50,000 was awarded to Kent Martinussen, architect and CEO of DAC. A Danish architect who has managed to put architecture on the political agenda and who has played a vital role in the development of Nordic architectural tradition over the past ten years.

### Donations

The Nykredit Foundation wants to make a difference and continuously supports initiatives within arts and culture, research, sports and humanitarian work.

In 2012 the Foundation donated DKK 1m to Soldaterlegatet, a Danish private and independent charity formed to help civilians and soldiers who have participated in international military missions, as well as relatives and dependants, in need of financial support due to physical or mental injuries sustained during missions.

Examples of other grants from the Foundation in 2012:

- DKK 125,000 to the Copenhagen Art Festival. Festival design.
- DKK 41,000 to Herlev Hospital. TVs for hospital wards.
- DKK 50,000 to Utzon Center, Aalborg. The exhibition Australian Artists and the Sydney Opera House.
- DKK 200,000 to Nordisk Film and Museum Jørn I Silkeborg. Documentary on Asger Jørn.
- DKK 137,680 to PTU. Patient-friendly furniture.
- DKK 250,000 to the Medieval Centre, Nykøbing F. Erection of medieval town church.
- DKK 10,000 to Stensballegaard Golf, Horsens. Youth activities.
- DKK 50,000 to Children's Welfare. New IT equipment.
- DKK 25,000 to Hospice Djursland, Rønde. Book project "Livsbilleder fra Hospice".
- DKK 25,000 to Næstved Tennis Klub. Club house furniture.
- DKK 50,000 to Bornholmer Garden, Rønne. Refurbishment of practice and common rooms.
- DKK 11,500 to Svømmeklubben TRITON, Ballerup. Air suction installation.
- DKK 100,000 to Sculpture by the Sea, Aarhus. Sculpture guide and catalogue.







## Environment and climate

Being one of Denmark's largest financial services providers, we share the responsibility for a long-term environment and climate response.

### Reduction of CO<sub>2</sub> emission

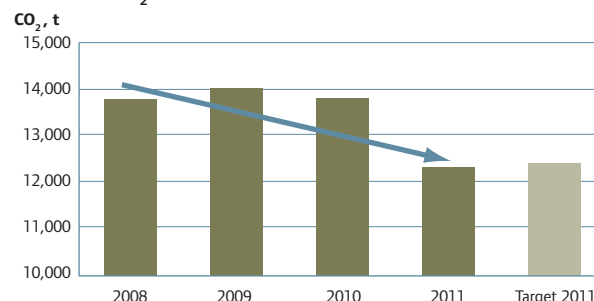
In 2011 Nykredit achieved the target of reducing the Group's carbon footprint by 10%. The reduction was 10.7% and has been verified by external auditors.

When the target was set in 2008, the aim was to first get Nykredit's own CO<sub>2</sub> emission under control. The work towards achieving the target has been a learning experience, and we are now ready to take the next step – incorporating climate and environmental aspects as a natural part of our business activities.

#### Nykredit's resource consumption and reduction of CO<sub>2</sub> emission

Resource consumption	2008	2009	2010	2011
Electricity, MWh	18,319	18,073	18,221	17,152
Heating, MWh	11,359	12,208	11,527	13,938
Water, m <sup>3</sup>	37,843	38,187	37,916	45,743
Transport, 1,000 km	18,216	18,228	19,632	19,953
- of which by aircraft	6,688	6,480	6,547	6,358
- of which by car	10,129	11,270	11,008	11,749
- of which by train	1,399	1,478	2,078	1,846
<b>CO<sub>2</sub> emission, t</b>				
Electricity	9,410	9,480	9,149	7,290
Heating	1,593	1,503	1,627	1,618
Transport	2,766	3,030	3,019	3,389
- of which by aircraft	963	1,041	1,069	1,409
- of which by car	1,755	1,939	1,894	1,930
- of which by train	47	50	56	50
<b>Total CO<sub>2</sub> emission</b>	<b>13,769</b>	<b>14,013</b>	<b>13,795</b>	<b>12,296</b>
Heated area, sqm	129,954	141,345	137,489	151,497
Heating per sqm, kWh	87	86	84	92
CO <sub>2</sub> emission per full-time staff, t	3.41	3.47	3.22	2.96

#### 10% less CO<sub>2</sub> emission in 2011



### Climate and environment strategy 2020

In 2012 Nykredit adopted a new climate strategy building on the attainment of the 2011 target. The starting point for the new strategy is climate changes, the pressure on resources and the responses given in the Danish Parliament's Energy Agreement 2020.

Denmark is facing a number of climate and environmental challenges. In Energy Agreement 2020 a broad majority in the Danish Parliament have decided that a fundamental change of Denmark's resource consumption is required, including improvement of buildings, for instance by way of energy renovation.

- **Internally**, Nykredit will limit its resource dependence by reducing its own consumption. This will be done through a combination of internal efficiencies, installation of renewable energy systems and reduction of emissions from transport.

- **In the customer area** Nykredit will, by implementing own initiatives and by joining forces with key providers in the area, incorporate climate and environmental aspects as a natural part of our organisation. Our advisory services and knowledge relating to climate and environmental parameters will be improved, and climate and environmental aspects will play an increasing role in valuations.

In the environmental area, Nykredit in 2012 joined a new ecolabelling network promoting the purchasing of ecolabelled products. Through its membership, Nykredit wants to promote sustainable purchasing.

We know that climate and environmental aspects are complex. The strategy therefore primarily involves setting an overall policy, which will be delivered in the form of concrete climate and environmental projects once we have sufficient experience and data and new opportunities for such projects arise.

Read more about Nykredit's new climate strategy at [nykredit.dk](http://nykredit.dk).

### Totalkredit's energy calculator

Totalkredit's energy calculator provides an easy, fast and realistic estimate of how much CO2 and money a homeowner can save by making environmental home improvements. The energy calculator also presents various ways of financing the environmental improvements. Find the energy calculator at [totalkredit.dk](http://totalkredit.dk).

### Healthy Green Habits

Nykredit is attempting, through dialogue, to motivate our staff to consider the environment and the climate. The staff campaign, Healthy Green Habits, is aimed at raising awareness of what individual staff members can do to reduce Nykredit's environmental impact. Nykredit also encourages proposals for more improvements in the area.

Nykredit's Healthy Green Habits:

- Print in duplex mode
- Sort your waste and reuse paper
- Clean out your drives
- Turn off the computer when you leave work
- Hold video conferences.

### Purchasing policy

Nykredit has introduced purchasing policies and guidelines so that Nykredit's purchases strike a balance between environmental, ethical and financial considerations. Suppliers and sub-suppliers must act responsibly and ethically correct in relation to the environment:

- All contractual relations must include requirements for responsibility and ethics in relation to child labour, forced labour, general labour standards and the working environment
- All printed matter from Nykredit must be printed on paper carrying the Nordic ecolabel the Swan
- Primary cleaning products must be low environment impact products
- All new lighting fixtures must be energy-saving models.





# Staff

As a financial services provider, Nykredit has undergone vast development. Today our activities include mortgage lending, banking, insurance, pension and estate agency services. With a staff exceeding 4,000, we employ a wide range of profiles, including advisers, account managers, IT developers, economists, customer service staff and student assistants.



Nykredit strives to be one of the most attractive and challenging workplaces in Denmark. To succeed, we need talented and ambitious people, looking to develop continuously throughout their careers.

In committing to developing and training our staff, we ensure that our strategic target of being a leading financial market participant can be met. Consequently, Nykredit focuses on offering the individual staff members opportunities to develop their professional and personal skills. This is closely related to Nykredit's focus on establishing a performance culture with defined targets and clear feedback, benefiting the individual as well as the company.

Various measures sustaining focus on professional and personal development:

- internal traineeships
- internal and external courses and training programmes
- business projects across the organisation
- internal job bank
- Nykredit Academy
- management assessment.

### Clearly defined goals

Nykredit uses performance management as part of a structured approach to further developing the professional and personal competencies of our staff. A central element of this work is the identification of specified individual goals for the individual staff member and a clear performance evaluation by the immediate superior. The levels of job satisfaction, commitment and loyalty are significantly higher where managers and staff members have specified clear goals and the managers follow up on the development relative to the goals agreed. The individual goals are agreed between the manager and the staff member, ensuring coherence between the tasks and results of the unit and of the individual staff member.

In 2012 the performance and development review tool was expanded with a part dedicated to goal setting. The goal setting process is expected to increase staff members' gain from the performance and development reviews and to contribute to a good dialogue between managers and staff members. The dialogue provides workable input to a structured development process for the individual staff member. The overall group strategy thus results in individual goals for each staff member, ensuring

coherence between the staff members' individual goals, the goals of the units and the strategy of the Nykredit Group.

### Certification of Nykredit advisers

At Nykredit, providing customers with the best and most competent advice is a key parameter, and therefore an effort has been made to lay down intercompany competency requirements and provide in-house training of all customer-facing advisers. As a consequence of increased financial sector regulation, mandatory tests have been introduced in the form of "red certification" of all staff members working with complex products.

#### *Nykredit certification takes it a step further*

In 2011 Nykredit opted to introduce an internal certification process, Nykredit Certification, for all customer-facing staff, a certification which goes beyond statutory requirements. Nykredit Certification is a mandatory training programme aimed at ensuring that advisers possess high expertise and that such expertise can be applied to provide good advisory services.

The training programme includes several different fields such as financing, day-to-day finances, pension and investment. Thus, the certification enables our advisers to provide the best possible service to Nykredit's customers. Nykredit Certification was originally aimed at the most advanced specialists and was expanded in 2012 to include senior advisers at Nykredit's centres. In 2013 all other customer-facing staff will be included. Customer advisers are re-certified every three years.

### Internal resource mobility

Internal resource mobility is an important parameter in order to develop and retain qualified staff in Nykredit and to retain knowledge and competencies. To the extent possible, vacancies are filled with in-house candidates. This focus on in-house recruitment has incentivised even more staff members to pursue a career within the Group. This trend has been strengthened by the efforts made in 2012 to clarify and specify the career opportunities of individual staff members.

The efforts to provide in-house resource mobility and career paths are underpinned by a broad range of development and competence training offers for staff. Nykredit offers tailored development programmes targeted at advisers and specialists through Nykredit Certification and Nykredit Academy. Nykredit also strives to strengthen the development of in-house management candidates. To this end, development and selection activities targeted at Nykredit managers are a natural element of the effort to strengthen and structure the in-house pipeline of management candidates and to ensure that the right candidates are spotted and developed at the right time.

### Collective agreement 2012

Nykredit continuously strives to maintain close ties with its staff association, NYKREDS. In mid-2012 Nykredit successfully negotiated a collective agreement with NYKREDS. One element of the agreement was the introduction of a so-called "work-hour bank" for all staff members for registration of work hours, ensuring staff more flexibility in general.

Further, a number of special working groups formed among NYKREDS and Nykredit will discuss relevant elements such as competencies, the new payroll system and seniors, sustaining Nykredit's aim to be an attractive as well as challenging workplace. Nykredit and NYKREDS regularly discuss these elements in an intercompany works council as well as in decentralised works councils.

### Diversity

Nykredit is actively working to promote staff diversity in terms of age, gender, sexuality and ethnicity. A diversified staff strengthens our business, makes for a good and innovative working environment and reflects Nykredit's diversified customer base. Nykredit continued its focus on sexual orientation in 2012, considering it a significant element of a diversified workplace, and participated for the second time in the Copenhagen Pride parade.

### Women in management

Nykredit has focused on women in management since 1996 and adopted the "Charter for more women in management" in 2008, whereby Danish businesses commit to setting targets for the percentage of female managers. The development towards getting more women in management is positive, but especially senior management levels hold potential for improvement. This also applies to female managers in the line organisation, where focus on potential managers will be enhanced. A continued structured and determined effort is therefore necessary to achieve the target. Historically, the financial sector has been dominated by male staff, and this is still the prevailing trend. As a natural consequence, the sector has historically had fewer female than male managers. Nykredit is actively striving to bridge this gap.

#### Percentage of female managers

%	1996	2008	2009	2010	2011	2012	Target 2015
Executive-level management	3	10	12	9	10	10	15
Middle-level management	14	18	20	25	24	21	30
Lower-level management		38	35	42	41	42	45

Note: New determination method as from 2010.

### Flexitime jobs and wage-subsidised jobs

Nykredit will increase opportunities for staff in flexitime jobs or under wage-subsidy schemes. The long-term aim is for Nykredit to double the number of flexitime jobs. In the model applied, Nykredit enters into an arrangement with selected job centres to ensure the right competencies and smooth cooperation between Nykredit and the flexitime staff member.

### DANISH GOVERNMENT MODEL FOR MORE WOMEN IN MANAGEMENT

The model consists of four elements, targeting both private-sector and public-sector companies.

- The 1,100 or so largest companies are required to set targets for the proportion of the under-represented gender in the supreme management body (board of directors or the like). The individual company is thus specifically to set a target which is realistic and ambitious for the individual company.
- The 1,100 or so largest companies must have a policy for increasing the proportion of the under-represented gender at the management levels of the companies in general. This means that the individual company must establish the optimum recruitment basis relative to its specific needs and ideas.
- Companies must report on the level of attainment of the target set out in the annual report, including, if so, why the companies failed to meet the target. Moreover, the companies must present the policy in the annual report, stating how the policy is implemented and what has been achieved. If the companies fail to do so, they may be fined.
- Regardless of size, state-owned companies must set a target and prepare a policy to increase the proportion of women in management.

### NYKREDIT INITIATIVES FOR WOMEN IN MANAGEMENT

- Charter for more women in management
- Operation Chain Reaction
- Peter Engberg Jensen – Ambassador of the Confederation of Danish Industry
- Barrier analysis – internal workshops
- Equal representation at pre-management level
- Relaunch of Nykredit's internal mentoring scheme
- After-hours meetings
- Networks: KIL, WoW, Protocol
- Internal and external role models
- Increased focus on female managers in the line organisation and setting of specific targets
- Increased focus on women in highly specialised positions
- Policy on women in management

#### Charter for more women in management

Two of the purposes of the Charter for more women in management issued by the Danish Ministry of Equality are to ensure equal opportunities for men and women to have a career in management and to take initiatives aimed at raising the number of female managers.

#### Women in management (KIL)

The purpose of the net-working initiative is to set up internal and external networks where female managers can develop their skills and discuss the dilemmas and challenges of a career in management with external peers.

#### WOW Exenet (Women on their way)

WOW Exenet is a professional forum for knowledge sharing between individuals, businesses, associations and organisations. The objective is to further diversity in Danish trade and industry, contributing to growth and equality.

#### Protocol

Network for Danish women. The objective is to create a platform which allows the individual business to attract and retain female staff, motivate and inspire them and improve their competencies.



- In 2012 more than 500 staff members took part in running events sponsored by Nykredit. 820 Nykredit staff members took part in the annual DHL Relay Race.
- In 2012 45% of vacancies were filled with in-house candidates.
- Nykredit appeared in 2012 as a case in "Talent Management", a textbook authored by Professor Henrik Holt Larsen. The case describes the talent development activities and performance management taking place at Nykredit.
- As part of Nykredit's health check, staff members' so-called body age is measured. The average body age of Nykredit's staff is nearly two years lower than their real age.

### Nykredit health

2012 saw continued focus on health as an important parameter for job satisfaction. For the third consecutive year, the health check offered by Nykredit was a popular offer accepted by more than 2,500 staff members. Those who get a health check show growing motivation and desire to lead a healthy life and exercise more. The annual health checks are supplemented with regular events with focus on health in general. The aim is to promote a healthy lifestyle among all staff members.

### Nykredit job satisfaction

Job satisfaction is key to a good working environment – physical as well as mentally. The Nykredit job satisfaction programme focuses on the physical setting and mental conditions as well as on staff job satisfaction and potential areas in need of improvement. Twice a year, a staff satisfaction survey is carried out, benchmarking Nykredit's results against the financial sector and the general labour market.

H1/2012 was marked by considerable changes for many Nykredit staff members – both in the way we are organised, our tasks and not least the new loan types offered to customers. The many changes caused a dive in job satisfaction, which was to be expected, but Nykredit takes the survey results seriously and will work hard to bring back the former up-trend in job satisfaction. At end-Q2/2012 job satisfaction was back on track.

### Leaner and more efficient organisation

In early 2012, Nykredit implemented an organisational restructuring aimed at supporting the overarching business strategy. The organisation was simplified, the customer centres structure was changed by combining personal and commercial customer centres and by opening a new type of advisory centre – Nykredit Direkte®. To many staff members, this resulted in new and changed job areas, new colleagues or a new superior. In addition to reducing costs, the organisational change provided a number of new career opportunities, such as new senior personal customer adviser jobs in the line organisation and new adviser profiles in Nykredit Direkte® that match the new way of serving customers.

### Focus on change management

The restructuring ended the traditional division of customers into personal and commercial customers. As a result, Nykredit staff now offer holistic advisory services to customers across the previous segmentation. To this end, the restructuring has been accompanied by various initiatives enabling staff to provide the best possible service to customers. The initiatives are implemented in different phases aimed at both managers and staff members.

The changes have been among the most comprehensive changes in Nykredit's history and placed heavy demands on the organisation. The strategy implementation was enabled by the involvement of managers at all levels. Immediate superiors were assigned the important role of setting the right teams and implementing the overall strategy in their respective units. Managers have attended various workshops to determine the framework of the strategy and to provide managers with specific tools for the implementation as well as involvement of individual staff members.

### Staff figures

At end-2012 Nykredit had a permanent staff of 3,855.

	2008	2009	2010	2011	2012
Permanent staff, year-end	3,531	4,061	3,826	4,057	3,855
- of which part-time staff	367	490	479	495	425
Staff paid by the hour	774	601	665	651	614
New staff <sup>1</sup>	687	214	197	348	145
Outflow <sup>2</sup>	349	220	287	303	295

<sup>1</sup>In 2009 new staff is exclusive of 536 staff of Forstædernes Bank. <sup>2</sup>2010 is exclusive of 338 staff of Nykredit Forsikring.



# Ownership structure and capital policy

Through Nykredit Holding, Nykredit is owned mainly by Foreningen Nykredit (the Nykredit Association), which has an ownership interest of 89.8%. The object of Foreningen Nykredit is to be a shareholder of the Nykredit Group and to carry on financial business through the Group.

## HISTORY OF NYKREDIT

- 1851 Formation of Kreditforeningen af Jydske Landejendomsbesiddere – the oldest of the mortgage associations that later merge and become Nykredit
- 1985 Kreditforeningen Nykredit is formed by a merger of Jyllands Kreditforening and Forenede Kreditforeninger
- 1991 Kreditforeningen Nykredit is converted into Nykredit A/S
- 1994 Nykredit Bank is set up
- 2003 Acquisition of Totalkredit
- 2008 Acquisition of Forstædernes Bank

Nykredit operates through Nykredit Realkredit A/S, the object of which is to carry on mortgage banking and other financial business. The ultimate authority of Foreningen Nykredit is the Committee of Representatives, which is composed of 100 representatives who are elected by the members and bondholders. The Committee of Representatives elects the Board of Directors of the Association and approves the annual reports and any amendments to the articles of association. Owing to Nykredit's corporate structure, Foreningen Nykredit, Nykredit Holding A/S and Nykredit Realkredit A/S have the same objectives and common interests. Therefore, it is natural that all members of the Board of Directors of Foreningen Nykredit elected by the Committee of Representatives are also members of the boards of directors of Nykredit Holding and Nykredit Realkredit.

All customers who have a mortgage loan with Nykredit Realkredit or are customers of Nykredit Bank with a total deposit or loan of at least DKK 50,000 gain membership of Foreningen Nykredit. Customers who have a mortgage loan with Totalkredit may also gain membership of Foreningen Nykredit.

Through their membership, customers who have a mortgage loan with Nykredit Realkredit are entitled to vote at elections of representatives in the electoral district in which they own a property. Members may also be elected to the Committee of Representatives by running as candidate in the area where they live or in one of the areas in which they own a property.

In order to run for election, candidates must be endorsed by at least 25 other members of the Association in their electoral district or by the Board of Directors.

Bondholders with a bond portfolio in excess of DKK 50,000 are entitled to vote at elections for the Committee of Representatives. Bondholders may only vote for bondholder candidates. Candidates are not registered by electoral district.

Elections are announced towards the end of the year in the daily newspapers and at nykredit.dk.

For the time being, members joining through Totalkredit or Nykredit Bank are not entitled to vote at elections of representatives or to run as candidate for the Committee of Representatives. The reason is that these customers cannot be given the same rights as the borrowers of Nykredit Realkredit under Danish financial legislation. Foreningen Nykredit is working towards changing this so that all members of Foreningen Nykredit have equal rights.

### Unique Danish mortgage system

The Danish mortgage system is unique and recognised as one of the best systems in the world. The system is founded on

- low lending rates based on listed bonds
- transparent pricing and repayment terms
- the balance principle, which secures long-term financial stability
- personal debt liability.





**Balance principle and match funding**

The balance principle is the cornerstone of the Danish mortgage system. The stability of the Danish mortgage market derives from the match funding of most Danish mortgage loans.

Match funding means that loans and funding mirror each other, and the funding costs are visibly reflected in the loan. Match funding eliminates the interest rate, foreign exchange and liquidity risks of mortgage banks. The most important risk of Danish mortgage banks is therefore credit risk – the risk that borrowers fail to make timely payments or fail to pay at all. Match funding allows customers to prepay their loans by purchasing the underlying bonds on the stock exchange. This principle ensures financial mobility, active debt management and protection against a loss of home equity.

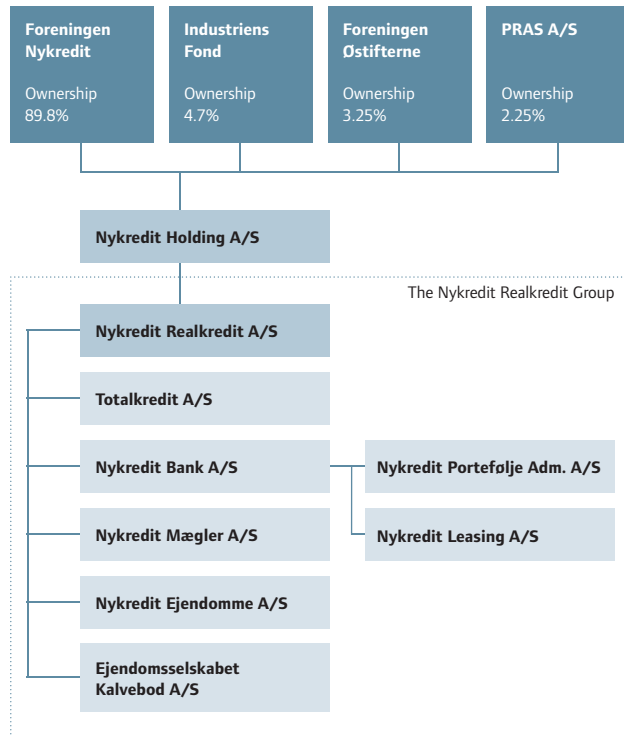
Mortgage loans are today funded with two types of mortgage covered bonds – ROs ("reakreditobligationer") and SDOs ("særligt dækkede obligationer"). Under the rules for ROs, mortgage banks must only observe the loan-to-value (LTV) limits at the time of granting the loan, while for SDOs the statutory LTV limits must be observed on a continuous basis. The individual mortgage bank decides whether to issue bonds that fulfil the SDO requirements and/or bonds that do not fulfil the SDO requirements.

**Security**

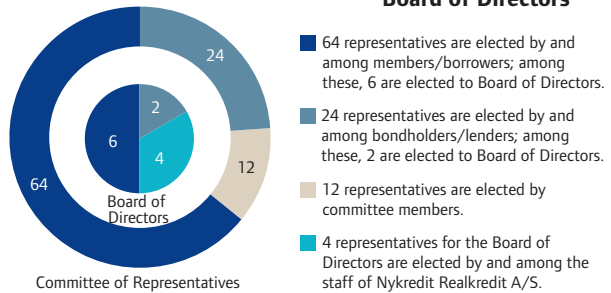
The security of Danish mortgage covered bonds is based on the following factors:

- the bonds are secured against a registered mortgage on real property
- LTV limits for loans in the different property categories are laid down by law
- if property prices fall and LTV limits are exceeded, mortgage banks must provide additional collateral in case of SDO funding
- mortgage banks comply with a number of statutory requirements such as that of capital adequacy
- mortgage banks apply a balance principle which reduces financial risk in relation to loan balances
- mortgage banks are supervised by the Danish Financial Supervisory Authority.

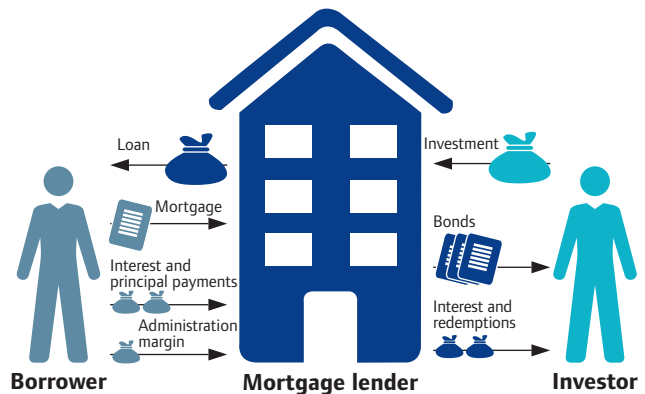
**Group chart**



**Composition of the Committee of Representatives and Board of Directors**



**Balance principle - match between loans and bonds**



## New regulation

The regulatory framework for carrying on financial business is changing rapidly and has done so since the onset of the financial crisis in 2008. The lessons learned from the crisis have prompted demands for increased regulation of the financial sector, both in Denmark and internationally. The objective is to render the financial sector more resilient and reduce the risk of future financial crises.

In Denmark, the extent of regulation of the financial sector since 2008 is already quite significant, and more is to come. As regards advisory services to customers, certification of selected adviser profiles is now required, and investment products

are risk labelled and divided into the categories green, yellow and red according to risk and complexity. Similar risk labelling of loan types is in the pipeline. In addition, a multitude of new rules have been introduced for reporting, risk management, management remuneration, etc.

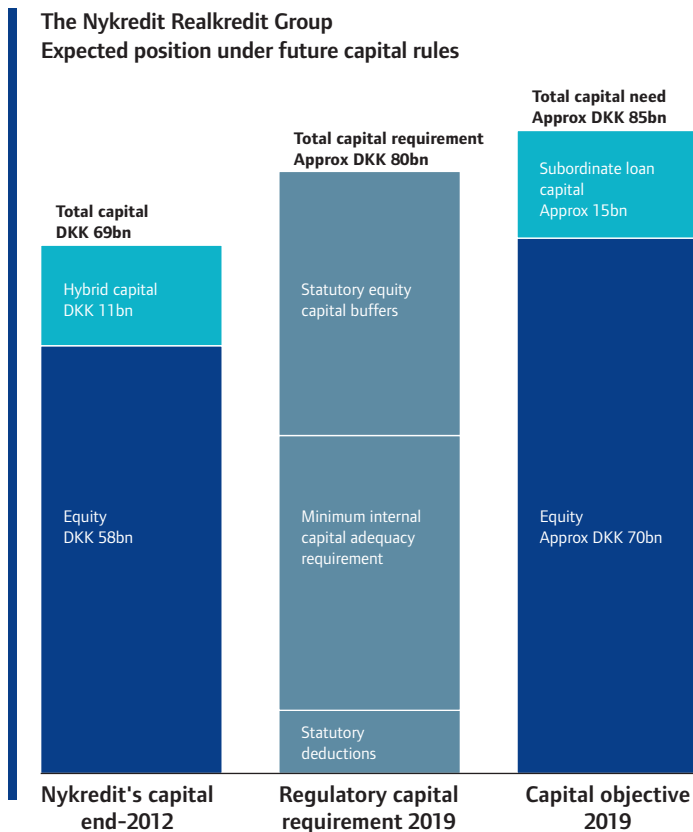
The new international regulations require improved capitalisation of financial institutions in general. The total capital requirement will nearly double and the requirements for the quality of capital will also change so that a substantial part of the regulatory capital must be in the form of equity as opposed to previously when subordinate loan capital was also eligible. This increases the demands on banks' earnings going forward.

Nykredit's total capital requirement under the new rules is estimated at around DKK 85bn with the current business volume. Of this amount, roughly DKK 70bn must be equity, while the remaining some DKK 15bn may be in the form of subordinate loan capital.

The coming regulatory framework also tightens the requirements for banks' liquidity. One of the requirements is that banks must have a sufficient stock of liquid assets to meet all obligations over a 30-day period of financial stress. It is expected that banks will be required to change the composition of their balance sheets so as to include a larger share of highly liquid government bonds and covered bonds.

Given the special features of the Danish mortgage system, Denmark has to pay special attention to the new international measures, which are designed on the basis of an average EU bank. A large liquid covered bond market only exists in a few EU countries, and Denmark therefore needs to make a special effort to have covered bonds treated as liquid bonds. Nykredit and the Danish Ministry of Business and Growth, Danmarks Nationalbank, the Danish Financial Supervisory Authority, the Danish Bankers Association, the Association of Danish Mortgage Banks and the Danish Mortgage Banks' Federation are therefore taking concerted action in relation to the relevant EU institutions. The purpose is to draw attention to specifically Danish issues arising from the regulatory proposals.

The rules are expected to be finally adopted in H1/2013 and will enter into force gradually towards 2019.



## Sustainable capital policy

A firm capital structure is an essential element of Nykredit's financial sustainability. Nykredit's ownership structure makes it difficult to raise new capital in equity markets. For this reason, Nykredit plans for the long term and pursues a sustainable capital policy. Long-term financial sustainability ensures a strong rating of Nykredit's bonds, which benefits our customers in the form of low bond yields.

Nykredit's aims to be able to maintain active lending activities regardless of economic trends, while retaining a competitive credit rating. Danish legislation lays down a minimum capital requirement in order for Nykredit to fulfil its obligations as a lender.

Coupled with a prudent credit policy and sound business operations, the capital policy forms the basis of Nykredit's credit ratings assigned by international credit rating agencies. Nykredit's covered bonds (SDOs) are rated AAA by Standard & Poor's, and in 2012 Nykredit also retained Fitch Ratings as rating agency. Fitch is expected to assign ratings to Nykredit's bonds in 2013.

Nykredit is one of the best capitalised financial companies in Europe, but the new capital requirements oblige us to increase equity considerably in the period until 2019.



# Nykredit in numbers

## Nykredit's investors

Nykredit is the largest mortgage lender in Denmark and one of the largest private bond issuers in Europe.

Nykredit's bond issues consist mainly of covered bonds (ROs and SDOs). In addition to this, Nykredit has issued hybrid capital. Moreover, Nykredit Bank has issued bonds as part of its international funding programme.

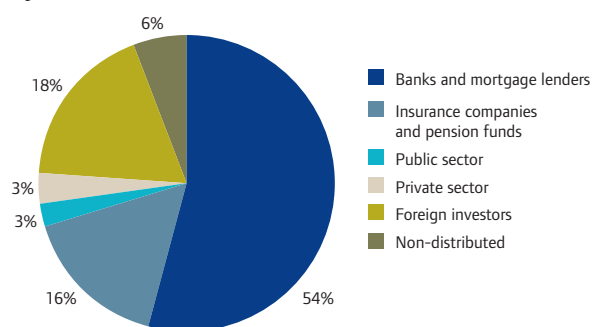
The target is a broad and diversified investor base and an efficient market for the bonds. An efficient market for Nykredit's bonds means favourable interest terms for customers and Nykredit.

Due to the size of the Danish market for bonds funding mortgage loans, the mortgage banking sector is a central element of credit intermediation in Denmark.

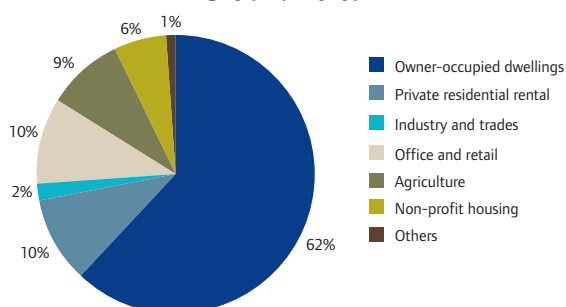
## Nykredit's bonds

At end-2012, Nykredit had issued a nominal amount of DKK 1,283bn of covered bonds. The bulk of Nykredit's issued bonds is applied for financing owner-occupied dwellings. Most of the security underlying Nykredit's bonds falls within 40% of the value of the properties.

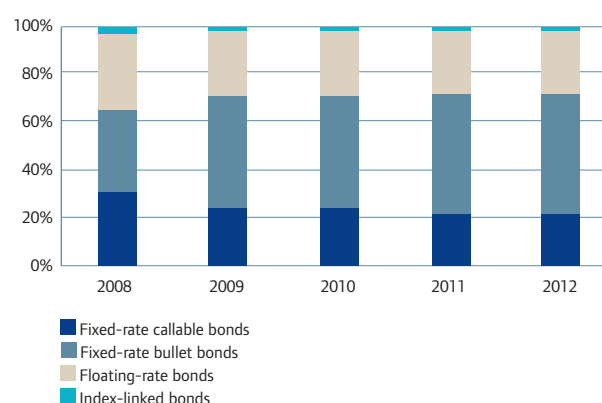
Nykredit's covered bond investors 2012



Bond debt outstanding by property type, end-2012



Distribution by type of covered bond



## Financial highlights

### The Nykredit Realkredit Group Core earnings and results for the year

DKK million	2011	2012
<b>Core income</b>	<b>9,010</b>	<b>8,909</b>
Costs, depreciation and amortisation	5,975	5,534
<b>Core earnings before impairment losses</b>	<b>3,035</b>	<b>3,375</b>
Impairment losses on loans and advances	1,414	2,149
<b>Core earnings after impairment losses</b>	<b>1,621</b>	<b>1,226</b>
Investment portfolio income	179	2,444
<b>Profit before cost of capital</b>	<b>1,800</b>	<b>3,670</b>
Net interest on hybrid capital	(462)	(465)
<b>Profit before tax</b>	<b>1,338</b>	<b>3,205</b>
Tax	223	575
<b>Profit for the year</b>	<b>1.115</b>	<b>2.629</b>
Value adjustment and reclassification of strategic equities against equity totalling <sup>1</sup>	(854)	(237)

<sup>1</sup> Nykredit's portfolio of strategic equities amounted to DKK 1.8bn at end-2012.

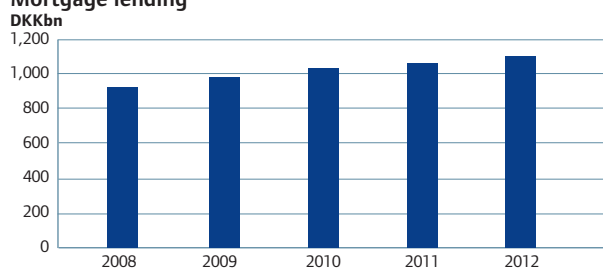
### Loan impairment rates

	2011	2012
Mortgage lending	0.10	0.14
Bank lending	0.42	0.59
Nykredit Realkredit Group	0.12	0.17

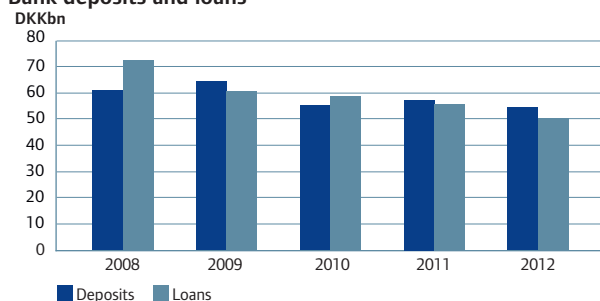
### Financial ratios

	2011	2012
Core earnings before impairment losses as % of average business capital, pa	10.0	10.2
Core earnings after impairment losses as % of average business capital, pa	5.3	3.7
Tier 1 capital ratio, %	17.1	19.1
Total capital ratio, %	17.1	19.1

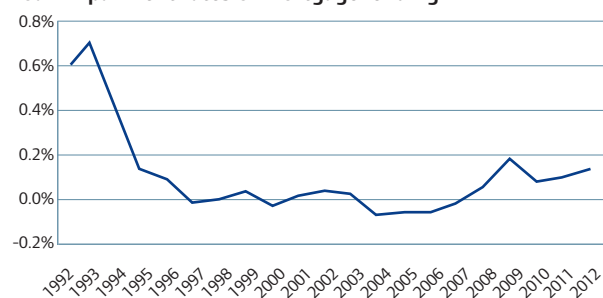
### Mortgage lending



### Bank deposits and loans



### Loan impairment rates of mortgage lending



### Non-financial highlights

	2008	2009	2010	2011	2012	GRI-indicator*
<b>Customers and contact</b>						
Number of Nykredit Realkredit Group customers (1,000)	1,002	1,030	1,051	1,065	1,092	
<b>Customer satisfaction</b>						
Personal customers (EPSI 1-100)	76	77	72	74	73	PR5
Number of complaints <sup>1</sup>	514	588	698	472	478	
Share of customers "highly satisfied" with complaints handling			36%	41%	34%	
<b>Responsible investment</b>						
Number of companies screened <sup>2</sup>	-	1,800	1,800	2,000	2,000	HR1
Number of companies subject to active ownership	-	16	20	22	19	
Number of companies excluded	-	12	11	11	13	
<b>Energy consumption</b>						
Absolute CO <sub>2</sub> emission <sup>3</sup> (t)	13,769	14,013	13,795	12,296	-	
<b>Staff</b>						
Average number of full-time staff <sup>4</sup>	4,037	4,135	4,026	4,139	4,115	LA2
Staff turnover	10.5%	5.8%	7.5%	6.3%	5.7%	
Women in management	-	-	29.5%	29.6%	28.7%	
Job satisfaction (Ennova 1-100)	-	-	75	76	73	
<b>Social initiatives/donations</b>						
Nykredit sponsorships, DKKm	19	15	15	15	16	EC1
Nykredit Foundation donations, DKKm	6.9	6.8	7.7	7.0	5.5	
Voluntary staff in social projects			20	62	74	

\*Areas in which the disclosed data partially or completely comply with GRI requirements. <sup>1</sup>Complaints received by Nykredit's customer ambassador or complaints unit. The data do not include complaints brought before appeals boards and from 2011 do not include complaints handled by Nykredit Forsikring, which was sold to Gjensidige Forsikring in 2010. <sup>2</sup>All companies are screened. <sup>3</sup>Nykredit had a target of reducing the Group's carbon footprint by 10% from 2008 to 2011. <sup>4</sup>Excluding Nykredit Forsikring A/S and JN Data A/S.

# Reporting policies

The contents of this report pertain to all activities of the entire Nykredit Realkredit Group, including subsidiaries. In this report, the Nykredit Realkredit Group is referred to as Nykredit or the Nykredit Group. The reporting policies apply to the data which Nykredit has found significant. As a main rule, the latest data available are applied in this report. The report is included in the audit of the Management's review in the Annual Report 2012. Due to rounding-off, the sum totals of the tables in the report may differ from the actual sums.

## Meet Nykredit

The number of staff is an average for 2012 calculated on the basis of the Group's total ATP (Danish Labour Market Supplementary Pension scheme) contributions for the year relative to the ATP contribution for one full-time staff member.

The figure "Income from business operations" only includes income from customer activity. Core income from business operations is distributed by product.

The total number of customers has been adjusted so that multi-service customers only appear once.

## Nykredit's customers

The market share of mortgage lending as well as bank deposits and bank lending is determined in nominal terms on the basis of the statistics on the balance sheets and flows of the MFI sector (Danish monetary financial institutions) prepared by Danmarks Nationalbank.

The market share of assets under administration is determined on the basis of the official statistics prepared by the Federation of Danish Investment Associations.

The market share in terms of Nykredit's amount of retail investment fund units in custody denotes the share of the total number of retail investment fund units which is in custody with Nykredit Bank (ie, both self-issued units and those of external managers).

Bond trading is calculated on the basis of a 12-month average of the Nykredit Realkredit Group's share of total bond trading (excl repo transactions) measured at market value in the regulated market and OTC (Over-The-Counter).

In the figure "Lending growth in Nykredit", lending data derive from the MFI statistics. The data exclude loans to MFIs, but include reverse transactions.

The share of digital mail issued by Nykredit does not include Totalkredit.

Total customer complaints exclude complaints by customers with the Danish local and regional banks of the Totalkredit partnership and are determined as the number of complaints received in the year under review.

## Nykredit's social responsibility

Corporation tax is calculated as current tax and adjustment of tax assessed for previous years relating to the Foreningen Nykredit Group.

The environmental and climate report includes companies in Denmark wholly owned by Nykredit throughout the financial year. Partially owned subsidiaries and foreign activities are not included, with the exception of JN Data, which has been included on the grounds of materiality at a proportion equal to Nykredit's ownership interest. Transport data exclude JN Data and Nykredit Leasing.

In accordance with Nykredit's policy to reduce our CO2 emission by 10% from 2008 up to and including 2011, data for the baseline year 2008 have been adjusted for changes resulting from acquisitions or divestments during the year. As the duty of reduction also applies to acquisitions, 2008 emissions by acquired assets are added to Nykredit's total emissions for 2008. Thus, Forstædernes Bank is included in data as from 2008. Due to divestment of Nykredit Forsikring, Nykredit Forsikring is no longer part of the dataset.

Resource consumption data also include leased premises. Consumption of electricity is computed on the basis of meter readings.

In calculating CO2 emission, degree-day adjusted CO2 emission from heat consumption is applied, which enables year-on-year comparison.

Heat consumption is determined on the basis of meter readings for Nykredit's own properties. Consumption relating to leased premises is determined on the basis of the statement of heating expenses for the premises and Nykredit's share of consumption (usually in terms of floor area). Heating sources are district heating, natural gas and heating oil.

Air transport is computed on the basis of data from the travel agencies which Nykredit uses. Car transport covers work-related travel by company car (50% work-related driving), taxi or own car. Staff transport to and from work is not included.

The heated area is larger than stated in Nykredit's environmental and climate report for 2010. This is due to the facts that a new main building was brought into use in 2011 and that heated area is now determined according to the B311 standard.

## Nykredit's staff

Part-time staff are determined as the number of permanent staff working less than the number of hours required of a permanent staff member under the group collective agreement.

Inflow and outflow of permanent staff reflect permanent staff joining or leaving the Group's wholly-owned companies. The percentage is determined on the basis of permanent staff at the beginning of the year.

The number of managers in Nykredit is computed as the number of managers having staff responsibility.

#### **Nykredit's ownership structure and capital policy**

PRAS A/S is owned by the regional and local banks of the Totalkredit partnership. The company was formed in connection with Nykredit's acquisition of Totalkredit in 2003.

Nykredit's group chart reflects the organisation as at end-2012.

#### **Nykredit in numbers**

Data on Nykredit's investor base are for the period up to and including November 2012. The category Non-distributed ensures investor confidentiality subject to the following confidentiality requirements:

- The principle of numbers: Portfolio data for a given investor sector must comprise the portfolios of at least three investors.
- The principle of dominance: The portfolio of a given investor must not exceed 90% of the total portfolios of the sector.

The bond debt outstanding by property type is computed at nominal value.

Mortgage lending for calculation of the impairment rates of Nykredit Realkredit and Totalkredit is based on loans and advances at nominal value and arrears and outlays at fair value. Impairment losses are the earnings impact for the year.

Bank lending for calculation of the impairment rate of Nykredit Bank is based on loans and advances at fair value, loans and advances at amortised cost, guarantees excl the government guarantee scheme as well as individual and collective impairment provisions. Impairment losses are the earnings impact for the year excluding the government guarantee scheme.

Nykredit's total mortgage lending reflects year-end statements at nominal value.

Bank deposits and loans are stated at year-end. Bank lending is stated exclusive of guarantees and reverse transactions.

The impairment rate of mortgage lending equals the earnings impact of loan impairments relative to mortgage lending at year-end measured at fair value and before impairment provisions.

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**Nykredit**

