



Nykredit puts customers first. Nykredit was founded by our customers – for our customers. That is how it has been for more than 160 years, and that is how it should be. Nykredit focuses not on short-term gains but on long-term customer relations and value creation – what we call Financial Sustainability

## About Nykredit 2013 CSR Report



**Nykredit**

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# Foreword



Nykredit puts customers first. Nykredit was founded by its customers and is governed by its customers.

Therefore, customer focus must permeate all activities of the Nykredit Group, and our customers and their needs must remain the pivotal point for Nykredit in the period up to 2015. This includes the way we deliver our social responsibility.

As a financial mutual governed by its customers, Nykredit is unique in the Danish financial sector, and our special ownership structure is essential to the way we operate. The object of Foreningen Nykredit is to always be able to provide loans to Danish borrowers – also in times of crisis. We call it Financial Sustainability. And it is a key element of our social responsibility.

Active lending to Danish borrowers requires equity in an amount that meets the requirements of legislation and bond markets. Requirements that will tighten over the next few years, one reason being Nykredit's designation as a systemically important financial institution (SIFI). During the financial crisis, we managed to grow our lending, and we want this development to continue.

Securing loans for our customers in all parts of Denmark is a central part of Nykredit's social responsibility. Thus, our social responsibility goes hand in hand with our business activities, creating a foundation for future growth in Denmark.

Nykredit wants to contribute to society as best we can. Therefore, our CSR projects must reflect our core skills and be directly associated with our business concept.

We must prioritise the CSR initiatives that provide the best value for money. Value to society, customers and Nykredit's staff. We give – and we get something in return. When for instance we advise battered women on their finances, it is

first of all to improve their lives and make their finances more sustainable going forward, but our staff also benefit in the form of learning and motivation.

The homes and home finances of our customers lie at the heart of Nykredit's activities. Customers must perceive Nykredit as an attentive financial partner that caters for their needs in a fast and efficient way, whether face-to-face or digitally.

Nykredit works with legislators to ensure a stable Danish mortgage system going forward. Efforts are made to secure the survival of mortgage lending in the EU as well as to future-proof the Danish mortgage system.

Another way in which Nykredit delivers its social responsibility is by contributing to home energy renovation. We include energy economics in our advisory services and form strategic partnerships with energy providers to make home energy renovation an easy choice for our customers.

"About Nykredit 2013" is Nykredit's CSR report on Financial Sustainability. It supplements our Annual Report and differentiates the picture of a company that is much more than just numbers.

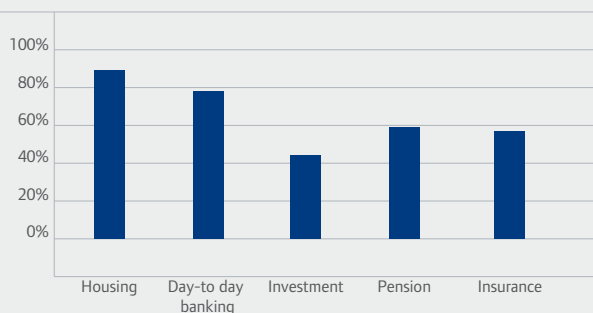
Enjoy the read!

Michael Rasmussen  
Group Chief Executive

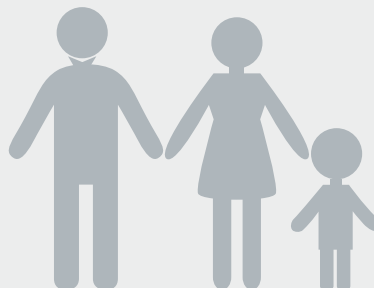
# Meet the customer

What do we talk to our customers about?

## Personal customers



1.1 million customers



- 400,000 personal customers
- 75,000 commercial customers
- 627,000 personal customers under the Totalkredit brand

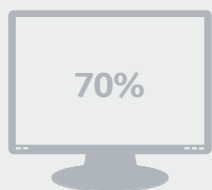
## Commercial customers



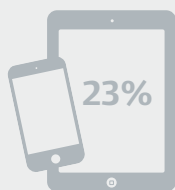
## Customers are online ...

... mainly via online banking

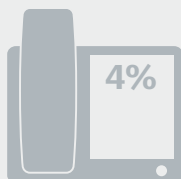
... using their PC in the morning and their iPad in the evening



Online banking



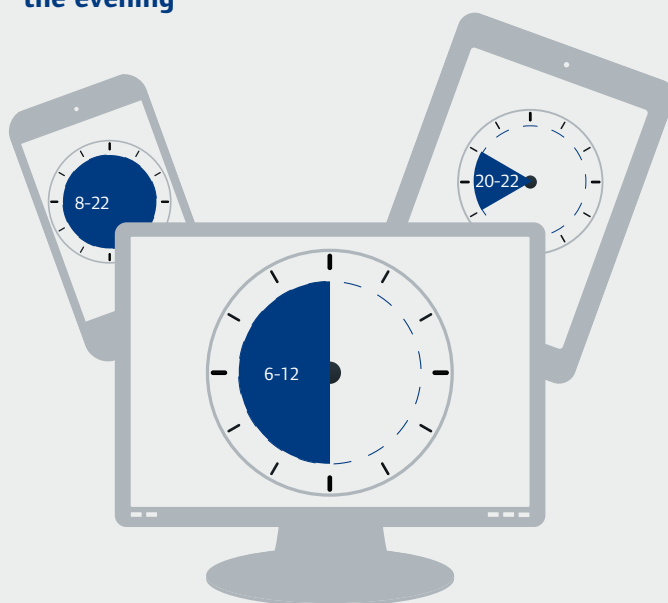
Mobile and tablet banking



Telephone



Letters, e-mails etc



# Meet Nykredit



Nykredit is Denmark's leading lender with banking and mortgage lending as its core business areas. Nykredit is a financial mutual governed by its customers.

Nykredit was founded by our customers – for our customers. That is how it has been for more than 160 years, and that is how it should be.

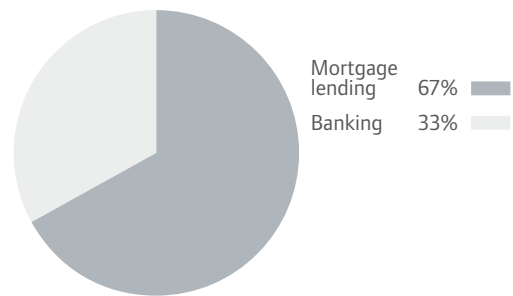
Nykredit's history and ownership structure as a financial mutual set us apart in a number of ways. Rather than looking for short-term gains, Nykredit aims at long-term customer relationships and value creation – what we call Financial Sustainability.

4,052 staff



55 customer centres

Income from business operations



New policies

- Advisory policy
- Stakeholder policy
- CSR policy
- Communications policy
- Tax policy
- Remuneration policy
- Women in management
- Whistleblower scheme

# Customer's universe 2013

Advisory services providing long-term stability and **financial stability**.

Read more on page 10.

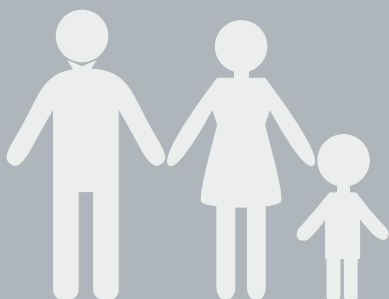
**The digital world** offers new opportunities.

Read more on page 13.

Many ways to fix interest rates. **Loans with a fixed interest rate** for 30, 20, 10, 5 or 3 years.

Loans with a floating interest rate and interest rate cap. For commercial customers also interest rate swaps.

Read more on page 14.



**High customer satisfaction** is evidenced by customer surveys.

Read more on page 15.

**Structural and regional differences** affect customers' need for advice.

Read more on page 19.

**Danish mortgage loan rates** are still low compared with eg Sweden.

Read more on page 16.



# Customers first

## Nykredit, a financial mutual

As a mortgage and banking mutual, Nykredit differs from the vast majority of other large market participants in the Danish financial sector. Foreningen Nykredit (the Nykredit Association) owns 90% of Nykredit. The last 10% is held by Industriens Fond, Foreningen Østifterne and PRAS A/S.

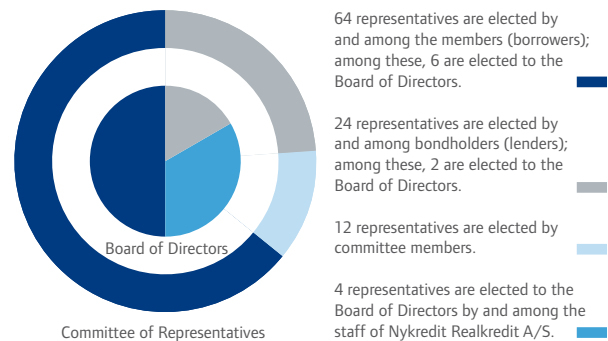
## Customer democracy at Nykredit

The ultimate authority of Foreningen Nykredit is the Committee of Representatives, which is composed of 100 representatives who are elected by and among its 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. 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. This is because Foreningen Nykredit, Nykredit Holding A/S and Nykredit Realkredit A/S have the same objectives and common interests. Members of Foreningen Nykredit are entitled to vote at and run as candidates for elections of representatives in the area where they live or in one of the areas in which they own a property.



## Committee of Representatives and Board of Directors of Foreningen Nykredit



## Foreningen Nykredit

**Object:** The object of Foreningen Nykredit is to be an owner of the Nykredit Group and to ensure Nykredit's ability to carry on financially sustainable mortgage and other financial business at present and in future for the benefit of Nykredit's customers.

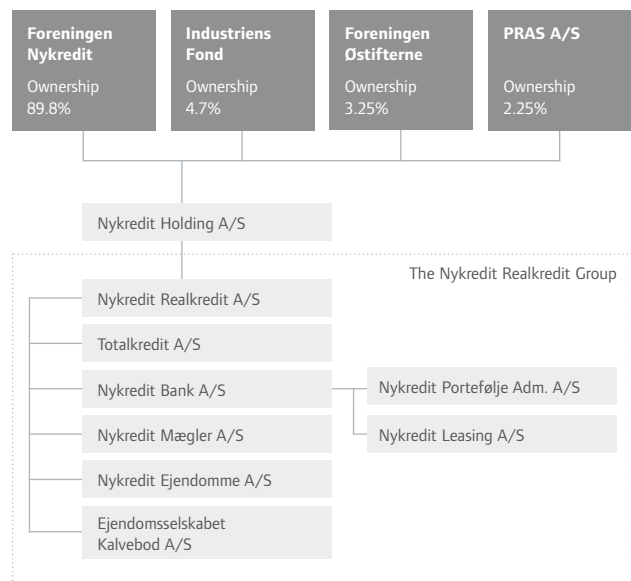
**Members:** All customers who have a mortgage loan with Nykredit Realkredit A/S are members of Foreningen Nykredit. Customers of Nykredit Bank with deposits and/or loans totalling DKK 50,000 or more are also automatically members of Foreningen Nykredit, while customers with Totalkredit mortgage loans have the option of becoming members.

**Influence:** Members who have a mortgage loan with Nykredit Realkredit A/S may influence the election of members for Nykredit's Committee of Representatives and consequently the election of members for the boards of directors of the Nykredit Group. 64 of the 100 representatives are elected by and among the borrowers of Nykredit Realkredit. Nykredit is working to ensure the same level of influence for all members.

**Election procedure:** In order to run for election, candidates must be endorsed by at least 25 other members of Foreningen Nykredit in their electoral districts or by the Board of Directors. The term of election is four years, and the election is announced in the daily newspapers and at nykredit.dk.

**Bondholders:** Bondholders with a bond portfolio in excess of DKK 50,000 are entitled to vote at elections for the Committee of Representatives. Candidates are not registered by electoral district. The term of election is also four years.

## Nykredit's corporate structure



## The business

Nykredit provides a wide range of financial solutions. Personal customers are offered solutions that meet all their financial requirements, as home loans, day-to-day finances, savings and investments are closely connected.

We serve commercial customers of all types, from small sole traders to large conglomerates. We offer our customers loans, credit facilities, online day-to-day banking transactions, cash management (advice on short-term liquidity management and day-to-day book-keeping) as well as cash handling. We also offer more complex solutions, such as currency trading and trade finance (international trade).

We provide tailored solutions to wealth clients based on strategy, risk and wealth management as well as many special benefits.

Nykredit offers specialised asset management (portfolio management) products and administration of investment funds. We also provide leasing to agricultural

customers and for construction equipment, cars and other means of transport.

Nykredit is Denmark's largest lender with a total loan portfolio of DKK 1,144bn. In the past five years, we have grown our lending by DKK 181bn, whereas the rest of the Danish financial sector has reduced lending by DKK 242bn. Lending was up 1% in 2013. Danish economic growth remained low in 2013, and as in 2012 customers tended to increase their savings. This was reflected in their demand for Nykredit's savings concepts and investment products.

Both bank and mortgage lending varied substantially across geographical regions, and activity in and around the largest towns and cities was affected by growing demand for housing, while activity in other areas remained characterised by low demand.

### Advisory services

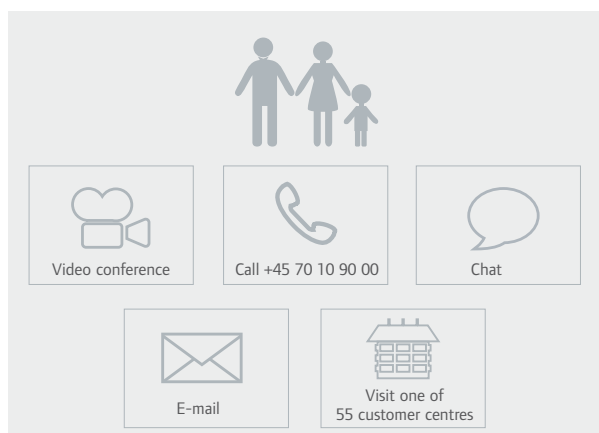
Nykredit wants to offer its customers the best and most competent advice in the market. Under Nykredit Certification, all customer-facing staff undergo a struc-

tured development programme providing them with training that goes beyond the requirements of Danish law. Nykredit Certification aims to ensure that all customers are offered advisory services that match their needs and the complexity of the products. This gives our customers certainty and the best conditions for making the right decisions about eg new home loans, pension plans or more complex finance or investment products.

It has now been more than 18 months since the launch of Nykredit Direkte, Nykredit's nationwide advisory centre. The centre offers customers more comprehensive and flexible advisory services, enabling them to fit their banking business into their busy schedules and ensuring that they receive service of the highest quality every time.

Also, Nykredit has extended its opening hours at weekends so customers have access to advisory services whenever they need them. This way, customers have access to advisory services 70 hours a week.

## Customer's choice



Banking

Mortgage lending

Investment

Pension

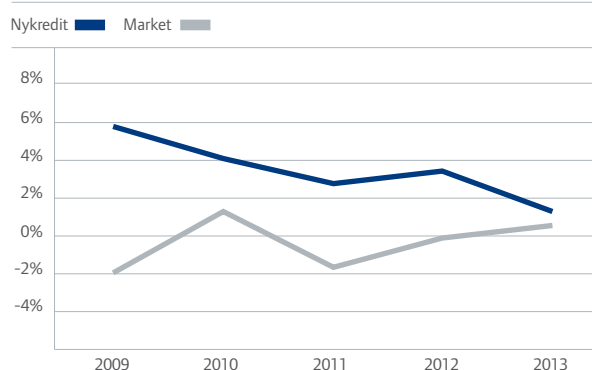
Insurance

## Nykredit's market position in Denmark

	DKKbn	Market share
Total bank and mortgage lending	1,145	31%
- of which bank lending	81	7%
- of which mortgage lending	1,064	43%
Assets under administration	598	40%
Assets under management	117	n/a
Bond trading	n/a	28%

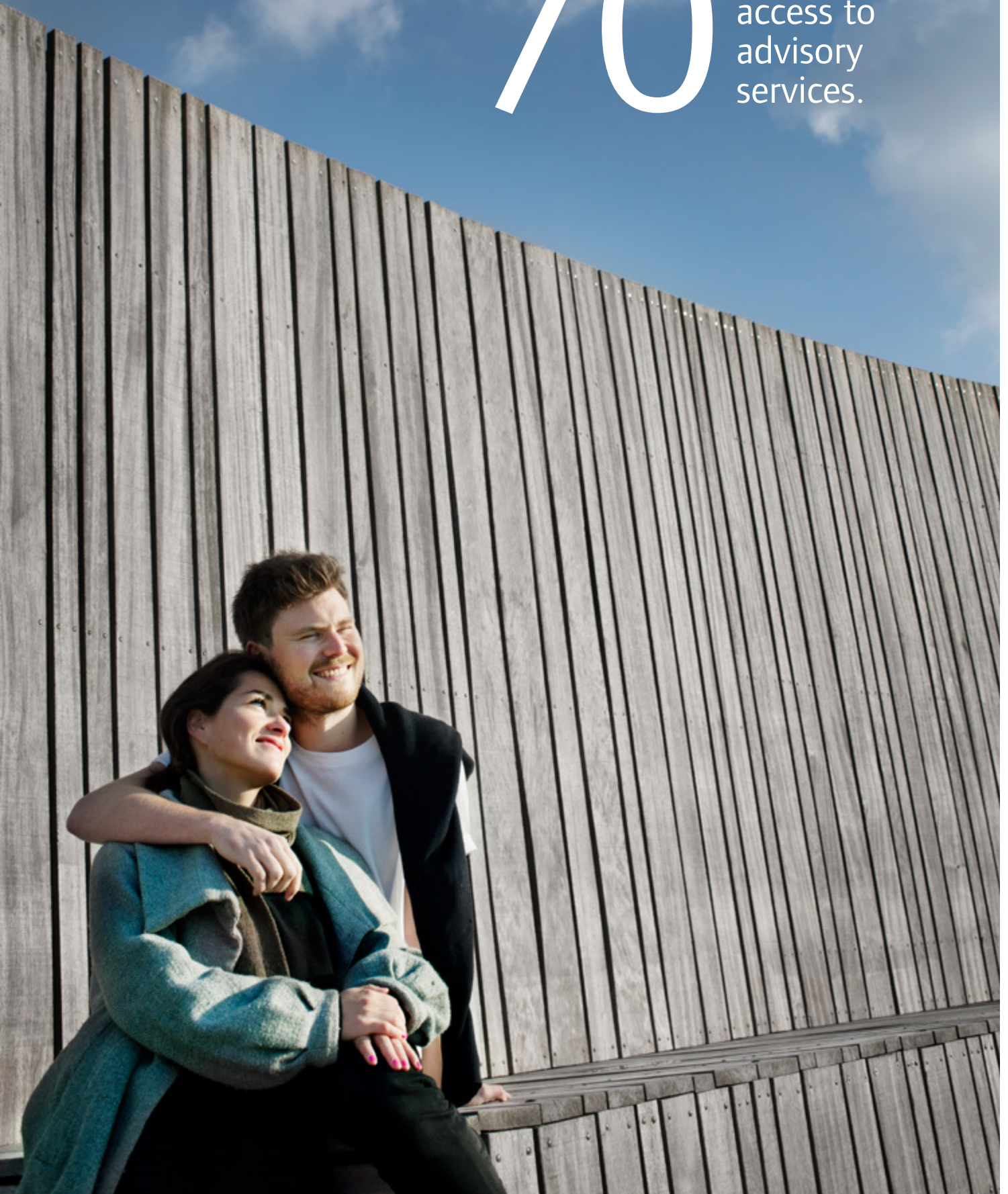
Bank and mortgage lending is determined in nominal terms on the basis of the statistics on the balance sheets and flows of the MFI sector (Danish monetary financial institutions) prepared by Danmarks Nationalbank.

## Lending growth in Nykredit and the market





70 hours a week  
access to  
advisory  
services.



# Advice – interest-only option and financial stability

Interest-only (IO) mortgages were introduced in 2003 as an option for homeowners who wanted to start out with more financial leeway for the purpose of for instance repaying other, expensive debt. IO mortgages soon became popular and today make up more than half of all Danish mortgage loans. IO loans have given Danish homeowners higher flexibility and more options.

### Most borrowers have no problems affording principal payments

Danish legislation restricts the IO period to 10 years, which usually means that after the IO period, customers have 20 years to repay their entire housing debt instead of the original 30 years. This will increase their monthly mortgage payments, but according to customer financial data, most customers have no problems affording the full payments.

Depending on the size of a loan relative to the property value, customers have various options when their IO periods expire.

### Advice

Nykredit will contact the customers whose IO periods are about to expire well

in advance, and we will take a holistic view of the customer's financial situation when offering advice. Our advice aims to ensure financial stability by creating a balance between saving and deleveraging that matches the customer's personal and financial circumstances.

The IO option will have long-term effects on the customer's saving and debt. Good and competent advice is therefore absolutely essential in the process that may lead to an IO loan.

### Principal payments should be a top priority

An IO period offers financial relief here and now, but may reduce financial flexibility in the long term. Should a customer want to change homes, because of for instance unemployment, divorce or a wish to move, they might not be able to buy a new home if the debt in their current home is too high. This problem is most pronounced in the parts of Denmark where housing prices are stagnating.

The value of some properties has declined since the loans were raised, and consequently the loan-to-value ratios (LTVs) may now exceed 80%. In that

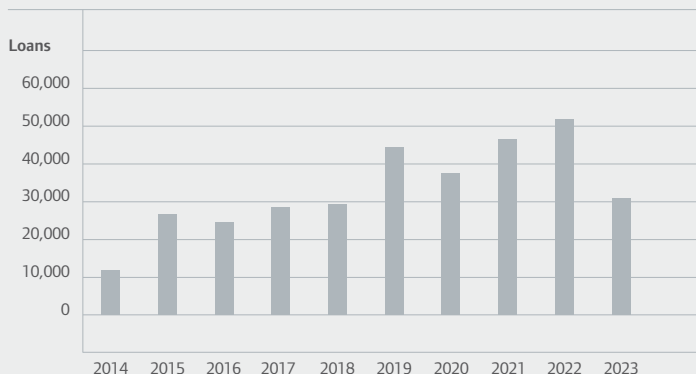


case, the IO option is not available, as Danish legislation does not permit extension of an IO period if the LTV is above 80%.

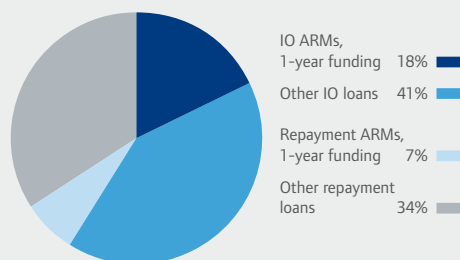
Nykredit therefore recommends customers with LTVs exceeding the LTV limit and customers in areas with low housing turnover to prioritise making principal payments.

Nykredit has completed detailed research of the future financial circumstances of homeowners after expiry of their IO periods. We estimate that about 1% of borrowers may experience financial difficulties once their IO periods expire. In that situation, they will need individual advice, tailored to their overall situation and options.

## Expiry of interest-only period



## Share of interest-only loans, owner-occupied, 2013





In 2013 Nykredit introduced Swipp, which allows customers to transfer money directly from their smartphones to other Swipp users.

### Digital Nykredit

Nykredit has achieved 61% of its target of 90% digital communication by 2015. Digital communication benefits customers, Nykredit and the environment in the form of reduced transport to meetings, less paper consumption, fewer physical letters and easier access to advisory services. In other words, the result is faster and more efficient advisory services for customers and lower costs for Nykredit.

In 2013 Nykredit focused on sending mail digitally and improving the possibilities of sharing documents with customers digitally. The digital signature, NemID, is the cornerstone that provides easy and secure access to documents and self-service. Since most personal customers now use NemID, digitisation is currently mainly aimed at this type of customer.

From 2013, bank statements for personal customers (eg statements of account) were automatically sent to the customers' mailboxes at e-Boks unless otherwise agreed. This means that about 300,000 letters will no longer require paper and postal service.

In 2013, customers were given access to their own documents in Nykredit's digital archive. This way they can find any agreements made online with Nykredit by entering mitNykredit using their NemIDs. Recently, customers have also been authorised to sign agreements using their NemIDs at mitNykredit.

The use of NemID to sign agreements is being introduced gradually. Technical processes and customer experience have been tested on simple agreements, and Nykredit strives to enable digital signing

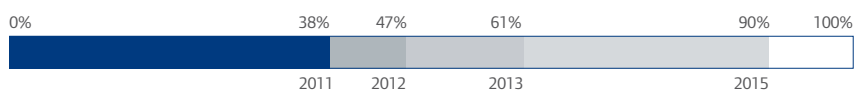
of all agreements with personal customers by the end of 2014.

### We are mindful of our non-digital customers

It is important to us that the digital options are perceived as positive, not only by Nykredit but also by our customers, and are employed in consideration for the customers. We therefore do not digitise without informing our customers, also of the possibility of continuing to receive physical letters.

We also consider the suitability of any information for digitisation, and we except the age groups that might be challenged by the digital media. Of course, these groups may individually opt for the digital solutions.

### The road towards a 90% digital Nykredit



## Overview in a digital world

Digitisation paves the way for new solutions. For instance, the use of text messages allows us to inform our customers sooner. Video conferences and screen sharing enable dialogue between advisers and customers whenever it suits the customer, almost like a physical meeting.

Also in other areas, Nykredit is able to offer our customers a better overview and help to manage their day-to-day finances as well as plan their savings and investments. In 2013 we supplemented our Spending Overview, which offers customers a graphic overview of their spending, with the first version of Housing Overview. More supplementary solutions with other themes and target groups will be launched in 2014.

With the Savings Target feature in our online banking service, we have brought the traditional piggy bank into the digital world and made it easier to save for holidays, major purchases, etc.

## Security is essential

The digital self-service solutions make special demands on security so as to

## Online activity

Number	2012	2013
Hits at nykredit.dk	12,456,171	11,044,411
Online calculations	1,486,527	1,284,424
Video conferences with advisers	27,742	36,138
Downloads of mobile apps	73,550	85,484
Facebook likes	7,573	10,052

prevent hacking or other unauthorised access to customers' accounts.

Security has top priority in the financial sector in general. The sector as a whole acknowledges the fact that in this area we are not competitors but have a shared interest in maintaining maximum security at national level.

Threats are monitored closely, and co-operation across the financial sector involves internal as well as external experts.

Nykredit participates actively in this sector cooperation and complies with the security rules laid down by the Danish Bankers Association for self-service solutions. When Nykredit develops new self-

service solutions, for instance for iPad banking, we always obtain a second opinion from an external consultant before launching them.

As an extra precaution, we conduct annual penetration tests, ie an external expert attempts to hack into our systems.

## Mobile banking is growing fast, but is used in different ways

- 178,000 personal customers use Nykredit's online bank on PC
- A growing proportion also use banking solutions on their smartphone or tablet
- In 2013 the number of users rose by over 70% to 74,000.

## Customer's choice

### 55 customer centres

Personal advice by specialists.

### +45 70 10 90 00

Telephone contact with advisers and Customer Service – seven days a week.

### Virtual contact

Have video conferences or chats with advisers or Customer Service from your PC or iPad.

### Nykredit.dk

Products, advisory services, guides, calculators, blog and much more.

### Online bank – mitNykredit

Accounts summary, advisory services and transactions.

### Mobile apps

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

### iPad

Design your own online bank with spending and investment overviews.



# Digitisation and e-intimacy

"It is not enough that customers serve themselves; then we lose the personal relation that is essential to customer satisfaction. We add personal contact by way of for instance conference or video calls to build the confidence that is so hard to achieve on the digital platform."

Bjørn Bøje Jensen, Head of Nykredit Direkte.



Bjørn Bøje Jensen, Head of Nykredit Direkte.

## Security of digital signatures

Security is paramount to our customers. We therefore always discuss the digital options with our customers on a case-by-case basis, and we generally only send or sign digitally if all documents can be processed together.

Complex agreements are often difficult to understand and conclude without help from an adviser. When introducing digital signatures, we look at how the digital platform may offer customers the same security and overview.

## Security and personal contact in a digital world

The many digital options and access to skilled advisers seven days a week online, by mobile app or by telephone have increased customers' access to Nykredit.

But this also challenges the part of the customer experience which is so important: building a personal relationship of trust between customers and their bank.

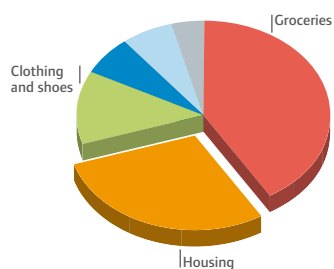
The key word is e-intimacy; that also the digital platforms offer access to personal advisers along with self-service solutions.

Nykredit's e-intimacy efforts have attracted international attention. The EFMA, a European association of financial sector professionals, has awarded a prize to Nykredit Direkte at its Innovations Awards 2013, in the Multichannel and Customer Experience Management category.

## New digital tools

### Spending Overview

Graphic overview of your spending



### Housing Overview

A digital overview of your housing expenses, such as power, water and heating, and the option of calculating the effect of housing investments on your budget.



### Savings Target

A digital piggy bank that makes it easier to save. For instance, track your holiday savings graphically.



# Interest rate hedging

## Historically low interest rates

For the past few years, Danish interest rates have been affected by external factors, most recently the crisis in Southern Europe. Interest rates have been declining since the autumn of 2008 and are now historically low.

## Customers can hedge against interest rate rises

Customers have various home financing options, depending on the risk they are willing to accept, should interest rates rise. In general, the lower the interest rate they opt for, the more sensitive their mortgage payments will be in case of interest rate rises.

The most secure product in terms of interest rate risk is a fixed-rate loan, which is for customers who are willing to pay for knowing their mortgage payments throughout the loan term. In addition, customers with fixed-rate loans benefit from a capital gain if interest rates rise. This capital gain protects customers' home equity in case of declining property prices as a result of rising interest rates. Therefore, fixed-rate loans are also a solution for customers who want to exercise their right of prepayment and remortgage their loans to a higher loan rate but a lower debt outstanding.

A more flexible solution is a capped floating-rate loan. The interest rate is lower than on fixed-rate loans, but customers accept the risk that their interest rate may change, however, only to a predetermined level. Floating-rate loans do not offer capital gains in case of rising interest rates and consequently not the home equity protection offered by fixed-rate loans.

In addition, commercial customers have access to a more flexible solution, offering an attractive interest rate but also involving a higher risk than other loans. This solution is based on an interest rate swap that hedges the interest rate risk of a loan.

## Swap into a fixed interest rate

Interest rate swaps are a flexible product that offers customers the option of fixing their interest rate for as long as they want without converting their floating-rate loans. This is an advantage in case interest rates go up.

Fixed-rate loans are always prepayable at par. That means that the debt outstanding cannot increase as a result of rising bond prices. Customers with fixed-rate swaps do not have this right of prepayment. Where the value of a swap is included as an asset in the customer's



balance sheet, rising interest rates will reduce the debt while declining interest rates will increase the debt.

Interest rate swaps and other interest rate hedging instruments have been used mainly by commercial and agricultural customers and housing cooperatives. Swaps remain a relevant option for commercial customers who need a low fixed interest rate – for instance owners of private rental properties.

## Targeted advisory services

As swaps are a complex financial product, Nykredit has focused advisory services on a narrower target group of professional customers.

## Ways for customers to lock in their interest rates

Fixed-rate bond loan	Capped floating-rate loan	Floating-rate loan with fixed-rate swap
Fixed interest rate throughout loan term	Floating short-term interest rate but capped	Fixed interest rate during swap term
Prepayable at par	Partially pre-payable	Value of contract fluctuates with interest rates and may exceed par
Standard product		Not prepayable
		High flexibility
Personal and Commercial		Commercial

## Bond yields





Pernille Hirshals, Customer ambassador

## Customer satisfaction

Nykredit aims to have the most satisfied customers among key national financial market players, and we track customers' satisfaction with Nykredit on a regular basis.

### Satisfaction with adviser meetings

In 2013 Nykredit introduced surveys of customers' satisfaction with their meetings with advisers, as the meeting is an important point of contact for both the customer and Nykredit.

Satisfaction with meetings is rated 85 on a scale of 0-100 by personal customers and 81 by commercial customers. One in two customers would recommend Nykredit on the basis of these meetings. Nykredit has launched measures to improve customers' experience of the entire process. That will help us to prioritise our efforts to improve customer satisfaction where necessary.

### Customer ambassador

Since 2007, Nykredit has had a customer ambassador. The customer ambassador's objective is to ensure that the complaints of any dissatisfied customers are handled fairly.

Nykredit wants satisfied customers. We therefore encourage dissatisfied customers to contact us. We appreciate complaints; they offer us the opportunity to help the customers as well as to improve our services for the benefit of all customers.

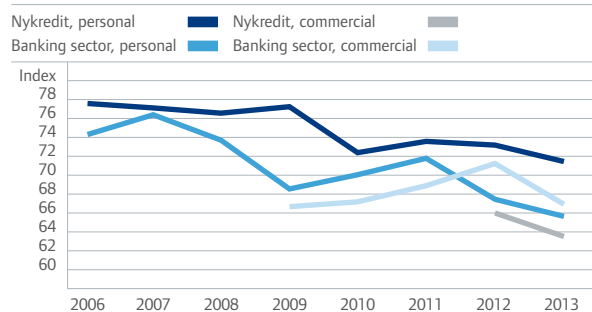
### Complaints are useful

In 2013 451 customers complained. 54% of these complaints were decided entirely or partly in the customer's favour.

In other words, Nykredit admitted that a mistake had been made and corrected it, or realised that case handling, advisory services or other services could have been better. Also, about 10% of the complaints made to the customer ambassador led to specific initiatives or general changes at Nykredit.

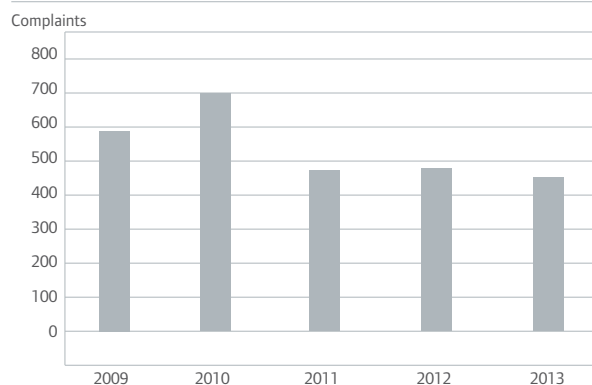
In 2013 51% of our personal customers were satisfied with Nykredit's dissatisfaction handling, but we would like this percentage to rise. We therefore focused on the handling of dissatisfied customers at selected centres in 2013. In 2014 we will continue these efforts, based on the experience gained.

## Customer satisfaction, banking

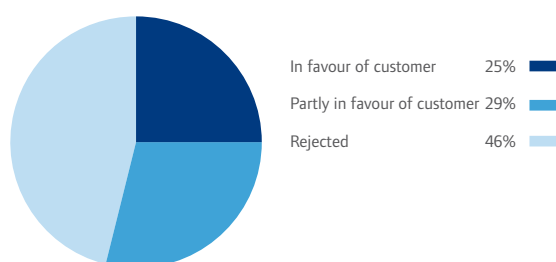


Source: EPSI Danmark

## Development in complaints



## Outcomes of complaints received



# Low prices of Danish mortgage loans

**The administration margin mainly covers**

- Administration costs
- Capacity costs
- Loan losses



**Compared with the rest of the EU, Danish mortgage loans are among the lowest priced.**

For example, Nykredit's highest administration margin on a fully mortgaged property is 0.94%, while the corresponding percentage is about 1.2% in Sweden. A core element of the Danish system is low lending rates based on listed bonds, transparent prices and prepayment terms that make for long-term financial stability. Another is the personal debt liability of borrowers.

Nykredit is thus able to offer loans with relatively low administration margins, as long as a number of criteria are met.

**High rating a necessity**

The highest possible rating is AAA, which is the rating of Nykredit's covered bonds. A high rating is essential to Nykredit, as large investors often can or will invest in low-rated bonds only to a limited extent. The high rating ensures that Nykredit is able to sell its bonds at low yields.

**Equity required for high credit rating and low bond yields**

A high equity level is a precondition for maintaining high credit ratings and low yields on the issued covered bonds. Moreover, Nykredit must set aside large amounts of capital to serve as supplementary collateral behind the bonds. Part of this capital must be raised in the market, so also in this context, a high credit rating is essential.

As a result of the new regulation, Nykredit will have to increase equity in order to be able to maintain our business volumes and lending activities. The cost of increasing equity must be covered by a lower cost:income ratio and higher income.

**After the financial crisis**

Nykredit still has a very small number of customers who are unable to service their mortgage loans. Because of the low interest rates, the financial crisis has not resulted in higher arrears for Nykredit, but nevertheless in larger losses. The reason is that losses on the few properties that have to be sold are considerably larger than usual. Add to this Nykredit's expenses of providing supplementary collateral behind the issued bonds.

The Danish mortgage system enables Nykredit to offer loans at a very low interest rate. Interest margins have increased in Denmark, but considerably less than in Sweden.

Effective interest rate (incl administration margin) of home loans subject to frequent interest rate reset







## Sustainable investment

### Investments benefiting customers, Nykredit and society

Nykredit invested DKK 241bn on behalf of our customers and as part of the management of Nykredit's equity. The funds were placed in shares and bonds issued by about 2,000 individual companies with activities virtually all around the world.

Nykredit is aware of the responsibility following from such investment. The balance between returns and responsible investment rests on Nykredit's business concept of Financial Sustainability.

### Investment subfunds with a special focus

Financial Sustainability is not only an obligation. It also reflects the awareness that common sense makes good business sense. The vast majority of the world's companies that comply with international law differ greatly. Some of them skilfully

incorporate social conditions, environment and corporate governance in their way of conducting business.

Nykredit's surveys show that companies which are operated in a sound and responsible way are generally also sound investments. Investing in such sound companies involves less risk without reducing returns. Nykredit therefore uses systematic sustainability assessments to pick and evaluate the companies in Nykredit's four focus subfunds. A focus subfund is an investment portfolio of usually 25 to 50 shares that applies sustainability as an essential criterion for the choice between investment alternatives. Experience from the past few years shows that this approach benefits our customers and society alike.

Since the summer of 2012, Nykredit has had a corresponding set of guidelines for responsible sovereign debt investment.

Although Nykredit's customers are very diverse, they all expect the companies in which we invest to act in compliance with international law. Consequently we screen the companies in our portfolio for breaches of generally accepted conventions, the Global Compact principles, etc. In case of breach, we first try to convince the company to solve the problem. If the

### Did you know that

- there is no statistical support for the claim that responsible investment generates lower returns?
- according to MSCI, Nykredit's adviser, the largest Danish companies are 32% more sustainable than the largest US companies?
- Nykredit's Global Equities SRI subfund generated a return of 32% in 2013 – outperforming the market – despite the fact that it excludes almost 15% of its investment opportunities, such as manufacturers of alcohol, tobacco, arms, pornography and gambling?

attempt is unsuccessful, the company is excluded. That happened in 2013 to a mining company which, despite promises to the contrary, did not improve its environmental performance.

Read more about our work to ensure sustainable investment in the annual reports of the investment funds and in Nykredit's UN PRI reports at [nykreditinvest.dk](http://nykreditinvest.dk).

### Nykredit adheres to the principles of the UN Global Compact and UN PRI:

**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.

**UN PRI** are 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.

### GRI (Global Reporting Initiative)

is an international network working to promote sustainability reporting around the world.

### Excluded companies at end-2013

A current list of excluded companies is available at [nykredit.dk/omnykredit](http://nykredit.dk/omnykredit).

"It was evident from our initial research that sustainability assessments can help us handle risk and perhaps even seize opportunities. Over the past year we have used the assessments to select and evaluate companies. The result has been portfolios generating better results for the customer, Nykredit and in the long term society."

Morten Gregersen, Head of Global Equities, about his experience of using sustainability assessments to manage focus subfunds.

# Social responsibility

**As the largest Danish credit provider with more than 1.1 million customers, Nykredit's financial strength is of great importance to Danish society. That in itself involves social responsibility.**

In line with our CSR policy, Nykredit strives to contribute to a stable and efficient financial market. As a large workplace and business, we play an important role in society. As a financial mutual governed by our customers, we have a special obligation to show commitment and assume responsibility – also through support and involvement in other areas in Danish society, locally as well as nationally.

Nykredit has a climate and environment strategy according to which we have pledged to contribute to a greener Denmark. We contribute to the development of Danish society by engaging in numer-

ous non-profit activities in the areas of social projects, climate and environment, art, culture, public health, sports, etc.

Nykredit has adopted the UN Global Compact initiative and its 10 principles on human rights, labour standards, environment and anti-corruption. Nykredit also has a socially responsible investment policy and has adopted the UN principles for responsible investment, UN PRI. We report annually on our corporate social responsibility in accordance with the Global Reporting Initiative (GRI) guidelines.

### Dialogue with the world

The dialogue with Nykredit's stakeholders is based on our business concept and stakeholder policy.

We want an open and active dialogue with all relevant stakeholders in order to develop Nykredit's business activities.

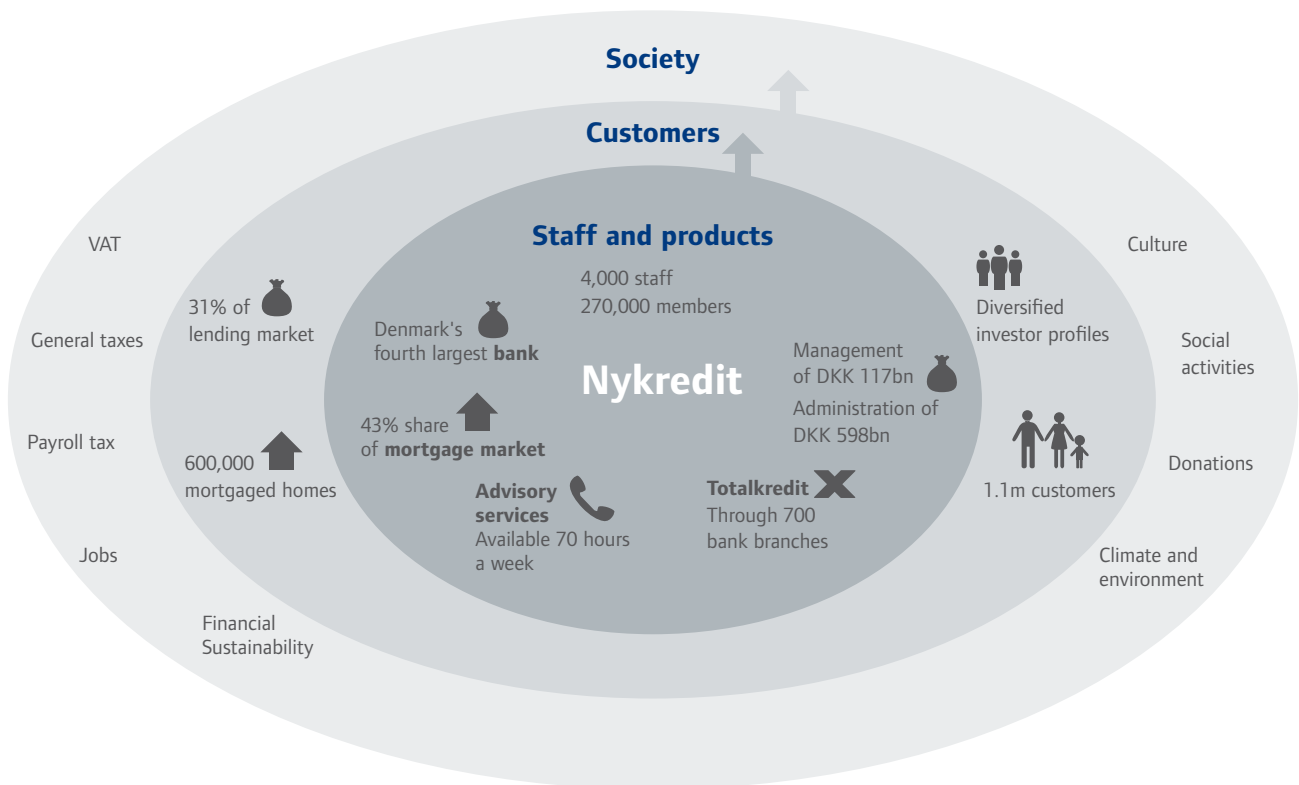
We want to share knowledge of financial issues and the financial services sector through dialogue with our stakeholders. Focus on our stakeholders is vital to our objective of carrying on financial business for the benefit of our customers.

Our policies are available at [nykredit.dk](http://nykredit.dk).

### Contribution to society

Nykredit contributes to society by conducting business in a responsible manner, enabling us to provide loans to individuals and businesses in good times as well as in more challenging times. We also make a direct contribution to society in the form of company tax and other taxes.

Nykredit's corporation and payroll taxes for 2013 totalled DKK 767m.



# Structural differences in the property market



## Regional differences

	Copenhagen	Aarhus	Odense	Aalborg	Rest of Denmark
Net inflow 2012 (no of persons)	3,868	1,536	682	1,156	-7,242

In recent years Denmark has seen differences in population growth which seem to become of a more permanent nature. There is a trend towards increased migration to growth areas around the large towns and cities, and especially Copenhagen. When local jobs disappear, it reduces the economic activity that keeps the peripheral areas alive. The gap between the cities and the rest of the country is becoming more pronounced.

Nykredit's raison d'être is to carry on financial business for the benefit of our customers, including to extend loans. Hence, there are no "dark spots" on the map where Nykredit does not offer loans – we offer mortgage lending and banking services in all parts of Denmark. Also, there is no minimum loan amount.

At the same time, we are obliged to view the business from a long-term perspective. We provide objective advisory services including both credit assessment and property valuation. This means that if a customer wants to buy a property for DKK 1 million which requires renovation for another DKK 1 million, it is not automatically possible to make ends meet if the price level in the area concerned dictates that the property can only be sold for DKK 1.5 million. If that is the case, the customer needs to be financially very robust.

The Nykredit Foundation has donated DKK 1 million for research on development trends in the property market outside the cities. Nykredit supports research that may add knowledge about ongoing structural issues.

HRH Crown Princess Mary



has been set up at several crisis centres for battered women in Denmark in collaboration with LOKK, a national organisation of women's shelters. By the end of 2013, counselling had been established at 14 crisis centres.

The counselling team consists of social workers from Mødrehjælpen/the crisis centre, volunteer lawyers and volunteer financial mentors from Nykredit. Nykredit adapts its counselling efforts to the needs of the individual. The approach is help to self-help, and the objective is to provide the women with a better overview of their finances through financial mentoring and enable them to manage their own finances in liaison with their own bank. So far, over 1,800 women have received counselling from Mødrehjælpen and at the crisis centres.

The project is funded by Nykredit and Østifterne.

#### **Nyt Netværk**

In a partnership with Hellerup Language School, Nykredit has since 2011 arranged

a mentorship scheme – Nyt Netværk (New Network) – aimed at non-ethnic Danes learning Danish at the language school. The mentorship period is typically four months, and the goal is to bring the mentees closer to the Danish labour market so that they can get a job.

The project aims to help the mentees expand their personal networks and provide guidance about Danish society, including the labour market and workplace culture. Nykredit is facilitating the project, and Nykredit staff members work as voluntary mentors.

The mentees get an opportunity to expand their personal networks and become better equipped socially, professionally and culturally and to meet the challenges in the Danish labour market.

#### **Økonomisk Overblik**

In cooperation with Soldaterlegatet (The Soldiers' Grant), KFUM Soldiers Mission and Veterans Home, Copenhagen, Nykredit launched a pilot project in 2013, Økonomisk Overblik (Financial Overview)

### **Social initiatives**

Nykredit has a number of partnerships where Nykredit's staff, on a voluntary basis, offer their professional skills in contexts that stretch beyond their daily work. They are social activities such as Råd til Livet, Nyt Netværk and Økonomisk Overblik. Nykredit supports and facilitates the projects, and Nykredit staff members make available their professional and personal knowledge and experience.

#### **Råd til Livet**

This project offers free and independent advice on social, financial and legal matters to battered and other vulnerable women. The project was initiated in 2009 as a partnership between the Mary Foundation, Mødrehjælpen (Mothers Help) and Nykredit. Since then the project has been expanded, and similar counselling



# 10,000

participated in Nykredit Copenhagen Marathon

offering independent financial advice to previously deployed soldiers who have lost their financial bearings due to personal problems. The counsellors are volunteer Nykredit staff members who make available their professional skills. The counselling takes place at the soldiers homes in Holstebro and Hvorup and at the Veterans Home in Copenhagen.

## Sponsorships

Sponsoring agreements with institutions of arts, culture and sports as well as educational establishments are a natural part of Nykredit's societal involvement. The sponsorships Nykredit enters into thus also aim to attract the general public and support the development for the benefit of society, for instance in the form of culture or sports. The sponsorships also strengthen and expand relations with important target groups.

In 2013 Nykredit spent about DKK 13m on sponsorships, of which the main ones were:

- ARoS, Aarhus Art Museum
- Copenhagen Business School, Premium Career Partner
- The Royal Danish Theatre, main sponsor
- Nykredit Aarhus City Halvmarathon, main sponsor
- Nykredit Copenhagen Marathon, main sponsor
- Vorespuls.dk, partnership agreement with the Danish Gymnastics and Sports Associations (DGI)
- Aarhus Symposium

## Marathon and half marathon

For the fourth year in a row, Nykredit was the main sponsor of the Nykredit Copenhagen Marathon with more than 10,000 runners at the starting line at Islands Brygge in Copenhagen.

Nykredit was also the main sponsor of the Nykredit Aarhus City Halvmarathon with more than 9,500 participants, including 300 customers and staff members.

## 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 sponsorship is part of Nykredit's efforts to make a difference in the field of physical activity, and 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, current events, and subscribe to newsletters about running, cycling, mountain biking, swimming, kayaking and a healthy lifestyle in general.



**The winner of Nykredit's Research Prize 2013:** "It is an important gesture of recognition from a large player in the sector. It is also a pat on the back for the Center for Financial Frictions, which I am heading. I know that the panel attaches importance to the research being relevant and having something to say about the financial crisis. This gesture of recognition means a great deal to us."

David Lando, Professor, CBS



### The Nykredit Foundation

The Nykredit Foundation awarded about DKK 7.4m in 2013, of which DKK 1.3m for Nykredit's prizes and DKK 5.7m for donations to 62 different projects. The Foundation was established back in 1985 after a merger of Forenede Kreditforeningers Fond and Jyllands Kreditforenings Fond, and after the formation of Nykredit. The Foundation is managed by Nykredit Realkredit A/S and has a capital of DKK 100m.

The Nykredit Foundation awards two architecture prizes – the Architecture Prize and the Motivation Prize – and a research prize.

### Nykredit's Architecture Prize and Motivation Prize 2013

The Architecture Prize of DKK 500,000 was in 2013 awarded to Jan Gehl Architects, represented by Helle Søholt, David Sim and Jan Gehl, partners. Gehl Architects's expertise builds on years of research on the interrelation between the physical environment and human well-being. The prize was awarded to the firm of architects for its many years of work to promote urban development focusing on human well-being.

The Motivation Prize of DKK 100,000 was awarded to the architectural firm EFFEKT, represented by Sinus Lynge and Tue Hesselberg Foged, partners. The firm's projects are original and carefully designed and are based on the users' need for security, well-being, homeliness, recognisability and an informal atmosphere.

### Nykredit's Research Prize 2013

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. The Prize consists of three merit awards – a research prize for a senior researcher and two research talent prizes for young, talented researchers.

The Research Prize 2013 of DKK 500,000 was awarded to Professor David Lando, CBS, for his comprehensive and groundbreaking research in financing and credit risk.

Assistant Professor of Leadership & Sustainability Robert Strand, CBS, was awarded the Research Talent Prize 2013 of DKK 100,000 for his research into businesses' CSR organisation and ac-

countability. Lastly, Associate Professor Tanja Jørgensen was awarded the Talent Prize 2013 of DKK 100,000 for her research in consumer credit with focus on the financial motives and incentives of the rules of law.

### Donations

The Nykredit Foundation donates a total of DKK 4m-8m every year. The Foundation mainly supports initiatives with specific and definable contents

- in the Danish business sector – especially related to the construction sector
- research (construction, finance, CSR, HR) or cultural purposes
- conservation of landscape, buildings and architecture
- innovative, voluntary, social or humanitarian work
- non-profit projects, mainly related to the construction sector
- publishing of books on art or architecture.

Generally, the projects must have an association with Nykredit's activities.

One example of the Foundation's donations in 2013 is a donation of DKK 1m for research-based analysis of property market trends outside large towns and cities. The purpose of this project is to facilitate the mapping of differences across the Danish housing market.

The full list of projects that have received donations is available at [nykredit.dk](http://nykredit.dk).



Photo from the award ceremony at Nykredit: From the left, Nina Smith, Professor and Deputy Chairman of the Board of Directors, Robert Strand, Assistant Professor, David Lando, Professor, Morten Østergaard, Minister for Science, Innovation and Higher Education, Tanja Jørgensen, Associate Professor, Ph.D, and Steen E. Christensen, Chairman of the Nykredit Foundation.



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

	2012	2013
<b>Resource consumption</b>		
<b>Total energy consumption, MWh</b>	<b>30,149</b>	<b>29,167</b>
- of which electricity	16,054	16,320
- of which heating	14,094	12,847
<b>Water, m<sup>3</sup></b>	<b>49,388</b>	<b>41,291</b>
<b>Transport, 1,000 km</b>	<b>19,168</b>	<b>17,776</b>
- of which company cars/cars under gross salary contracts	927	730
- of which by aircraft	9,120	8,820
- of which by train	2,170	2,138
- of which by own car	6,427	5,790
- of which by taxi	525	298
<b>Total CO<sub>2</sub> emission, t</b>	<b>10,821</b>	<b>9,511</b>
<b>Direct CO<sub>2</sub> emission</b>	<b>308</b>	<b>280</b>
- of which company cars/cars under gross salary contracts	143	119
- of which heating – oil and gas	165	160
<b>Indirect CO<sub>2</sub> emission</b>	<b>8,131</b>	<b>7,029</b>
- of which electricity	6,609	5,565
- of which heating from CHP plants	1,522	1,464
<b>Other indirect CO<sub>2</sub> emission</b>	<b>2,382</b>	<b>2,202</b>
- of which by aircraft	1,191	1,135
- of which by train	52	68
- of which by own car	1,060	955
- of which by taxi	78	44
<b>Key figures</b>		
Heating per sqm, kWh	94	86
CO <sub>2</sub> emission per full-time staff, t	2.54	2.40
Heated area, sqm	146,784	149,821
Full-time staff at 30 September	4,100	3,960

### Environment and climate

In 2013 Nykredit launched its climate strategy up to 2020 with climate and environment improvements both in relation to our customers and internally in the organisation. The customer-centric focus has been a key element and as a result of this, Nykredit's advisory services now incorporate climate and environment considerations and offer customers an energy check.

#### Energy advice

As a consequence of the general focus on climate and environment issues in society, including the Danish government's Growth Plan DK presented in 2012, we expect increasing focus on the energy performance standards of dwellings, which is already being observed in connection with home sales. This may affect a number of Nykredit's customers, and

we have therefore made an effort in 2013 to strengthen customer advisory services and provide training to our customer advisers on the key issues of energy economics.

As part of this work, Nykredit formed a partnership with DONG Energy in the autumn of 2013 on offering energy renovation advice, with Nykredit providing financial advice and DONG Energy being in charge of technical energy advice.

#### Energy check provides clarity

The energy check is carried out by an energy consultant from the energy company. The energy consultant reviews the dwelling and draws up a report that describes the customer's current energy consumption and the savings that could be achieved through energy renovation. The energy check report also provides

estimates of prices for any energy improvements and repayment periods for the main measures. This report combined with Nykredit's advice constitutes a good basis for deciding what energy improvements to invest in.

Nykredit's work of incorporating energy aspects into its advisory services supports the processes in society aimed at promoting energy savings among private homeowners. The initiative is attuned to the home energy efficiency scheme of the Danish Energy Agency ("Bedre Bolig – Besparelsen betaler"), to which Nykredit has also contributed financial expertise in the field of mortgage banking. The scheme was approved by the Danish parliament in December.

For more information on the energy check, see [nykredit.dk](http://nykredit.dk).



Bent Stubkjær, director and founder of Best Energy, which chose Nykredit as their financing partner for a wind turbine project in Nollund.

Photograph by David Bering/Montgomery



### Wind turbine financing

Nykredit has for the past two years focused on wind turbine financing for customers. Wind turbines are now regarded as real property, which enables mortgage financing.

Nykredit focuses on financing of relatively large and new wind turbines on Danish soil, both onshore and offshore.

#### Customer advantages

- Financing in the form of mortgage and bank loans up to 80%
- Opportunity for more customers to invest in wind turbines
- Increased earnings potential for farmers and others
- Attractive investment object in great demand among pension funds and others
- Profitability
- Active participation in CO<sub>2</sub> reduction.

For Nykredit, this option is aligned with our business concept, Financial Sustainability, of sustainable investments and financing. At the same time it conforms to our climate strategy.

### Internal measures

In 2013 a process was set up under which a quarterly ranking of locations by energy consumption per sqm is per-

formed. On that basis, we can identify the locations where the energy efficiency measures have the largest impact.

#### Other projects include

- Solar cells on own buildings – three new solar power systems have been established in Aalborg, Kolding and Randers.
- Behaviour campaigns – by caring on a day-to-day basis we can make a difference. We have launched the campaign Healthy Green Habits.
- Eco-friendly purchasing – Nykredit has been awarded member of the year of a corporate network under Ecolabelling Denmark.

The projects are part of the effort to reach the target of reducing Nykredit's own carbon footprint by 65% from 2012 to 2020.

### Path towards 65% reduction of CO<sub>2</sub> emission





# Staff

"In my view, a democratic and modern society is one which allows for heterogeneity and where diversity is considered a strength. This diversity should also be mirrored at the workplace. Everybody should be able to unfold their full work potential."

Manu Sareen, Danish Minister for Gender Equality, at the conference "LGBT in the workplace".

**Nykredit's 4,000 staff play a key role. Diversity characterises the staff, job profiles and focus areas, but all staff have a shared customer focus.**

One of Nykredit's objectives is to be among the most attractive and challenging workplaces in Denmark. This objective requires dedicated work and is a precondition for delivery of the group strategy.

Job satisfaction – including physical and psychological work conditions – is important to staff efficiency and optimal use of resources. Twice a year, a staff satisfaction survey is carried out, benchmarking Nykredit's results against those of the financial sector and the general labour market.

The 2013 survey showed growing job satisfaction at Nykredit.

## Performance culture

For many years Nykredit has been engaged in creating a performance culture where the Group's strategic objectives are translated into individual staff goals. Performance orientation is crucial to Nykredit's strength and implementation of the Group's strategic priorities, as all staff members know which way to go, and they know the goals of their own units and of Nykredit. Performance orientation sets a clear framework for structured staff development and provides each staff member with the security of knowing what is expected of them.

Nykredit's management team will lead the way and be role models with respect to the values and principles that should characterise Nykredit. In 2013 managers in customer-facing units were trained in execution and business management as well as optimisation of customer services, work planning and team building. The training programme enables Nykredit's managers to manage robust and efficient units with focus on ensuring high quality standards, meeting customer expectations and implementing new initiatives efficiently.

## Diversity

Nykredit widely supports staff diversity in age, gender, sexual orientation, ethnicity and disability. We believe that a diverse staff, reflecting who our customers are, strengthens the business and fosters a good and innovative working environment.

In 2013 Nykredit intensified these efforts by identifying barriers and options in relation to minority ethnic staff recruitment. This process will be continued in 2014 so that Nykredit will be able to attract the most talented people, regardless of ethnicity.

For a number of years, Nykredit has worked on building an environment where staff members can be comfortable talking about their sexual orientation, if they wish. According to research made, staff who are open about their sexual orientation have higher job satisfac-



Bente Overgaard, Group Managing Director, and Manu Sareen, Danish Minister for Gender Equality.

tion and are more productive. In 2013 Nykredit hosted a conference under the heading "LGBT in the workplace", at which business executives were invited to share their experience and discuss the possibilities from a political, international and corporate perspective. The high attendance at the conference underscores how important it is to address the issue and to keep raising awareness of the area in order to create an open and tolerant corporate culture to the benefit of the individual staff members and companies.

## Flexitime jobs

In 2013 Nykredit participated in a project, Flexpilot, together with the Danish Ministry of Employment and the Business Forum for Social Responsibility (VFSR). The object was to test the possibilities of and barriers to offering flexitime jobs with 12 weekly working hours or less based on the new legislation in the area and to test the collaboration between the businesses and the job centres.

## Women in management

Since 1996 Nykredit has focused on more women in management and has made an active contribution under the "Charter for more women in management" and "Operation Chain Reaction". Nykredit has set targets for the percentage of women on the boards of directors of Nykredit's financial companies and has developed a policy to raise the percentage of women at other management levels.

In recent years Nykredit has recruited more female managers at the lower management levels. There is still room for improvement at the higher management levels and in some career paths.

Nykredit has a structured programme to recruit more women for the top management level. The programme identifies and develops management talents at Nykredit, creating a pipeline of staff ready for their first managerial job as well as experienced management staff at executive level. The programme includes objective assessments supporting the identification of management talents with potential for the next rung on the career ladder – regardless of gender. Nykredit's policy for women in management and

other information on Nykredit's efforts in this respect are available at [nykredit.dk](http://nykredit.dk).

## Certification and training of Nykredit advisers

In 2011 new rules were introduced requiring financial companies to ensure and prove that advisers have the necessary skills to advise customers on investment products and financial instruments.

Public certification comprises all staff advising customers on investment products in various risk categories. All advisers working with risk products must pass an external certification test approved by the Danish Financial Supervisory Authority.

Nykredit regularly completes internal certification of customer-facing staff, Nykredit Certification. Nykredit Certification goes beyond the public certification programme. Public certification within investments exclusively concerns advising on the purchase or sale of investment products, whereas Nykredit Certification includes different fields such as day-to-day finances, pension and home financing.

Nykredit's compulsory training programme ensures that advisers have a high expertise and that such expertise is translated into sound advice. Over time, all customer-facing advisers will become certified by Nykredit.



## Target for female board representation

	Today	Target 2016
Nykredit Holding	17%	20%
Nykredit Realkredit	20%	25%
Nykredit Bank	20%	20%
Totalkredit	14%	20%

## Percentage of female managers

%	1996	2010	2011	2012	2013	Target 2015
Executive-level management	3	9	10	10	11	15
Middle-level management	14	25	24	21	22	30
Lower-level management		42	41	43	45	45

**13** Graduates participate in an accelerated career programme.



### Training of advisers and customer support officers

All commercial and personal customer advisers must possess the skills required to genuinely understand their customers' wishes and needs. Nykredit has introduced a Key Account Management training programme for this purpose. The programme focuses on forming close customer relationships and on the key account manager role for both personal and commercial customers. The programme is designed to improve customers' experience with Nykredit, with a resulting positive impact on customer satisfaction.

All Nykredit's customer support officers have also participated in extensive training to ensure a smooth and efficient administrative experience for customers.

### Relationship with NYKREDS

Nykredit has a good relationship with NYKREDS, its staff association, and Nykredit appreciates that NYKREDS seeks influence and works to ensure that staff conditions are considered in the day-to-

day operations and the continuous group development. Interaction takes place at many levels: between the individual supervisor and union representative, in the local and central works councils and health and safety committees, as well as in a number of ad hoc working groups.

In order to support the objective of being an attractive and challenging workplace, Nykredit has prepared a staff policy, which is being implemented through the local works councils in dialogue with NYKREDS. In spring 2014 Nykredit will be negotiating a new collective agreement with NYKREDS.

### Responsible remuneration

Remuneration must be structured and controlled and based on uniform principles for variable remuneration across the organisation and job structures. Further, Nykredit focuses on incentive schemes which ensure a reasoned basis for all decisions made and advice given.

### Nykredit Health

Nykredit is focusing on health in general, as healthy staff members have higher job satisfaction, lower sick absence rates and create a good social environment. The annual staff health check offer, which in 2013 was accepted by 1,976

Nykredit staff, forms part of a large package of health offers, including sports and exercise via Nykredit sponsorships. The Nykredit Health App was launched recently. The app is designed to help motivate staff members to focus on healthy living and food habits.

### Nykredit Graduate and Nykredit Thesis

Knowledge is the raw material that ensures innovative product solutions, professional advice and continuous development for the benefit of Nykredit and our customers. Nykredit Graduate was launched in 2013 in order to recruit the top talents among the most skilled and ambitious newly graduated candidates. Nykredit Graduate offers the best economics graduates an accelerated career programme at Nykredit with a sharp focus on talent development and management. We have employed 13 graduates, and the Nykredit Graduate programme will be offered again in 2014.

In 2013 Nykredit also introduced a new thesis concept, Nykredit Thesis. The Nykredit Thesis bridges studies and business aspects, providing Nykredit with new knowledge and thesis writers with a practical approach.

### Staff figures

	2009	2010	2011	2012	2013
Permanent staff, year-end	4,061	3,826	4,057	3,865	3,855
- of which part-time staff	490	479	495	425	407
Staff paid by the hour	601	665	651	641	642
New staff	214	197	348	160	209
Outflow	220	287	303	218	274
New staff as % of permanent staff	6.1	4.9	8.6	4.1	5.4
Outflow as % of permanent staff	6.2	7.1	7.5	5.6	7.1

## Nykredit and elite-level sports

For a number of years, Nykredit has offered flexible employment contracts for elite athletes. The athletes are employed as advisers with flexible working hours, which allows them to develop their personal and professional skills alongside their sports careers. The job gives the athletes a robust foundation and a career to fall back on when their sports careers are over.

### **Morten Jørgensen, rowing, lightweight men's four**

28, Personal Customer Adviser, Nykredit Direkte.

#### **Results, extract:**

Gold: 2008 Olympic Games, 2013 European and World Rowing Championships  
Silver: 2009 World Rowing Championships  
Bronze: 2012 Olympic Games

"To me, working at Nykredit is quite liberating. It channels my thoughts to other things besides my rowing, which I believe is very healthy. It means a lot to me that Nykredit is willing to offer me the flexibility I need for my rowing, allowing me to pursue the sports performance I am so passionate about. When I am at work, I give it 100% and I use a lot of what I have learned rowing the "golden four" in my daily work.

This means that my Nykredit colleagues have a team member who is focused on achieving the set targets. Some of my colleagues also admire the way I plan my days, as I have a very tight schedule. I don't think that my being a rower matters to the customers, but my general approach probably does. My communication, interpersonal, assertion and negotiation skills."



Morten Jørgensen (right) and the Danish "golden four" at the 2013 World Championships. Photograph by Brian Martin Rasmussen

### **Anne Lolk Thomsen, rowing, lightweight double sculls**

30, Customer Consultant, Nykredit Service Centre, currently on maternity leave.

#### **Results, extract:**

Gold: 2006, 2007, 2008 and 2009 Marathon K2 World Kayak Championships (Anne changed from kayaking in 2009)  
Fourth place: 2012 Olympic Games

"Nykredit has offered me the best possible setting for combining a career with elite-level sports. Nykredit has provided a breathing space as well as a different kind of stimulation, and I have had the time to focus 100% on my rowing when I needed to.

The team I work with at the Service Centre is completely on board with my working part-time. I am still very much part of the team – I also need to fulfil my targets and assist the team in fulfilling our overall goal. In some periods I work less, and customers may have to change consultants, but when I explain my absence, I always get positive feedback."

Anne Lolk Thomsen (right) in the lightweight double sculls. Photograph by Brian Martin Rasmussen



### **Lars Vilandt, curling**

39, Customer Consultant, Nykredit Service Centre.

#### **Results, extract:**

Silver: 2010 European Curling Championships (coaching)  
Bronze: 2007 and 2011 European Curling Championships  
Fourth place: 2013 World Curling Championships, 2012 and 2013 European Curling Championships  
9 x Danish Champion

"To me, it is important to get backup from my family as well as from my employer. I feel that I get that from Nykredit. It has been good to be able to turn in my season schedule and work part-time in order to practise for the 2014 Winter Olympics without a guilty conscience. My supervisors as well as my colleagues have told me that they find my project exciting and support me all the way.

Nykredit customers meet an adviser who is focused and sympathetic, and that opens up for good dialogue. My colleagues have a colleague who is competitive but also a team player."

Lars Vilandt, Danish national curling team. Photograph from ol.dk: Lars Møller/www.larsmoeller.com

# 6

elite athletes are employed by Nykredit on special contracts



# Lending growth and earnings

## **We want an active lending business**

It is important that Nykredit has a strong capital position so that we can provide our customers with loans – also in times of crisis. In the past five years, we have grown our lending by DKK 181bn, whereas the rest of the Danish financial sector has reduced lending by DKK 242bn. This would not have been possible without our high equity level.

## **Rising capital requirements**

In these years, regulators in both the EU and Denmark are laying down a multitude of new rules which are in part intended to prevent a new financial crisis. In spring 2013 an agreement was made to increase capital and liquidity requirements for all credit institutions in the EU. All banks and mortgage lenders must have more capital – capital requirements will largely double and a greater part of total capital requirements must be met by means of equity.

Nykredit expects to be designated as a systemically important financial institution (SIFI) in Denmark, and one of the consequences will be an elevated equity requirement.

## **Low bond yields necessitate a high credit rating, investor confidence and high capitalisation**

A high equity level is crucial to obtaining a good credit rating of Nykredit's mortgage covered bonds, which is of great importance to the price of the bonds funding a mortgage loan. A high equity level ensures that investors will pay a higher price for the bonds, which ultimately means better terms for our customers.

## **Need for higher earnings**

Higher lending requires more capital, all other things being equal. With its current return on equity, Nykredit does not earn enough to be able to increase lending in response to continued market growth. A higher equity level may be secured through higher earnings. Therefore, Nykredit must increase earnings in order to be able to provide customers with loans on favourable terms also in future.

The political agreement on SIFIs allows mutual mortgage lenders to issue shares without any voting rights. However, this possibility does not curb the pressure on earnings, as shares without voting rights require a higher return on equity.

## **Nykredit 2015**

This need for higher earnings has prompted Nykredit to work on a new business strategy, "Nykredit 2015", the purpose of which is to grow income by DKK 1bn and trim costs by DKK 0.5bn.

Based on its capital policy supplemented with initiatives to raise earnings and reduce costs, Nykredit will be able to produce a stable and sustainable basis for future lending to Danish personal and commercial customers. As a SIFI and a responsible company, Nykredit will continue to operate with a conservative capital structure, ensuring high credit ratings.

## **SIFI**

A SIFI is a financial institution which is so large and complex that its disorderly default would inflict significant damage on the financial system and the economy at large.





Jesper Rangvid, Professor of Finance,  
Copenhagen Business School.



### Equity buffers are necessary

Regulatory capital requirements do not contain fixed percentages; these change with the macroeconomic climate and concurrently with the sector development.

We will introduce two buffers in Nykredit's capital policy to ensure that Nykredit has the capital it needs in the future:

- A growth buffer for active lending to ensure that Nykredit is always able to match customer demand also when it grows.
- A buffer for regulatory changes, as the new EU rules authorise regulators to change the capital requirements when deemed necessary.

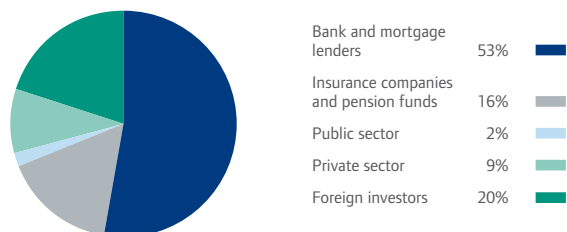
### Rangvid report, FSA Supervisory Diamond and Danish mortgage lending

The Rangvid report from the Danish Committee on the Causes of the Financial Crisis was published in September 2013. The report offers 18 specific recommendations for measures to shield the financial sector against crises. Especially one recommendation is worth noting: Mortgage lenders will be subject to an FSA Supervisory Diamond model, like banks.

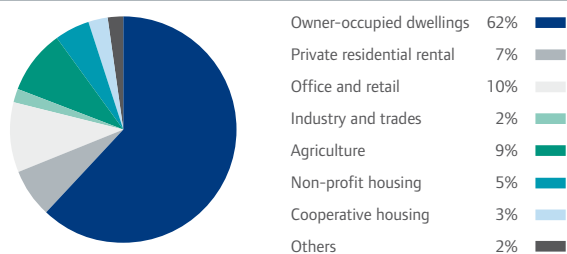
The Supervisory Diamond model identifies what the Danish FSA considers as elevated risk scenarios, such as a high number of very large exposures or high exposure to property finance. This acknowledgement that mortgage lending is different from ordinary banking is important to Nykredit, and we therefore look forward to contributing to the final design of the Supervisory Diamond.

# Nykredit in numbers

## Nykredit's covered bond investors



## Bond debt outstanding by property type, end-2013



## 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 covered bond market which secures favourable interest rate terms for Nykredit's 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-2013, Nykredit had issued a nominal amount of DKK 1,248bn of covered bonds. The bulk of Nykredit's issued bonds is applied for financing owner-occupied properties. Most of the security underlying Nykredit's bonds falls within 40% of the value of the properties.

## Financial highlights

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

DKK million	2012	2013
<b>Core income</b>	<b>8,909</b>	<b>9,298</b>
Costs, depreciation and amortisation	5,595	6,047
<b>Core earnings before impairment losses</b>	<b>3,315</b>	<b>3,251</b>
Impairment losses on loans and advances	2,149	2,764
<b>Core earnings after impairment losses</b>	<b>1,166</b>	<b>487</b>
Investment portfolio income	2,444	1,887
<b>Profit before cost of capital</b>	<b>3,610</b>	<b>2,374</b>
Net interest on hybrid capital	(465)	(460)
<b>Profit before tax</b>	<b>3,145</b>	<b>1,914</b>
Tax	575	240
<b>Profit for the year</b>	<b>2,569</b>	<b>1,674</b>
Value adjustment and reclassification of strategic equities against equity totalling <sup>1</sup>	(237)	(343)

<sup>1</sup> Nykredit's portfolio of strategic equities amounted to DKK 1.5bn at end-2013.

## Loan impairment rates

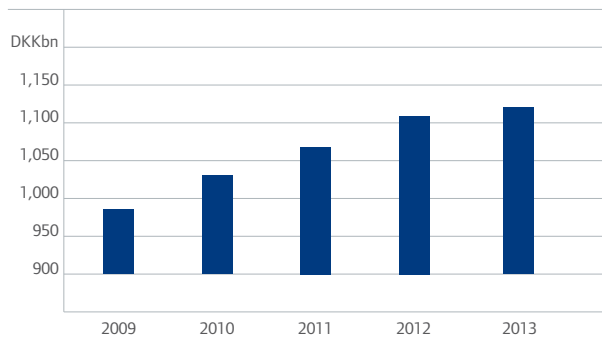
	2012	2013
Mortgage lending	0.14	0.22
Bank lending	0.59	0.31
The Nykredit Realkredit Group	0.17	0.22

## Financial ratios

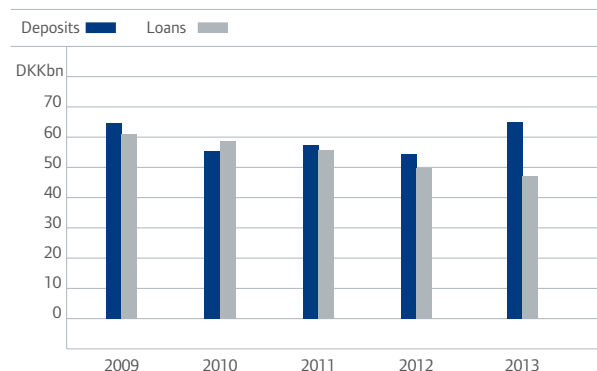
	2012	2013
Core earnings before impairment losses as % of average business capital, pa	5.9	5.6
Core earnings after impairment losses as % of average business capital, pa	2.1	0.8
Tier 1 capital ratio, %	19.1	18.9
Total capital ratio, %	19.1	18.9



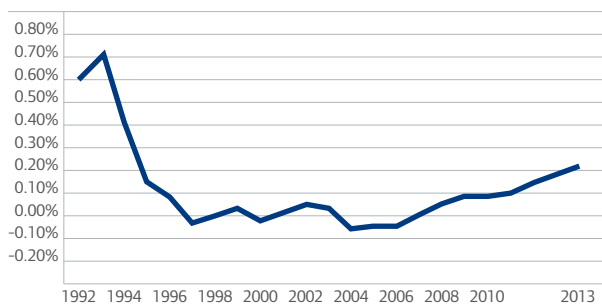
## Mortgage lending



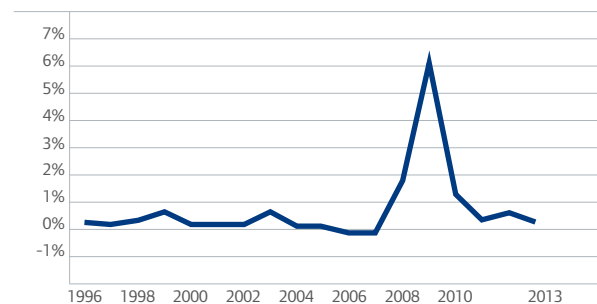
## Bank deposits and loans



## Mortgage loan impairment rates



## Bank loan impairment rates



## Non-financial highlights

	2009	2010	2011	2012	2013	GRI indicator*
<b>Customers</b>						
Number of Nykredit Realkredit Group customers (1,000)	1,030	1,051	1,065	1,092	1,093	
<b>Customer satisfaction</b>						
Personal customers, (EPSI 1-100)	77	72	74	73	72	PR5
Number of complaints <sup>1</sup>	588	698	472	478	451	
<b>Responsible investment</b>						
Number of companies screened <sup>2</sup>	1,800	1,800	2,000	2,000	2,000	HR1
Number of companies subject to active ownership	16	20	22	19	23	
Number of companies excluded	12	11	11	13	12	
<b>Energy consumption</b>						
Absolute CO <sub>2</sub> emission <sup>3</sup> (t)	14,013	13,795	12,296	10,821	9,511	
<b>Staff</b>						
Average number of staff <sup>4</sup>	4,135	4,026	4,139	4,115	4,052	LA2
Staff turnover	5.8%	7.5%	6.3%	5.6%	7.1%	
Women in management	-	29.5%	29.6%	28.8%	30.1%	
Job satisfaction (Ennova 1-100)	-	75	76	73	74	
<b>Social initiatives/donations</b>						
Nykredit sponsorships, DKKm	15	15	15	16	13	EC1
Nykredit Foundation donations, DKKm	6.8	7.7	7.0	5.5	5.7	
Staff volunteers in social projects	-	20	62	74	76	

\* Areas in which the disclosed data partially or completely comply with GRI requirements. <sup>1</sup>Complaints received by Nykredit's complaints unit and enquiries received by Nykredit's customer ambassador. 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 has a target of reducing the Group's carbon footprint by 65% from 2012 to 2020. <sup>4</sup>Number of full-time staff. 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 finds 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 2013. Due to rounding-off, the sum totals of the tables in the report may differ from the sums of the listed figures.

## Meet the customer

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

## Meet Nykredit

The number of full-time staff is an average for 2013 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-facing activities. Core income from business operations is distributed by product.

## Customers first

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-2013.

The market share of mortgage lending as well as bank deposits and bank lending is determined at nominal value 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.

Assets under management includes Asset Management and Private Portfolio.

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.

In the figure "Share of interest-only loans", mortgage lending is stated at nominal value at end-2013.

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

The numbers of Facebook likes are end-period data.

Yield developments are based on times series of short- and long-dated bonds published by the Association of Danish Mortgage Banks.

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

Nykredit's highest administration margin is taken from Nykredit's price list for variable-rate IO loans for fully mortgaged owner-occupied properties (0-80%). The Swedish margin derives from the Riksbank's Financial Stability Report.

Determination of Danish effective interest rates (incl administration margins) is based on Danmarks Nationalbank's interest rate statistics (DNRNRI). The Swedish

gross margin is determined as a 90-day average. Swedish effective interest rates (gross margin and funding costs of loans with 3-month interest reset) are based on the Riksbank's statements and are also 90-day averages.

## Social responsibility

Net inflows are based on 2012 data from Statistics Denmark published in January 2013. Copenhagen is inclusive of Frederiksberg.

Corporation tax is calculated as current tax and adjustment of tax assessed for previous years relating to the Forenigen 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. The 2013 reporting period is from 1 October 2012 to 30 September 2013.

In calculating CO<sub>2</sub> emission, degree-day adjusted CO<sub>2</sub> emission from heat consumption is applied, which enables year-on-year comparison.

For more details, please see the reporting policies of Nykredit's environmental and climate report for 2013 at nykredit.dk.

## Staff

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

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

New staff and staff attrition 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.

### **Nykredit in numbers**

Data on Nykredit's investor base are determined as at 1 December 2013.

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

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

Bank lending for calculation of the loan impairment rate of Nykredit Bank is based on loans and advances at fair value, loans and advances at amortised cost, guarantees excluding 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 is year-end data at nominal value.

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

