



**Annual Report 2012**  
The Nykredit Realkredit Group

**Nykredit**

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# FOREWORD

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## 2012 – an industrious year with good performance

2012 was a year of expanding business volumes – not least within mortgage lending, with gross new lending at a high level.

The backdrop was exceptionally low yields of Danish government and mortgage bonds prompted by low European growth and unrest surrounding government finances in Southern Europe. Accordingly, 1-year covered bonds funding ARMs were auctioned at a yield of only 0.26% towards the end of the year.

Nykredit's lending to personal and commercial customers grew in 2012 by DKK 22bn and DKK 13bn, respectively. Since the onset of the financial crisis in 2008, lending to personal customers has risen by about DKK 123bn, and lending to commercial customers has risen by about DKK 37bn.

2012 was a good year in terms of performance, with a profit before tax of DKK 3.2bn. The top line grew by 11% to DKK 10.2bn, and focused cost control reduced the cost:income ratio from 62% to 57%. Core earnings were nevertheless lower than in 2011 due to higher loan impairment losses and more conservative value adjustment of swap transactions than previously. By contrast, investment portfolio income of DKK 2.4bn was unusually high.

We saw signs of incipient recovery in the Danish housing market. Prices of detached houses fell slightly back, whereas prices of owner-occupied flats edged up.

In the course of 2013, the EU is expected to introduce new capital and liquidity rules for financial companies. Nykredit's capital requirement is expected to double. The Basel II rules require equity of DKK 35bn–40bn. Under the new Basel III rules, the equity requirement for the same business activity will increase to a level of about DKK 70bn, to which should be added a requirement for additional subordinate loan capital.

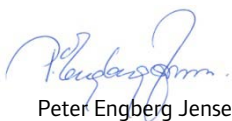
Accordingly, Nykredit must raise equity from the current DKK 57bn to about DKK 70bn towards 2019 – given the existing business volumes. The capital requirement rises further by almost DKK 1bn for every percentage point increase in business volumes. Growth in equity is a precondition for active lending in 2019.

In addition to the requirement of increased equity, the subordinate loan capital requirement will be in the region of DKK 15bn–20bn in 2019.

The stricter capital requirements call for growing earnings towards 2019.

In 2012 we laid the foundation of the future by simplifying the organisation, by introducing new advisory concepts, by future-proofing our mortgage model through two-tier mortgaging, and by lowering the cost:income ratio.

In 2013 we will continue our work within this setting, and we will focus on always providing a good customer experience – for instance by offering simple, relevant and professional advice.



Peter Engberg Jensen  
Group Chief Executive

# COMPANY INFORMATION

## COMPANY INFORMATION

Nykredit Realkredit A/S  
Kalvebod Brygge 1-3  
DK-1780 Copenhagen V  
Denmark

Website: [nykredit.com](http://nykredit.com)  
Tel: +45 44 55 10 00

CVR no: 12 71 92 80  
Financial period: 1 January – 31 December  
Municipality of registered office: Copenhagen

### Auditors

Deloitte Statsautoriseret Revisionspartnerselskab  
Weidekampsgade 6  
DK-2300 Copenhagen S

### Annual General Meeting

The Annual General Meeting of the Company will be held on 20 March 2013.

### BOARD OF DIRECTORS

Steen E. Christensen, Attorney  
Chairman

Hans Bang-Hansen, Farmer  
Deputy Chairman

Steffen Kragh, CEO  
Deputy Chairman

Kristian Bengaard, Senior Consultant \*  
Michael Demsitz, CEO  
Merete Eldrup, CEO  
Marlene Holm, Political Secretary \*  
Allan Kristiansen, Chief Relationship Manager \*  
Anders C. Obel, CEO  
Erling Bech Poulsen, Farmer  
Lars Peter Skaarup, Adviser \*  
Nina Smith, Professor  
Jens Erik Udsen, Managing Director  
Leif Vinther, Chairman of Staff Association \*

For directorships and executive positions of the members of the Board of Directors and the Executive Board, see pages 143-145.

\* Staff-elected member

### NOMINATION BOARD

Steen E. Christensen, Chairman

Hans Bang-Hansen

Steffen Kragh

Nina Smith

### AUDIT BOARD

Steffen Kragh, Chairman

Anders C. Obel

Nina Smith

### REMUNERATION BOARD

Steen E. Christensen, Chairman

Hans Bang-Hansen

Steffen Kragh

### EXECUTIVE BOARD

Peter Engberg Jensen  
Group Chief Executive

Kim Duus  
Group Managing Director

Søren Holm  
Group Managing Director

Karsten Knudsen  
Group Managing Director

Per Ladegaard  
Group Managing Director

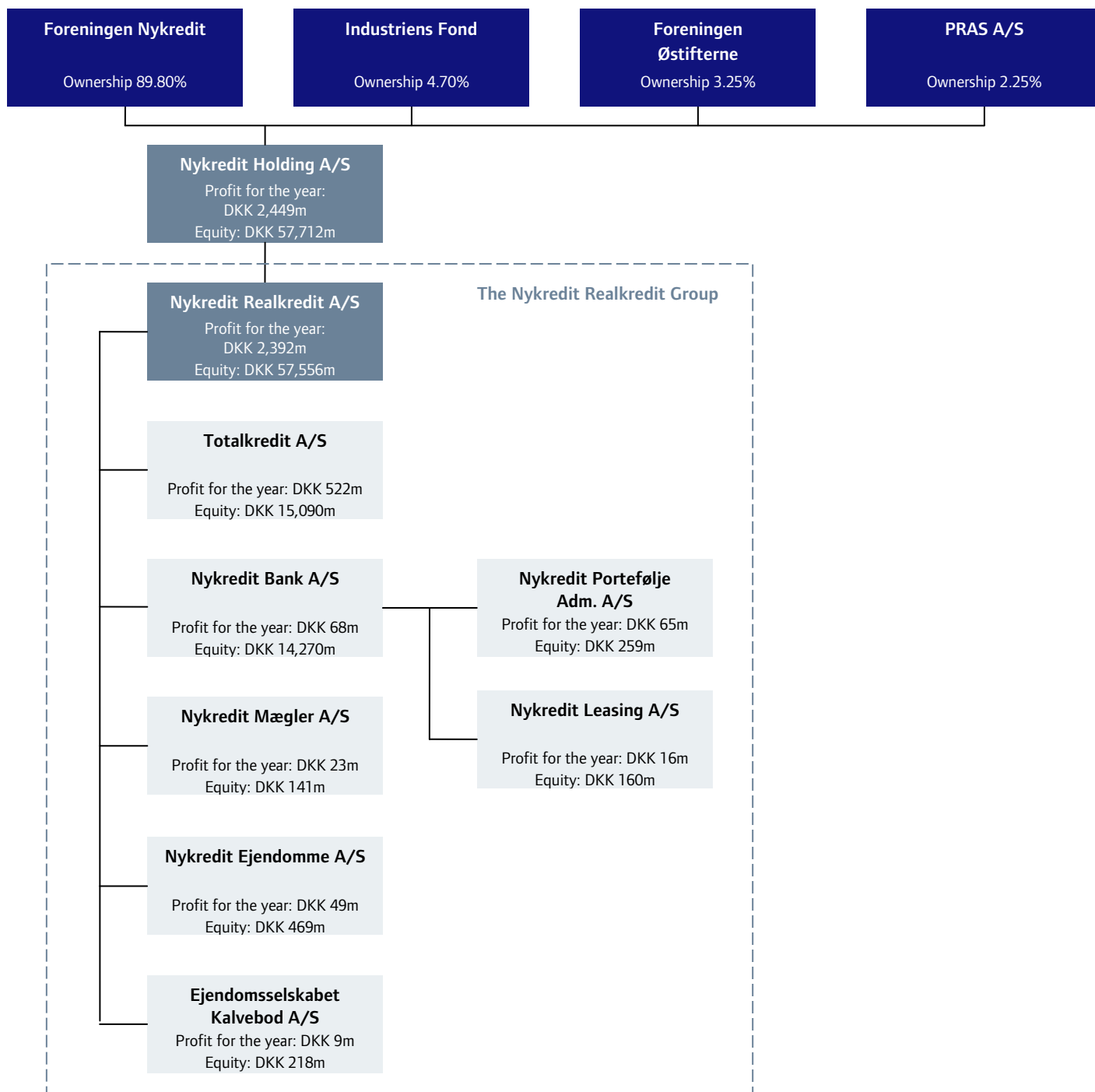
Bente Overgaard  
Group Managing Director

At [nykredit.com](http://nykredit.com) you may read more about the Nykredit Group and download the following reports:

- Annual Report 2012
- About Nykredit 2012 – CSR Report on Financial Sustainability
- Risk and Capital Management 2012

Information on Nykredit's corporate governance policy is available at [nykredit.com/corporategovernanceuk](http://nykredit.com/corporategovernanceuk)

# GROUP CHART



Reference is made to note 54 of this report for a full group structure.

# FINANCIAL HIGHLIGHTS

	The Nykredit Realkredit Group					
DKK million	2012	2011	2010	2009	2008 <sup>3</sup>	EUR 2012
<b>CORE EARNINGS AND RESULTS FOR THE YEAR</b>						
<b>Core income from</b>						Exchange rate: 746.04
- business operations	10,200	9,188	9,569	8,816	7,053	1,367
- value adjustment of derivatives and corporate bonds	(1,067)	(632)	(47)	(176)	(133)	(143)
- junior covered bonds	(436)	(190)	(120)	(67)	(40)	(58)
- securities	212	644	470	829	2,212	28
<b>Total</b>	<b>8,909</b>	<b>9,010</b>	<b>9,872</b>	<b>9,402</b>	<b>9,092</b>	<b>1,194</b>
Operating costs, depreciation and amortisation, excl special value adjustments	5,776	5,709	5,499	5,395	4,678	774
Operating costs, depreciation and amortisation – special value adjustments <sup>1</sup>	(265)	166	129	396	225	(35)
Payment to Guarantee Fund for Depositors and Investors/commission, government guarantee scheme	23	100	371	500	112	3
<b>Core earnings before impairment losses</b>	<b>3,375</b>	<b>3,035</b>	<b>3,873</b>	<b>3,111</b>	<b>4,077</b>	<b>452</b>
Impairment losses on loans and advances – mortgage lending	1,592	1,026	888	1,755	416	213
Impairment losses on loans and advances – banking	557	388	1,215	5,847	964	75
Impairment losses on loans and advances – government guarantee scheme	-	-	279	318	63	-
<b>Core earnings after impairment losses</b>	<b>1,226</b>	<b>1,621</b>	<b>1,491</b>	<b>(4,809)</b>	<b>2,634</b>	<b>164</b>
Investment portfolio income <sup>2</sup>	2,444	179	2,060	4,759	(3,633)	328
<b>Profit (loss) before cost of capital</b>	<b>3,670</b>	<b>1,800</b>	<b>3,551</b>	<b>(50)</b>	<b>(999)</b>	<b>492</b>
Net interest on hybrid capital	(465)	(462)	(461)	(95)	(25)	(62)
<b>Profit (loss) before tax</b>	<b>3,205</b>	<b>1,338</b>	<b>3,090</b>	<b>(145)</b>	<b>(1,024)</b>	<b>430</b>
Tax	575	223	785	(29)	(222)	78
Profit from discontinued insurance operations	-	-	1,511	245	107	-
<b>Profit (loss) for the year</b>	<b>2,629</b>	<b>1,115</b>	<b>3,816</b>	<b>129</b>	<b>(695)</b>	<b>352</b>
<b>Total value adjustment and reclassification of strategic equities against equity</b>	<b>(237)</b>	<b>(854)</b>	<b>261</b>	<b>751</b>	<b>(2,847)</b>	<b>(32)</b>
<b>SUMMARY BALANCE SHEET, YEAR-END</b>						
<b>Assets</b>	2012	2011	2010	2009	2008	EUR 2012
Receivables from credit institutions and central banks	60,174	66,258	58,657	62,909	73,388	8,066
Mortgage loans at fair value	1,136,445	1,084,317	1,030,478	981,227	895,463	152,330
Bank loans – excluding reverse transactions	49,728	55,776	58,833	60,908	72,733	6,666
Bonds and equities	82,413	100,794	99,144	86,620	103,434	11,047
Remaining assets	104,645	85,760	64,028	55,521	73,037	14,026
<b>Total assets</b>	<b>1,433,405</b>	<b>1,392,905</b>	<b>1,311,140</b>	<b>1,247,185</b>	<b>1,218,055</b>	<b>192,135</b>
<b>Liabilities and equity</b>						
Payables to credit institutions and central banks	67,539	117,626	95,879	119,313	162,549	9,053
Deposits	54,509	57,404	55,467	64,483	61,177	7,306
Issued bonds at fair value	1,103,818	1,021,942	974,319	889,899	836,081	147,957
Subordinated debt – hybrid capital	11,281	11,204	11,055	10,805	4,119	1,512
Subordinated debt – supplementary capital	-	-	563	4,628	4,860	-
Remaining liabilities	138,702	129,419	118,537	106,816	98,892	18,592
Equity	57,556	55,310	55,320	51,241	50,377	7,715
<b>Total liabilities and equity</b>	<b>1,433,405</b>	<b>1,392,905</b>	<b>1,311,140</b>	<b>1,247,185</b>	<b>1,218,055</b>	<b>192,135</b>
<b>FINANCIAL RATIOS</b>	2012	2011	2010	2009	2008	
Profit (loss) for the year as % of average equity	4.7	2.0	7.2	0.3	(1.3)	
Core earnings before impairment losses as % of average equity	6.0	5.5	7.3	6.1	7.8	
Core earnings after impairment losses as % of average equity	2.2	2.9	2.8	(9.5)	5.0	
Costs as % of core income from business operations (cost:income ratio)	56.6	62.1	57.5	61.2	66.3	
Total provisions for loan impairment – mortgage lending	2,954	2,485	2,226	1,942	465	
Total provisions for loan impairment and guarantees – banking	4,139	4,407	6,888	8,422	2,482	
Impairment losses for the year, % – mortgage lending	0.14	0.10	0.09	0.18	0.05	
Impairment losses for the year, % – banking <sup>4</sup>	0.59	0.42	1.31	6.07	1.80	
Total capital ratio, %	19.1	17.1	18.5	17.8	14.7	
Core Tier 1 capital ratio, %	15.8	13.9	15.1	13.5	13.5	
Average number of full-time staff <sup>5</sup>	4,115	4,139	4,026	4,135	4,037	

<sup>1</sup> Special value adjustments include value adjustment of certain staff benefits and owner-occupied properties, refund of VAT and payroll tax in previous years and winding-up costs relating to Dansk Pantebrevsbørs under konkurs (in bankruptcy).

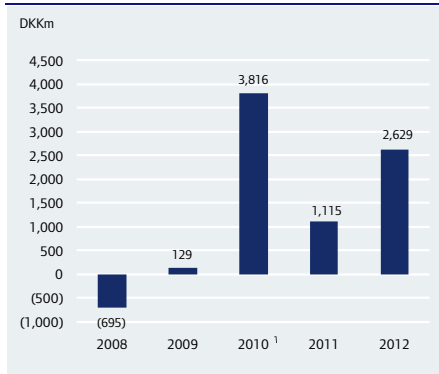
<sup>2</sup> Value adjustment of the portfolio of subordinated debt instruments in Danish banks (Kalvebod issues) is included from 1 January 2011. Comparative figures have been restated.

<sup>3</sup> Forstædernes Bank is included in the Consolidated Financial Statements as from 17 October 2008.

<sup>4</sup> Excluding provisions relating to the government guarantee scheme.

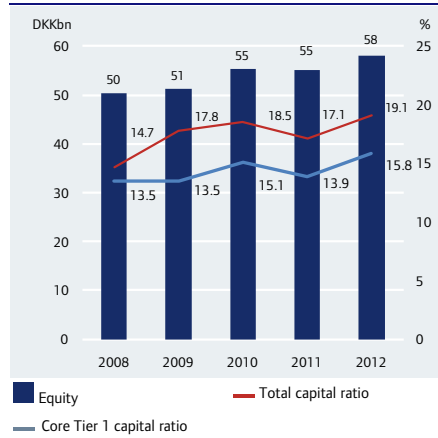
<sup>5</sup> Excluding Nykredit Forsikring A/S and JN Data A/S.

### Results for the year

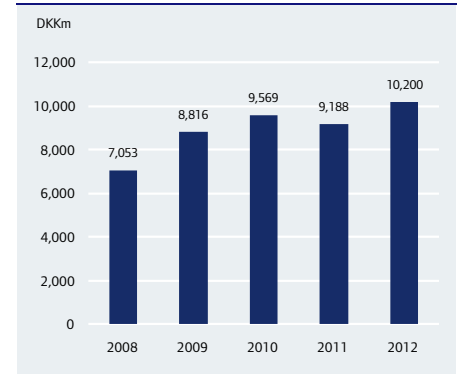


<sup>1</sup> Including profit from the sale of Nykredit Forsikring A/S. Excluding value adjustment of strategic equities against equity. Nykredit Forsikring A/S is included up to 29 April 2010.

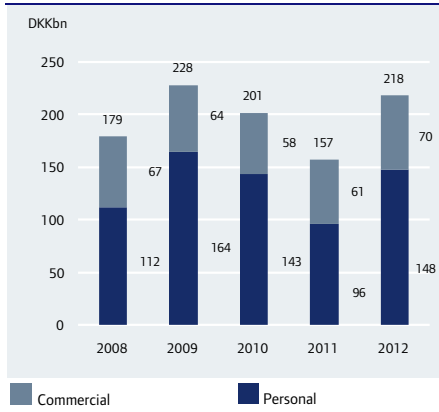
### Equity and capital adequacy



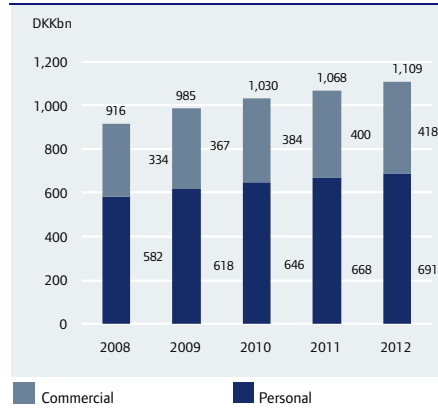
### Core income from business operations



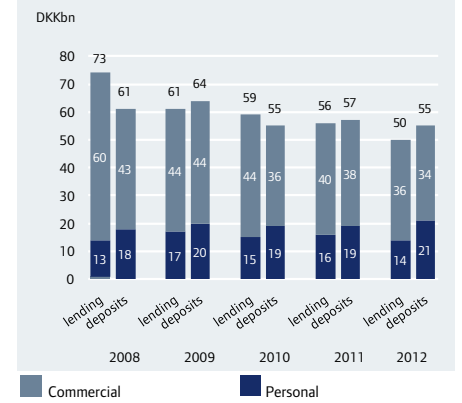
### Gross new mortgage lending



### Mortgage lending, year-end, nominal value

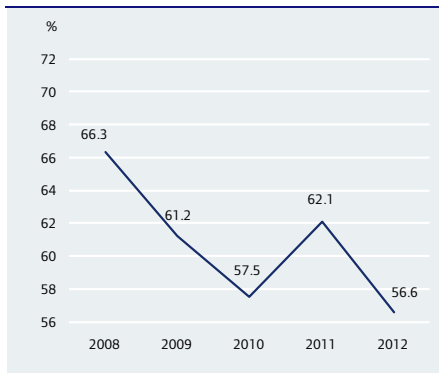


### Bank lending and deposits, year-end



Forstædernes Bank is included in the Consolidated Financial Statements as from 17 October 2008.

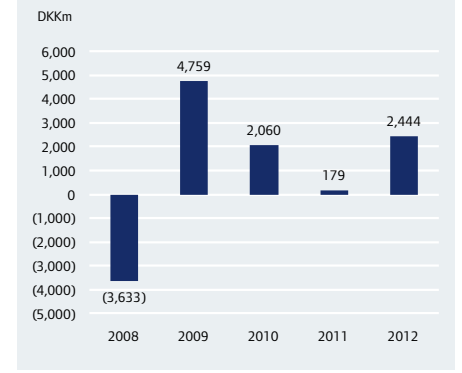
### Costs as % of core income from business operations (cost:income ratio)



### Impairment losses on loans and advances excluding government guarantee scheme



### Investment portfolio income



Excluding value adjustment of strategic equities against equity.

## Results – the Nykredit Realkredit Group

- The Nykredit Realkredit Group recorded a profit before tax of DKK 3,205m against DKK 1,338m in 2011
- Core income from business operations grew by 11% to DKK 10,200m against DKK 9,188m in 2011
  - Gross new mortgage lending rose by 39% to DKK 218bn from DKK 157bn in 2011
  - Nominal mortgage lending and bank lending went up by DKK 35bn to DKK 1,159bn in 2012
  - Lending expanded by DKK 22bn to personal customers and by DKK 13bn to commercial customers
- Value adjustment of derivatives was a charge of DKK 1,067m against a charge of DKK 632m in 2011
- Operating costs, depreciation and amortisation excluding special value adjustments rose by 1% to DKK 5,776m
  - Costs as a percentage of core income from business operations declined to 56.6% from 62.1% in 2011
- Impairment losses on loans and advances were DKK 2,149m, equal to 0.18%
  - Impairment losses on mortgage lending were DKK 1,592m, equal to 0.14%, against DKK 1,026m in 2011
  - 75-day mortgage arrears after the September due date were 0.52% compared with 0.60% at the same time in 2011
  - Impairment losses on bank lending were DKK 557m, equal to 0.59%, against DKK 388m in 2011
- Core income from securities amounted to DKK 212m against DKK 644m in 2011 due to a lower risk-free interest rate
- Investment portfolio income grew from DKK 179m to DKK 2,444m in 2012
  - Investment portfolio income notably derived from spread tightening relating to high-rated mortgage bonds
- Cost of capital in the form of net interest on hybrid capital was DKK 465m, which was unchanged on 2011.

## Capital

- The total capital ratio was 19.1%
- The core Tier 1 capital ratio amounted to 15.8%
- Group equity totalled DKK 57.6bn.

## Ratings

### Standard & Poor's

- Nykredit Realkredit and Nykredit Bank both have a long-term unsecured rating of A+ and a short-term unsecured rating of A-1
- Nykredit Realkredit and Totalkredit's recent mortgage covered bond issues are rated AAA, while junior covered bonds are rated A+.

### Fitch Ratings

- Nykredit Realkredit and Nykredit Bank both have a long-term unsecured rating of A and a short-term unsecured rating of F1.



# MANAGEMENT'S REVIEW

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## **NYKREDIT REALKREDIT GROUP RESULTS**

The Group reported a marked rise in profit before tax to DKK 3,205m from DKK 1,338m in 2011.

Results were positively affected by high investment portfolio income, a rise in core income from customer activity within mortgage lending following an increase in administration margins and lending growth as well as a declining cost:income ratio. Results were adversely affected by higher impairment losses on mortgage lending to personal customers and small and medium-sized enterprises (SMEs), net interest expenses relating to junior covered bonds and negative value adjustment of interest rate swaps with customers.

Group equity grew by DKK 2.2bn to DKK 57.6bn at end-2012.

### **Core earnings**

#### *Core income from business operations*

Core income from business operations improved by 11.0% or DKK 1,012m to DKK 10,200m relative to 2011.

Core income from mortgage operations came to DKK 6,519m against DKK 5,533m in 2011, up 17.8%. The increase in core income notably stemmed from a high activity level in the personal customer area, but also higher lending to SMEs.

The Group's total administrative margin income was up by DKK 930m to 6,491m compared with the year before.

Group nominal mortgage lending climbed by 3.9%, or DKK 41bn, to DKK 1,109bn at end-2012. 70% of the uplift derived from the business areas Retail and Totalkredit Partners, while 30% resulted from the business area Wholesale.

Loan refinancing activity rose in response to declining interest rates, and the Group grew gross new mortgage lending by DKK 61bn to DKK 218bn in 2012, corresponding to an increase of 39% on the previous year. Growth chiefly stemmed from personal customers, who accounted for DKK 52bn. Gross new lending was DKK 148bn to personal customers and DKK 70bn to commercial customers.

Core income from banking operations declined to DKK 3,447m, equivalent to a 2% fall compared with 2011. The development reflected growth in personal banking operations as well as higher activity and earnings in Nykredit Markets and Nykredit Asset Management. Corporate & Institutional Banking recorded a decrease in earnings. Demand for bank loans from personal and commercial customers remained low, and lending declined by DKK 6.0bn relative to the beginning of the year. Bank lending totalled DKK 49.7bn at end-2012. Bank deposits were down by DKK 2.9bn to DKK 54.5bn.

The Bank had a deposit surplus of DKK 4.8bn at end-2012 compared with a deposit surplus of DKK 1.6bn at end-2011.

#### *Value adjustment of derivatives and corporate bonds*

Nykredit's credit exposure to interest rate hedging contracts with commercial customers resulted in a negative market value adjustment of financial derivatives of DKK 1,095m compared with a negative market value adjustment of DKK 642m in 2011.

Of the charge for the year, about DKK 63m stemmed from recognised losses on terminated swaps, while the rest derived from value adjustment of non-terminated interest rate swaps in respect of which the expensed amount is not necessarily lost. A rise in interest rate levels will therefore have a positive impact on results.

One reason for the higher charge is the declining interest rate level, which has resulted in substantial, positive market values of interest rate swaps with commercial customers which have not fully provided security in the form of cash deposits or government and mortgage bonds. This has increased Nykredit's credit exposure. Nykredit Bank has made market value adjustments as regards customers with low ratings.

The persistently very low interest rates in 2012 have prompted a more conservative valuation than previously, and Nykredit's general method for pricing interest rate swaps has been adjusted to reflect market trends.

As Nykredit's interest rate swaps have typically been entered into on a hedged basis, the total interest rate exposure is very modest.

Value adjustment of corporate bonds totalled DKK 28m against DKK 10m in 2011.

#### *Junior covered bonds*

Nykredit has issued junior covered bonds of a total nominal value of DKK 43.3bn, compared with DKK 31.4bn at end-2011. Junior covered bonds are used to fund supplementary collateral for covered bonds (SDOs). The issuance generated net interest expenses of DKK 436m against DKK 190m in 2011.

#### *Core income from securities*

The risk-free interest rate, which corresponds to the Danish central bank's average lending rate, fell from 1.27% to 0.43% in 2012. Therefore, core income from securities dropped to DKK 212m from DKK 644m in 2011.

#### *Operating costs, depreciation and amortisation, excl special value adjustments*

The Group's costs excluding special value adjustments rose by 1.2% to DKK 5,776m. Costs as a percentage of core income from business operations were trimmed from 62.1% in 2011 to 56.6%.

#### *Operating costs, depreciation and amortisation – special value adjustments*

Under special value adjustments, a net credit of DKK 265m was reported compared with a net charge of DKK 166m in 2011.

Special value adjustment of certain staff benefits mainly related to the Group's senior benefit scheme, which was terminated in early 2012, and changes in the estimated obligations of pension funds. The value adjustment resulted in a credit of DKK 313m in 2012. Further, results were adversely affected by provisions of DKK 48m concerning staff reduction expenses.

#### *Commission – Guarantee Fund for Depositors and Investors*

Payment to the Danish Guarantee Fund for Depositors and Investors amounted to DKK 23m in 2012 compared with DKK 100m in 2011, which included a special payment relating to distressed banks.

#### *Impairment losses on loans and advances*

Group impairment losses on loans and advances were DKK 2,149m compared with DKK 1,414m in 2011. Impairment losses equalled 0.18% of total mortgage and bank lending.

Group impairment losses on mortgage lending amounted to DKK 1,592m, corresponding to 0.14%, against DKK 1,026m in 2011. Of impairment losses for the year, DKK 1,095m, or 0.16%, was related to personal customers against DKK 748m in 2011.

Group impairment losses on mortgage lending to commercial customers were at DKK 497m, equal to 0.12%, against DKK 278m in 2011.

Group impairment losses on bank lending were DKK 557m, equal to 0.59%, against DKK 388m in 2011. Of impairment losses for the year, DKK 130m, or 0.76%, was related to personal customers, compared with DKK 70m in 2011.

Impairment losses on bank lending to commercial customers came to DKK 427m, corresponding to 0.55%, compared with DKK 318m in 2011. Impairment losses were related to SMEs in particular.

#### **Investment portfolio income**

The Group's investment portfolio generated income of DKK 2,444m against DKK 179m in 2011.

Investment portfolio income from bonds, liquidity and interest rate instruments came to DKK 1,837m. Investment portfolio income from equities and equity instruments value adjusted through profit or loss was DKK 152m. Further, investment portfolio income included a realised pre-tax profit of DKK 455m from the sale of equities classified as available for sale.

Nykredit's securities portfolio consists mainly of high-rated Danish and Northern and Central European covered bonds. The exposure to equities and credit bonds is low.

2012 was characterised by lower interest rates and normalisation of risk premiums in financial markets. The European Central Bank's (ECB) unlimited liquidity allotments, reduction of its bank deposit rate to 0% and its announced purchases of Southern European government bonds paved the way for a very positive market development for short-term, high-rated Northern European covered bonds and credit bonds. Such bonds accounted for most of Nykredit's market risk in 2012.

The interest rate risk relating to the bond portfolio was largely eliminated through offsetting government bond sales or interest rate derivatives.

The already conservative risk profile of the securities portfolio was tightened further during the year under review.

Nykredit has no exposures to Southern European capital markets.

#### **Net interest on hybrid capital**

The Group has raised hybrid capital of a total amount of DKK 11.3bn, which is unchanged relative to the year before. Net interest expenses totalled DKK 465m in 2012.

#### **Tax**

Tax calculated on profit for the year was DKK 575m, equal to an effective tax rate of 18.0%.

#### **Results for Q4/2012**

The Group posted a loss before tax of DKK 3m against a profit of DKK 967m in Q3/2012.

The loss for Q4 reflects a DKK 216m rise in core income from business operations, but also a DKK 476m rise in negative value adjustment of interest rate swaps.

Impairment losses on loans and advances were DKK 616m against DKK 542m in Q3/2012.

Investment portfolio income decreased to DKK 155m in Q4/2012 from DKK 756m in Q3/2012.

#### **Dividend**

It will be recommended for approval by the General Meeting that a dividend of DKK 150m be distributed for 2012.

#### **RESULTS RELATIVE TO FORECASTS**

When the Annual Report for 2011 was announced, Nykredit forecast higher core income from customers due to continued lending growth, higher administration margins and costs in line with 2011.

Group impairment losses on loans and advances would be concentrated on personal customers and SMEs.

Profit before tax mirrored 11% growth in core income from business operations and a declining cost:income ratio in line with expectations.

Group impairment losses on loans and advances also matched expectations and mainly related to personal customers and SMEs. However, value adjustment of interest rate swaps was higher than expected.

Investment portfolio income of DKK 2,444m was significantly higher than anticipated.

**OUTLOOK FOR 2013**

Nykredit forecasts modest lending growth and thus a continued increase in core income from customers. But growth in mortgage lending seems set to be lower than in 2012.

Nykredit will continue to focus on the development in costs and forecasts a lower cost:income ratio.

Group impairment losses on loans and advances are expected to remain at the same level as in 2012 – or be slightly higher. Impairment losses will depend on the economic climate and the housing market in general. Value adjustment of interest rate swaps is expected to decline markedly relative to 2012.

In total, core earnings after impairment losses are expected to grow.

The development in investment portfolio income is expected to normalise at a significantly lower level.

## EQUITY AND CAPITAL ADEQUACY OF THE NYKREDIT REALKREDIT GROUP

### Equity

Group equity went up by DKK 2.2bn to DKK 57.6bn at end-2012. The rise consisted of profit for the year of DKK 2.6bn and positive value adjustment of the portfolio of strategic equities of DKK 0.2bn, which was offset by reclassification of negative value adjustment on a sale of strategic equities of DKK 0.5bn. To this should be added distributed dividend of DKK 0.2bn for 2011.

In accordance with IAS 39, Nykredit has classified the Group's strategic equity investments as "available for sale" in its Consolidated Financial Statements. Current value adjustment of these equities is recognised in equity, whereas value adjustments on a sale will be reclassified from equity to the income statement. The value of equities classified as available for sale totalled DKK 1,766m at end-2012.

### Capital and capital adequacy

#### The Nykredit Realkredit Group

The Group's capital base stood at DKK 62.4bn, and risk-weighted assets totalled DKK 326.8bn, corresponding to a total capital ratio of 19.1%. The Group's internal capital adequacy requirement was 9.6%.

#### The Nykredit Realkredit Group Equity

DKK million	2012	2011
<b>Equity, beginning of year</b>	<b>55,310</b>	<b>55,320</b>
Profit for the year	2,629	1,115
Fair value adjustment of equities available for sale	236	(683)
Unrealised capital loss on equities available for sale reclassified to the income statement	-	34
Realised net value adjustment of equities available for sale	(473)	(205)
Distributed dividend	(200)	(300)
Other adjustments	54	28
<b>Equity, year-end</b>	<b>57,556</b>	<b>55,310</b>

#### The Nykredit Realkredit Group Capital and capital adequacy

DKK million	2012	2011
Credit risk	22,051	23,293
Market risk	2,368	3,086
Operational risk	1,722	1,474
<b>Total capital requirement<sup>1</sup></b>	<b>26,142</b>	<b>27,852</b>
Core Tier 1 capital	51,720	48,283
Tier 1 capital	62,410	59,487
Capital base after statutory deductions	62,410	59,487
Core Tier 1 capital ratio, %	15.8	13.9
Tier 1 capital ratio, %	19.1	17.1
Total capital ratio, %	19.1	17.1
Internal capital adequacy requirement (Pillar I and Pillar II), %	9.6	9.6
<b>Total risk-weighted assets</b>	<b>326,775</b>	<b>348,155</b>

Capital base and capital adequacy are specified further in note 2 of this report.

<sup>1</sup> The capital requirement is subject to a transitional rule under the Danish Executive Order on Capital Adequacy. The capital requirement must constitute at least 80% of the capital requirement determined under Basel I. At end-2012, the total capital requirement subject to transitional rule was DKK 49.6bn.

The Group's capital requirement was DKK 26.1bn, and the core Tier 1 capital ratio was 15.8% at end-2012.

Under the Basel I transitional rule, the capital requirement amounted to DKK 49.6bn, equal to a total capital ratio of 15.2%. The transitional rule has been extended to 2015 inclusive.

Nykredit Holding has issued a loss guarantee in favour of Nykredit Bank. The guarantee had reduced the capital requirement by DKK 1.4bn at end-2012.

### NEW REGULATION

The EU is likely to adopt a number of new rules applying to the capital and liquidity of credit institutions (CRD IV/CRR) in 2013. The capital requirements are expected to be significantly tightened, cf the section Capital policy under future rules (Basel III) on page 20. To this should be added new and stricter requirements for the short-term liquidity of credit institutions.

It is expected that Danish covered bonds will be eligible for full inclusion in the short-term liquidity of credit institutions, among other things because of the high liquidity of covered bonds during the financial crisis. The short-term liquidity measure (LCR) will be gradually implemented from 2015. Nykredit expects to be able to meet coming liquidity requirements as early as from 2013.

The so-called systemically important financial institutions (SIFIs) in Denmark are expected to be designated in 2013. The SIFIs will be subject to stricter regulation in the form of supplementary capital requirements and sharper regulatory supervision. Nykredit expects to be classified as systemically important, as Nykredit is the largest lender in Denmark with a market share of some 30%.

### OTHER

#### Recommendation of election to the Board of Directors

Nykredit Holding A/S and Nykredit Realkredit A/S will hold Annual General Meetings on 20 March 2013. It has been proposed to re-elect the entire Board of Directors in both companies at the Annual General Meetings. Further, it has been proposed to expand the Board of Directors of both companies by appointing Bent Naur, formerly CEO, to fill the vacancy.

Bent Naur, who was CEO of Ringkjøbing Landbobank from 1987 to 2012, has previously been on the Board of Directors of Nykredit Holding A/S and Totalkredit A/S and thus has in-depth knowledge of the Nykredit Group.

#### Capital increase in Totalkredit

In June 2012 Totalkredit A/S bolstered its capital structure by a total of DKK 750m through a nominal share capital increase of DKK 49,305,000. The shares were subscribed for by Nykredit Realkredit A/S at a price of DKK 1,521.15 per share of DKK 100 nominal value. This raised the company's share capital to DKK 848m.

### Tax

The Danish tax authorities have proposed that the taxable income of Nykredit Bank declared for 2008 be changed. The change relates to a

tax deduction for loan impairment losses made by Forstædernes Bank. Reference is made to note 41.

#### **Decision in administration margin adjustment case**

On 6 December 2012, the Danish Maritime and Commercial Court found for Nykredit in a case relating to administration margin adjustment. The issue in dispute was Nykredit Realkredit A/S's right to freely adjust the price of mortgage loans to personal customers due to changed market conditions. In its decision, the Maritime and Commercial Court stipulated that

*... Nykredit Realkredit A/S has fulfilled and is therefore no longer obliged by its undertaking of 10 October 2003, Clause 5, according to which Nykredit Realkredit A/S in connection with the completion of the merger with Totalkredit A/S undertook to reduce the administration margin for new loans to Nykredit Realkredit A/S's core customers to 0.50% for mortgages with maximum LTVs and to make similar reductions for loans to other customers and for other LTVs, and therefore is not bound by the undertaking in 5a on which the Danish Competition Council based its decision of 30 November 2011, according to which Nykredit Realkredit A/S undertook to reduce the administration margin for mortgages for private residential properties or holiday homes to not more than 0.55% for fixed-rate repayment mortgages and 0.60% for all other maximum LTV mortgages in the period 1 April 2012 to 31 March 2017. (Unofficial translation by Nykredit)*

With this decision, the Danish Maritime and Commercial Court established that Nykredit had met its obligations under the agreement which Nykredit concluded with the Danish Competition Council in connection with Nykredit's acquisition of Totalkredit and that Nykredit may adjust prices if warranted by market or capital conditions like any other mortgage lender, including Totalkredit.

In Nykredit's opinion, the decision is unequivocal, but the Danish Competition Council has nevertheless appealed to the Danish Supreme Court. As this appeal has suspensive effect, Nykredit will still not be able to adjust mortgage loan prices in respect of personal customers without the prior approval of the Danish Competition Council until the Danish Supreme Court has dismissed the appeal, if at all.

Pending the hearing by the Danish Supreme Court, Nykredit will claim that the appeal be dismissed. It is expected that a decision in the appeal case will not be made before 2014.

#### **EVENTS OCCURRED AFTER THE END OF THE FINANCIAL YEAR**

No significant events have occurred in the period up to the presentation of the Annual Report 2012.

**BUSINESS AREAS**

The Group is organised into the following business areas:

- Retail, which comprises Nykredit's personal customers and small and medium-sized enterprises (SMEs). The business area includes mortgage lending to Nykredit's personal customers arranged via Totalkredit
- Totalkredit Partners, which arranges the Group's mortgage loans to personal customers via local and regional banks
- Wholesale, which comprises Corporate & Institutional Banking and the business units Nykredit Markets and Nykredit Asset Management.

Further, Group Items comprises income and costs not allocated to the business areas, including core income from securities and investment portfolio income.

Gross income from customer business is allocated to the business areas which have supplied the underlying products (Nykredit Markets and Nykredit Asset Management). Income which may be attributed to the sales activities of Retail and Corporate & Institutional Banking is subsequently reallocated in full.

Correspondingly, the related costs are reallocated from Nykredit Markets and Nykredit Asset Management to Retail and Corporate & Institutional Banking.

The presentation of the Group's business areas has been revised due to organisational changes which were implemented on 1 January 2012. Comparative figures for 2011 have been restated.

Group core earnings after impairment losses totalled DKK 1,226m against DKK 1,621m in 2011. The development mirrored growth in the business area Totalkredit Partners and a decline in the business areas Retail and Wholesale.

Nominal mortgage lending rose by DKK 41bn to DKK 1,109bn at end-2012. The Nykredit Group recorded gross new lending of DKK 218bn against DKK 157bn in 2011.

The Group's share of the Danish mortgage market was 43.0% for total lending against 42.6% in 2011. The market share of private residential mortgage lending was 47.0% against 46.6% in 2011. The market share of commercial lending increased to 37.4% against 36.9% in 2011.

**Results by business area<sup>1</sup>**

DKK million	Totalkredit				Total
	Retail	Partners	Wholesale	Group Items	
<b>2012</b>					
<b>Core income from</b>					
- customer activity, gross	5,447	1,744	3,113	(104)	10,200
- payment for distribution	744	-	(744)	-	-
<b>Total business operations</b>	<b>6,191</b>	<b>1,744</b>	<b>2,369</b>	<b>(104)</b>	<b>10,200</b>
- value adjustment of derivatives and corporate bonds	(927)	-	(140)	-	(1,067)
- junior covered bonds	(147)	(263)	(26)	-	(436)
- securities	-	-	-	212	212
<b>Total</b>	<b>5,117</b>	<b>1,481</b>	<b>2,203</b>	<b>108</b>	<b>8,909</b>
Operating costs	3,127	411	840	390	4,768
Depreciation of property, plant and equipment and amortisation of intangible assets	13	521	5	227	766
<b>Core earnings before impairment losses</b>	<b>1,977</b>	<b>549</b>	<b>1,358</b>	<b>(509)</b>	<b>3,375</b>
Impairment losses on loans and advances	1,559	508	70	12	2,149
<b>Core earnings after impairment losses</b>	<b>418</b>	<b>41</b>	<b>1,288</b>	<b>(521)</b>	<b>1,226</b>
Investment portfolio income <sup>2</sup>	-	-	-	2,444	2,444
<b>Profit before cost of capital</b>	<b>418</b>	<b>41</b>	<b>1,288</b>	<b>1,923</b>	<b>3,670</b>
Net interest on hybrid capital	-	-	-	(465)	(465)
<b>Profit before tax</b>	<b>418</b>	<b>41</b>	<b>1,288</b>	<b>1,458</b>	<b>3,205</b>
<b>Return</b>					
Average business capital, DKK <sup>3</sup>	11,741	7,830	6,198	7,160	32,929
Core earnings after impairment losses as % of average business capital <sup>3</sup>	3.6	0.5	20.8	-	3.7
<b>2011</b>					
<b>Core earnings after impairment losses</b>	<b>643</b>	<b>(89)</b>	<b>1,513</b>	<b>(446)</b>	<b>1,621</b>
<b>Return</b>					
Average business capital, DKK <sup>3</sup>	10,901	7,489	6,334	5,654	30,378
Core earnings after impairment losses as % of average business capital <sup>3</sup>	5.9	(1.2)	23.9	-	5.3

<sup>1</sup> Please refer to note 4 in the Financial Statements for complete segment financial statements with comparative figures.

<sup>2</sup> Investment portfolio income includes a profit of DKK 47m from investments in associates (2011: DKK 10m).

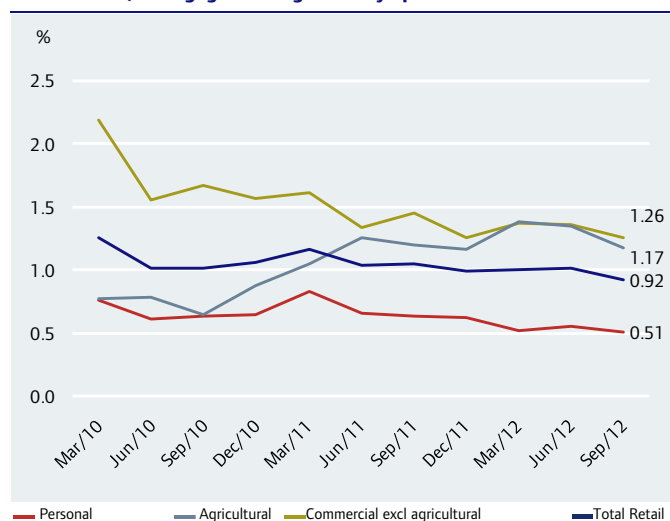
<sup>3</sup> Business capital has been determined as Nykredit's ICAAP result.

**Results – Retail**

DKK million	2012	2011
Core income from		
- business operations	6,191	5,578
- value adjustment of derivatives	(927)	(408)
- junior covered bonds	(147)	(82)
<b>Total</b>	<b>5,117</b>	<b>5,088</b>
Operating costs	3,116	3,158
Payment to the Guarantee Fund for Depositors and Investors	11	-
Depreciation of property, plant and equipment and amortisation of intangible assets	13	16
<b>Core earnings before impairment losses</b>	<b>1,977</b>	<b>1,914</b>
Impairment losses on loans and advances		
- mortgage lending	1,048	863
Impairment losses on loans and advances - banking	511	408
<b>Core earnings after impairment losses</b>	<b>418</b>	<b>643</b>

**Activity**

DKK million	2012	2011
<b>Mortgage lending</b>		
Gross new lending	66,717	57,232
Portfolio at nominal value, year-end	450,218	445,029
Impairment losses for the period as % of loans and advances	0.23	0.19
<b>Total impairment provisions, year-end</b>		
- Individual impairment provisions	1,307	826
- Collective impairment provisions	611	734
Total impairment provisions as % of loans and advances	0.43	0.35
Portfolio of repossessed properties, year-end (properties)	276	255
<b>Banking</b>		
Loans and advances, year-end	27,105	29,005
Deposits, year-end	36,174	35,013
Impairment losses for the period as % of loans and advances	1.71	1.26
<b>Total impairment provisions, year-end</b>		
- Individual impairment provisions	2,002	1,935
- Collective impairment provisions	140	179
Total impairment provisions as % of loans and advances	7.33	6.79
Guarantees, year-end	3,668	3,582
Provisions for guarantees, year-end	74	63

**Arrears ratio, mortgage lending – 75 days past the due date****RETAIL**

The business area Retail comprises personal customers and SMEs, including agricultural customers, private residential rental customers, wealthy personal customers and personal customers owning properties in France or Spain financed by Danish mortgage loans. Further, the business area includes mortgage lending to Nykredit's personal customers arranged via Totalkredit. Retail also comprises the activities of Nykredit Mægler A/S and Nykredit Leasing A/S.

Nykredit serves its customers through 55 customer centres and the nationwide sales and advisory centre, Nykredit Direkte®. The estate agencies of the Nybolig and Estate chains constitute other distribution channels. Nykredit offers insurance in cooperation with Gjensidige Forsikring.

The customers of Retail are offered products within banking, mortgage lending, insurance, pension, investment and debt management.

**Activity**

In nominal terms, total mortgage lending improved by DKK 5.2bn to DKK 450bn at end-2012. The rise was mainly due to higher lending to commercial customers. Nominal lending was DKK 206bn to personal customers and DKK 244bn to commercial customers.

Gross new mortgage lending increased by DKK 9.5bn to DKK 66.7bn in 2012. Gross new lending was DKK 32.6bn to personal customers and DKK 34.1bn to commercial customers.

At end-2012, bank lending had gone down to DKK 27.1bn from DKK 29.0bn at the beginning of the year. Personal customers accounted for DKK 1.0bn and commercial customers for DKK 0.9bn of the decline. At end-2012, bank deposits amounted to DKK 36.2bn, up from DKK 35.0bn at the beginning of the year. The rise in deposits derived from personal customers.

**Results**

Core earnings after impairment losses came to DKK 418m against DKK 643m in 2011.

Results reflected a relatively high activity level within mortgage lending and Nykredit Markets products and higher administration margins from 1 April 2012. Further, negative value adjustment of interest rate swaps resulting from low interest rates affected lending.

Core income from business operations improved by DKK 613m to DKK 6,191m in 2012. Business operations can be broken down into mortgage lending of DKK 4,164m and banking of DKK 2,027m against DKK 3,701m and DKK 1,877m in 2011.

Value adjustment of derivatives, chiefly interest rate swaps, resulted in a charge of DKK 927m in 2012 against a charge of DKK 408m in 2011.

Operating costs declined by DKK 42m to DKK 3,116m in 2012.

Impairment losses on mortgage and bank lending amounted to DKK 1,048m and DKK 511m, respectively, against a total of DKK 1,271m in 2011. Impairment losses represented 0.23% of mortgage lending and 1.71% of bank lending.

Impairment provisions totalled DKK 4,060m at end-2012, up DKK 386m. Impairment provisions for mortgage and bank lending totalled DKK 1,918m and DKK 2,142m, respectively. The rise in 2012 derived from growth in individual impairment provisions of DKK 548m and a decline in collective impairment provisions of DKK 162m.

At the September due date, 75-day mortgage loan arrears as a percentage of total mortgage payments due came to 0.92% for Retail against 1.04% at the same time in 2011.

At end-2012 the number of repossessed properties was 276. In the period under review, 377 properties were repossessed and 356 were sold.

The security behind mortgage lending to Retail customers remains substantial. The LTV ratios of mortgage loans are shown below with individual loans relative to the estimated values of the individual properties at end-2012.

4% of mortgage lending to personal customers had a current LTV ratio in excess of 80% against 3% at end-2011. Correspondingly, 10% of lending to SMEs had a current LTV ratio in excess of 60%.

### International operations

Nykredit offers Danish private residential mortgages for properties in France and Spain directly to customers and through business partners.

Core income from international mortgage lending totalled DKK 95m, up DKK 11m on 2011.

Nominal mortgage lending came to DKK 9.5bn against DKK 8.7bn at end-2011. Lending in France represented DKK 4.2bn, lending in Spain DKK 4.0bn and the remaining portfolio DKK 1.3bn compared with DKK 3.8bn, DKK 3.5bn and DKK 1.4bn, respectively, in 2011. In 2012 the LTV limit applying to properties in Spain was reduced from 80% to 70% as a result of Spain's economic situation.

Impairment losses on international mortgage lending came to DKK 39m in 2012, up DKK 18m. In 2012 impairment provisions of DKK 6.7m for a number of loans were reversed against DKK 2.2m in 2011.

### Mortgage debt outstanding relative to estimated property values

%	LTV (loan-to-value)						Total	LTV avg <sup>1</sup>
	0-40	40-60	60-80	80-90	90-100	Over 100		
2012								
Personal	63	21	12	2	1	1	100	69
Commercial <sup>2</sup>	70	20	8	1	0	1	100	60
Agricultural <sup>3</sup>	69	20	8	1	1	1	100	61
2011								
Personal	65	21	11	2	1	0	100	66
Commercial <sup>2</sup>	70	21	8	1	0	0	100	59
Agricultural <sup>3</sup>	72	19	7	1	1	0	100	57

<sup>1</sup> Determined as the top part of the debt outstanding relative to estimated property values.

<sup>2</sup> Commercial customers excluding agricultural customers.

<sup>3</sup> The 2012 figures for agricultural customers are based on Nykredit's mortgageable values, for which a maximum price per hectare of DKK 175,000 has been applied.

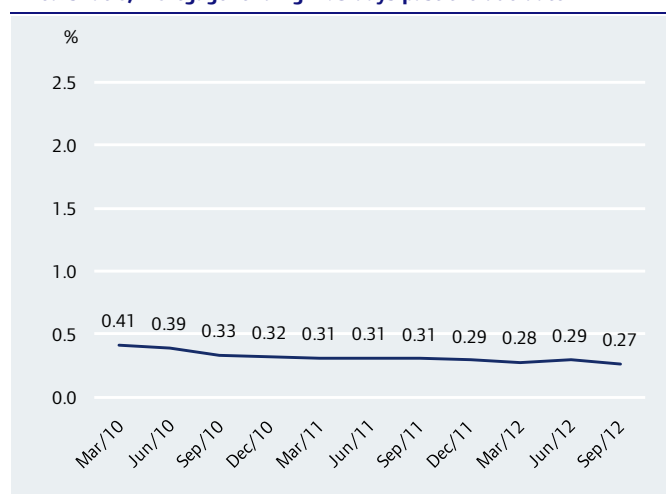


**Results – Totalkredit Partners**

DKK million	2012	2011
Core income from		
- business operations	1,744	1,369
- junior covered bonds	(263)	(94)
<b>Total</b>	<b>1,481</b>	<b>1,275</b>
Operating costs	411	425
Depreciation of property, plant and equipment and amortisation of intangible assets	521	492
<b>Core earnings before impairment losses</b>	<b>549</b>	<b>358</b>
Impairment losses on loans and advances	508	447
<b>Core earnings after impairment losses</b>	<b>41</b>	<b>(89)</b>

**Activity**

DKK million	2012	2011
<b>Mortgage lending</b>		
Gross new lending	115,392	69,952
Portfolio at nominal value, year-end	484,980	461,151
Impairment losses as % of loans and advances	0.10	0.10
<b>Total impairment provisions, year-end</b>		
- Individual impairment provisions	441	393
- Collective impairment provisions	429	311
Total impairment provisions as % of loans and advances	0.18	0.15
Portfolio of repossessed properties, year-end (properties)	77	85

**Arrears ratio, mortgage lending – 75 days past the due date****TOTALKREDIT PARTNERS**

The business area Totalkredit Partners comprises mortgage loans distributed to personal customers under the Totalkredit brand through nearly 70 Danish local and regional banks.

**Activity**

Mortgage lending in nominal terms rose by DKK 23.8bn to DKK 485bn at end-2012. Gross new lending was up by DKK 45.4bn to DKK 115.4bn in 2012.

**Results**

Core earnings after impairment losses came to DKK 41m against a loss of DKK 89m in 2011.

Results reflect high lending activity and higher administration margins from 1 April 2012, but also significant growth in interest expenses for junior covered bonds and higher loan impairments.

Core income from business operations grew 27% to DKK 1,744m against DKK 1,369m in 2011. The improvement mirrored high remortgaging levels due to historically low interest rates.

Net expenses for junior covered bonds were DKK 263m against DKK 94m in 2011.

Operating costs declined by DKK 14m to DKK 411m in 2012.

Depreciation of property, plant and equipment and amortisation of intangible assets amounted to DKK 521m, which mainly related to amortisation of distribution rights obtained in connection with Nykredit's acquisition of Totalkredit.

Realised losses, corresponding to the cash part of a loan exceeding 60% of the mortgageable value of the property at the time of granting, are offset against future commission payments from Totalkredit to its partner banks.

Loan impairment losses were DKK 508m after set-off against commission payable to the partner banks of DKK 242m against a net expense of DKK 447m in 2011. Impairment losses totalled 0.10% of loans and advances, which was the same level as in 2011.

Despite declining arrears ratios, impairment losses on mortgage lending rose in particular as a result of low marketability and declining prices of some property types.

Impairment provisions totalled DKK 870m at end-2012 against DKK 704m at the beginning of the year. The change in total impairment provisions of DKK 166m stemmed from a DKK 118m rise in collective provisions and a DKK 48m rise in individual provisions.

At the September due date, 75-day mortgage loan arrears as a percentage of total mortgage payments due came to 0.27% against 0.31% at the same time in 2011.

Since the beginning of the year, 168 properties have been repossessed and 176 sold. The number of repossessed properties was 77 at end-2012.

The LTV ratios of the mortgage loan portfolio are shown below. 6% of mortgage lending to personal customers has a current LTV ratio in excess of 80% against 5% at end-2011.

#### Mortgage debt outstanding relative to estimated property values

%	LTV (loan-to-value)						Total	LTV avg <sup>1</sup>
	0-40	40-60	60-80	80-90	90-100	Over 100		
2012	54	23	17	4	1	1	100	78
2011	56	23	16	4	1	0	100	76

<sup>1</sup> Determined as the top part of the debt outstanding relative to estimated property values.

**Results – Wholesale**

DKK million	2012	2011
Core income from		
- business operations	2,369	2,227
- value adjustment of derivatives and corporate bonds	(140)	(224)
- junior covered bonds	(26)	(15)
<b>Total</b>	<b>2,203</b>	<b>1,988</b>
Operating costs	837	796
Payment to the Guarantee Fund for Depositors and Investors	3	-
Depreciation of property, plant and equipment and amortisation of intangible assets	5	3
<b>Core earnings before impairment losses</b>	<b>1,358</b>	<b>1,189</b>
Impairment losses on loans and advances		
- mortgage lending	36	(284)
Impairment losses on loans and advances - banking	34	(40)
<b>Core earnings after impairment losses</b>	<b>1,288</b>	<b>1,513</b>

**Income from customer activity**

DKK million	2012	2011
Gross income before payment for distribution		
- Nykredit Markets	914	839
- Nykredit Asset Management	782	715
- Corporate & Institutional Banking	1,417	1,350
<b>Total</b>	<b>3,113</b>	<b>2,904</b>
Payment for distribution		
- Nykredit Markets	(398)	(337)
- Nykredit Asset Management	(452)	(399)
- Corporate & Institutional Banking	106	59
<b>Total</b>	<b>(744)</b>	<b>(677)</b>
Gross income after payment for distribution		
- Nykredit Markets	516	502
- Nykredit Asset Management	330	316
- Corporate & Institutional Banking	1,523	1,409
<b>Total</b>	<b>2,369</b>	<b>2,227</b>

**WHOLESALE**

The business area Wholesale comprises activities with the Group's corporate and institutional clients, the non-profit housing segment and mortgage lending to corporates for properties abroad. Wholesale also handles the Group's activities within securities and financial derivatives trading and asset management. Wholesale consists of Corporate & Institutional Banking, Nykredit Markets and Nykredit Asset Management.

**Results**

Core earnings after impairment losses came to DKK 1,288m against DKK 1,513m in 2011.

The figure reflects a robust activity level and loan impairment losses which continued to be very low.

All business units recorded progress in core income from business operations, which grew by DKK 142m to DKK 2,369m in 2012.

Value adjustment of derivatives, mainly interest rate swaps, was a charge of DKK 140m in 2012 against a charge of DKK 224m in 2011.

Nykredit Markets's gross income from customer activity amounted to DKK 914m, up by DKK 75m on 2011. Results were characterised by higher activity levels and customer numbers.

Nykredit Asset Management's gross income from customer activity amounted to DKK 782m, corresponding to an uplift of DKK 67m on 2011. Results mirrored growth in assets under management and administration.

Nykredit Markets's income after payment for distribution grew by DKK 14m to DKK 516m in 2012.

Nykredit Asset Management's income after payment for distribution rose by DKK 14m to DKK 330m in 2012.

Operating costs increased by DKK 41m to DKK 837m in 2012.

Impairment losses amounted to DKK 36m on mortgage lending and DKK 34m on bank lending compared with a total net credit of DKK 324m in 2011. Impairment losses amounted to 0.02% and 0.35% of mortgage and bank lending, respectively.

**Mortgage debt outstanding relative to estimated property values<sup>1</sup>**

%	LTV (loan-to-value)						Total	LTV avg <sup>1</sup>
	0-40	40-60	60-80	80-90	90-100	Over 100		
2012	72	21	6	1	0	0	100	57
2011	73	19	6	1	0	1	100	55

<sup>1</sup> Determined as the top part of the debt outstanding relative to estimated property values.

**Activity – Wholesale**

DKK million	2012	2011
<b>Mortgage lending</b>		
Gross new lending	35,460	29,487
Portfolio at nominal value, year-end	173,599	161,426
Impairment losses for the period as % of loans and advances	0.02	(0.18)
<b>Total impairment provisions, year-end</b>		
- Individual impairment provisions	104	140
- Collective impairment provisions	63	80
Total impairment provisions as % of loans and advances	0.10	0.14
Portfolio of repossessed properties, year-end (properties)	3	7
<b>Banking</b>		
Loans and advances, year-end	19,653	24,105
Deposits, year-end	16,286	19,401
Impairment losses for the period as % of loans and advances	0.35	(0.19)
<b>Total impairment provisions, year-end</b>		
- Individual impairment provisions	1,729	1,959
- Collective impairment provisions	81	129
Total impairment provisions as % of loans and advances	8.43	7.97
Guarantees, year-end	936	1,582
Provisions for guarantees, year-end	8	51
<b>Assets under management</b>	<b>103,698</b>	<b>101,331</b>
<b>Assets under administration</b>		
<b>Nykredit Portefølje Administration A/S</b>	<b>513,675</b>	<b>334,796</b>
- of which the investment funds of the Nykredit Group	46,518	35,417

At end-2012, impairment provisions totalled DKK 1,977m, down by DKK 331m. The decline in total impairment provisions can be broken down into DKK 167m for mortgage loans and DKK 1,810m for bank loans. The drop in 2012 stemmed from both collective and individual impairment provisions of DKK 65m and DKK 266m, respectively.

**Activity**

Total nominal mortgage lending increased by DKK 12.2bn to DKK 174bn at end-2012. Gross new mortgage lending grew by DKK 6.0bn to DKK 35.5bn at end-2012.

At end-2012, bank lending was DKK 19.7bn, down DKK 4.5bn on the beginning of the year.

Bank deposits decreased by DKK 3.1bn to DKK 16.3bn at end-2012.

At end-2012, Nykredit Asset Management had assets under management totalling DKK 104bn, up DKK 2.4bn. Total assets under administration went up by DKK 179bn to DKK 514bn at end-2012.

At the September due date, 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.08% against 0.09% at the same time in 2011.

The LTV ratios of mortgage loans are shown in the Table on page 17. As the table contains property types subject to different LTV limits, reference is made to the report Risk and Capital Management 2012, available at [nykredit.com/reports](http://nykredit.com/reports), for a more detailed description of the LTV levels of Nykredit's mortgage lending.

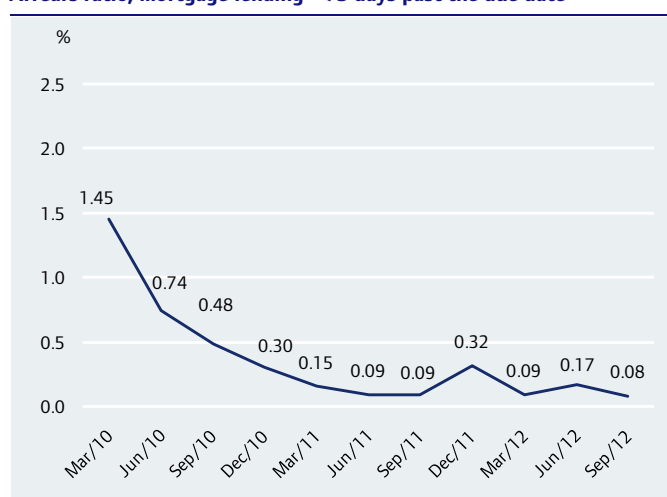
**International operations**

For properties abroad, Nykredit offers Danish and certain international commercial customers mortgages subject to Danish legislation. Mortgages have been granted for properties in Finland, Germany, Norway, Sweden and the UK.

Core income from international mortgage lending rose by DKK 84m to DKK 276m in 2012.

Nominal mortgage lending amounted to DKK 46.7bn at end-2012 against DKK 36.6bn at end-2011. Lending in Sweden represented DKK 21.6bn, lending in Germany DKK 14.7bn and lending in the UK DKK 6.2bn compared with DKK 16.3bn, DKK 11.9bn and DKK 4.3bn in 2011.

Impairment losses on international mortgage lending came to DKK 9m in 2012. Impairment provisions totalling DKK 1m for a number of loans were reversed in 2012.

**Arrears ratio, mortgage lending – 75 days past the due date**

**Results – Group Items**

DKK million	2012	2011
Core income from		
- business operations	(104)	15
- securities	212	644
<b>Total</b>	<b>108</b>	<b>659</b>
Operating costs	646	624
Operating costs – special value adjustments	(265)	166
Payment to the Guarantee Fund for Depositors and Investors	9	100
Depreciation of property, plant and equipment and amortisation of intangible assets	227	195
<b>Core earnings before impairment losses</b>	<b>(509)</b>	<b>(426)</b>
Impairment losses on loans and advances – banking	12	20
<b>Core earnings after impairment losses</b>	<b>(521)</b>	<b>(446)</b>
Investment portfolio income	2,444	179
<b>Profit (loss) before cost of capital</b>	<b>1,923</b>	<b>(267)</b>
Net interest on hybrid capital	(465)	(462)
<b>Profit (loss) before tax</b>	<b>1,458</b>	<b>(729)</b>

<sup>1</sup> The payment to the Guarantee Fund for Depositors and Investors in 2011 related to the winding-up of Amagerbanken A/S, Fjordbank Mors A/S and Max Bank A/S.

**Activity**

DKK million	2012	2011
<b>Banking</b>		
Loans and advances, year-end	2,968	2,666
Deposits, year-end	2,049	2,989
<b>Total impairment provisions, year-end</b>		
- Individual impairment provisions	91	91
- Collective impairment provisions	15	0
Total impairment provisions as % of loans and advances	3.43	3.32
Guarantees, year-end	202	211
Provisions for guarantees, year-end	-	-

**GROUP ITEMS**

A number of income statement and balance sheet items are not allocated to the business areas. Such items are carried under Group Items and include costs of some staff functions, IT development costs and payments to the Guarantee Fund for Depositors and Investors. Group Items also includes the Group's total return on the securities portfolio, which is the sum of "Core income from securities" and "Investment portfolio income". Activities in Group Treasury and the companies Nykredit Ejendomme A/S and Ejendomselskabet Kalvebod A/S are also part of Group Items.

**Results**

Profit before tax was DKK 1,458m against a loss of DKK 729m in 2011.

**Core income from securities**

Group core income from securities was DKK 212m against DKK 644m in 2011. The change resulted from a decrease in the Danish central bank's average lending rate from 1.27% in 2011 to 0.43%.

Core income from securities equals the return which the Group could have obtained by placing its investment portfolios at risk-free interest rates. In addition, core income from securities includes net interest expenses relating to supplementary capital and the acquisition of Totalkredit.

**Operating costs**

Operating costs were DKK 646m against DKK 624m in 2011.

Special value adjustments including value adjustment of certain staff benefits and owner-occupied properties resulted in a net credit of DKK 265m in 2012 compared with a charge of DKK 166m the year before. The net credit was affected by a value adjustment of DKK 313m relating to the Group's senior benefit scheme, which was terminated in early 2012, and adjustment of pension plan provisions. The item was adversely affected by a provision of DKK 48m concerning staff reduction costs.

**Investment portfolio income**

The Group's investment portfolio generated income of DKK 2,444m against DKK 179m in 2011.

Investment portfolio income from bonds, liquidity and interest rate instruments came to DKK 1,837m after set-off of a charge of DKK 80m for a loss guarantee issued by Nykredit Holding in favour of Nykredit Bank. Investment portfolio income from equities and equity instruments value adjusted through profit or loss was DKK 152m. Further, investment portfolio income included a realised profit from the sale of strategic equities of DKK 455m.

Investment portfolio income is the income exceeding risk-free interest obtained from investing in equities, bonds and derivative financial instruments. To this should be added the realisation of equities classified as available for sale and value adjustment of Kalvebod issues. Price spread and interest margin income relating to the mortgage lending of Nykredit Realkredit and Totalkredit and the trading activities of Nykredit Markets are included not as investment portfolio income, but as core income from business operations.

# GROUP CAPITAL MANAGEMENT

## CAPITAL POLICY AND STRUCTURE

Nykredit's objective is to maintain active lending activities regardless of economic trends, while retaining a competitive credit rating. This means that Nykredit should have sufficient capital to cover the calculated increase in statutory capital requirements resulting from higher arrears and loss levels during a severe recession.

Capital is as far as possible concentrated in the Parent Company, Nykredit Realkredit A/S, to ensure strategic flexibility and leeway. Capital is contributed to subsidiaries as required.

### Capital policy under existing rules (Basel II)

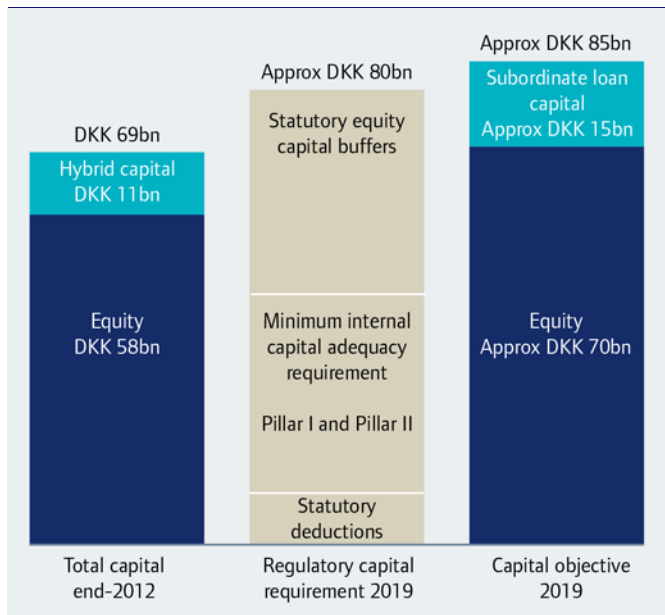
The capital requirement is calculated as the sum of Pillar I (model calculations) and Pillar II (supplementary internal capital adequacy requirement). The total capital requirement is denoted the required capital base and amounts to DKK 31.3bn, of which DKK 23.9bn in Pillar I and DKK 7.4bn in Pillar II. The internal capital adequacy requirement constitutes 9.6% of risk-weighted assets.

Under current legislation, the capital requirement must be assessed in relation to a company's capital base after statutory deductions. The statutory capital deductions amount to DKK 5.8bn and relate to intangible assets such as goodwill plus various minor deductions.

Nykredit's capital policy objective is to have equity capital covering:

- *Statutory capital deductions* of DKK 5.8bn, just over half relating to goodwill.
- *Required capital base (Pillar I and Pillar II)* of DKK 31.3bn, which includes an assessment of the impact of a slightly weaker economic climate. The determination of the required capital base takes into account any special risks related to Nykredit's business activities and the calculations include buffers where relevant.

### The Nykredit Realkredit Group Estimated capital position under future rules



- *Countercyclical buffer* of DKK 14.3bn calculated as the rise in the capital requirement if a severe recession should set in with an unemployment rate of 6.5-10% and interest rates of 5.5-7%. The countercyclical buffer is determined by means of stress tests.

All in all, a capital policy requirement of equity in the region of DKK 51.4bn.

### Capital policy under future rules (Basel III)

The European Council of Ministers, the European Parliament and the European Commission agree on all material issues in relation to the new capital adequacy rules. The new rules are expected to be adopted in Q2/2013, and they will be phased in towards 2019.

The future capital requirement is estimated at around 16% of risk-weighted assets, of which equity must account for 14%. The remaining capital may be in the form of supplementary capital or higher quality capital. Furthermore, the capital requirement will increase as a result of changed rules for calculating risk-weighted assets. Measured at group level, risk-weighted assets currently total DKK 326.8bn. Other things being equal, they will increase to an estimated DKK 425bn-450bn due to the changed calculation rules.

The new capital requirements consist of the existing requirements plus equity capital buffers of 2.5-5% of risk-weighted assets and a capital surcharge for systemically important financial institutions (SIFIs). Being the largest lender in Denmark, Nykredit expects to be subject to all of the above requirements.

In Nykredit's case, changes in statutory buffer requirements are presumed to be largely offset by the changes in risk-weighted assets usually resulting from changes in economic trends (unemployment etc). Hence, the capital requirement will be largely the same for Nykredit during expansionary and recessionary periods.

All in all, the new rules are expected to double Nykredit's capital requirement in terms of the required capital base. The new capital requirement is estimated to amount to DKK 70bn of equity including a capital reserve buffer of DKK 5bn, plus approximately DKK 15bn in the form of other subordinate loan capital. The capital level may change when the final rules from the EU and the Danish authorities are introduced.

Increasing lending in the coming years will result in additional capital requirements. A 1% increase in risk-weighted assets will cause the capital requirement to rise by DKK 0.7bn.

The required increase in equity given the higher capital requirements will be accomplished over the next six years or so. Nykredit's Board of Directors will continually consider initiatives to ensure the requisite growth in equity.

## REQUIRED CAPITAL BASE AND INTERNAL CAPITAL ADEQUACY REQUIREMENT

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

The internal capital adequacy requirement is calculated as the required capital base as a percentage of risk-weighted assets.

The determination of the required capital base takes into account the business targets by allocating capital for all relevant risks, including any model uncertainties. The Group's required capital base was DKK 31.3bn at end-2012, equal to an internal capital adequacy requirement of 9.6%.

### The Nykredit Realkredit Group Required capital base and internal capital adequacy requirement

DKK million	2012	2011
Credit risk	18,285	17,962
Market risk	3,812	5,821
- of which stressed VaR	2,372	2,797
Operational risk	1,662	1,373
Risk relating to own properties	133	128
<b>Total Pillar I</b>	<b>23,893</b>	<b>25,284</b>
Slightly weaker economic climate (stress tests, etc)	2,506	2,463
Other <sup>1</sup>	2,104	2,743
Model and calculation uncertainties	2,776	2,916
<b>Total Pillar II</b>	<b>7,385</b>	<b>8,122</b>
<b>Total required capital base</b>	<b>31,278</b>	<b>33,405</b>
<b>Total risk-weighted assets</b>	<b>326,775</b>	<b>348,155</b>
<b>Internal capital adequacy requirement, %</b>	<b>9.6</b>	<b>9.6</b>

<sup>1</sup> Other includes assessment of control risk, strategic risk, external risk, concentration risk and liquidity risk.

### Stress scenarios for determination of capital requirement

%	2013	2014	2015
<b>Base case</b>			
GDP, growth	1.1	1.6	2.1
Interest rates <sup>1</sup>	0.9	1.1	1.5
Property prices, growth	0.7	2.4	2.0
Unemployment	4.3	4.2	4.2
Danish equity index, growth	2.0	2.0	2.0
<b>Slightly weaker economic climate (scenario applied under Pillar II)</b>			
GDP, growth	0.0	0.0	0.4
Interest rates <sup>1</sup>	2.3	2.8	3.7
Property prices, growth	(3.0)	(3.0)	0.0
Unemployment	5.0	5.4	5.2
Danish equity index, growth	(5.0)	(5.0)	0.0
<b>Severe recession (scenario applied under countercyclical buffer)</b>			
GDP, growth	(3.0)	(2.0)	0.0
Interest rates <sup>1</sup>	5.5	6.5	7.0
Property prices, growth	(12.0)	(10.0)	(5.0)
Unemployment	6.5	9.0	10.0
Danish equity index, growth	(10.0)	(10.0)	(5.0)

<sup>1</sup> Average of 3-month money market rates and 10-year government bond yields.

Nykredit's required capital base consists of Pillar I and Pillar II capital.

#### Pillar I

Pillar I capital, covering credit, market and operational risks as well as risk relating to own properties, was determined at DKK 23.9bn at end-2012.

#### Pillar II

Pillar II comprises capital to cover other risks as well as an increased capital requirement during an economic downturn. The Pillar II capital requirement was determined at DKK 7.4bn at end-2012. The capital requirement during a slight economic downturn is determined by means of stress tests.

Under Pillar II, a capital charge is added to reflect the uncertainty of the models used. Generally, the charge applied corresponds to 10% of the amounts calculated.

## STRESS TESTS AND COUNTERCYCLICAL BUFFER

Nykredit conducts a large number of model-based stress tests and capital projections to determine the required capital base in the current economic climate and in a severe recession scenario. The results are applied at both group and company level and are included in the annual assessment by the individual boards of directors of the internal capital adequacy requirement. In the determination of the capital requirements, the stress tests are not the only element, but are included in an overall assessment along with the company's business model, risk profile and capital structure.

The capital projection model includes the macroeconomic factors of greatest importance historically to the Group's customers. An essential element of the capital projection model is the correlation between the development in the macroeconomic factors and borrower credit risk parameters in different scenarios.

The most important macroeconomic factors identified are:

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

Nykredit operates with three scenarios of the macroeconomic development: a base case scenario, a slightly weaker economic climate and a severe recession. Both in a slightly weaker economic climate and during a severe recession, the capital requirement for credit risk builds on correlations between the macroeconomic factors, customer default rates (PD) and the size of the loss in case of customer default (LGD).

#### Scenario: Base case

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

#### Scenario: Slightly weaker economic climate in 2013-2015

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

The calculations factor in any negative earnings impact due to higher impairment losses etc. By including this charge under Pillar II, which is a central element of the internal capital adequacy requirement, any potential increase in the capital requirement is taken into account.

The capital charge for a slightly weaker economic climate came to DKK 2.5bn at 31 December 2012.

**Scenario: Severe recession (countercyclical buffer)**

A central element of Nykredit's capital policy is to have sufficient capital resources, also in the long term.

Nykredit continually calculates the impact of severe recession combined with a relatively high interest rate level. When determining the size of the countercyclical buffer, it is assumed that the current lending volume is maintained regardless of the economic downturn.

Nykredit designs the severe recession scenario so that it reflects an extreme, but not unlikely, situation.

At end-2012, the countercyclical buffer came to DKK 14.3bn.

The report Risk and Capital Management 2012, available at [nykredit.com/reports](http://nykredit.com/reports), contains a detailed description of the determination of the required capital base and internal capital adequacy requirement of the Nykredit Group as well as all group companies.



# ORGANISATION, MANAGEMENT AND CORPORATE RESPONSIBILITY

## FINANCIAL SUSTAINABILITY AND CORPORATE RESPONSIBILITY

A changing society needs sound financial enterprises to foster changes and secure sustainable short- and long-term financial solutions.

As a market participant, Nykredit has financial sustainability as its business concept. This means

### that we

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

### that you

- as a customer receive holistic advisory services that provide perspective and improve your options
- as a business partner experience competence, respect and determination to realise mutual benefits
- as an investor are offered a broad range of investment options with focus on security and transparency
- as a staff member have room to unfold your full potential while maintaining a work-life balance
- as a member of society can expect us to contribute to securing a stable and efficient financial market, while maintaining a broad sense of community.

Nykredit's relations with customers, business partners, investors, society and staff are described in the report About Nykredit 2012 – CSR Report on Financial Sustainability, available at [nykredit.com/reports](http://nykredit.com/reports).

## STRATEGY TO STRENGTHEN GROWTH IN BANKING

Nykredit has a strategy which is to pave the way for significant business development.

The strategy is to further develop the Group, with banking and mortgage lending as core activities.

The strategy supports the Totalkredit concept as a strategically important part of our mortgage operations.

Denmark is our main geographic focus area for business growth.

### Fundamental business principles

The strategy is based on a set of fundamental business principles which determine how Nykredit conducts and organises its activities:

- Customers first  
Our services are motivated by customer needs and requirements – we are market-driven and customer-oriented.
- Transparency  
It is evident and clear how we organise our activities, what and how we prioritise, and therefore how we create value for our customers and Nykredit.

- New thinking  
We prioritise and encourage new thinking as part of the most optimal and flexible use of Nykredit's resources.
- A balanced and profitable business  
We aim at profitable business based on long-term and sustainable relations while taking into consideration Nykredit's and our customers' risk.
- Resource mobility  
We focus on efficient and cost-conscious use of resources to the utmost benefit of the Group.

### The Group's strategic ambitions

Nykredit has set four long-term objectives for the Group:

- Nykredit is a leading provider in the Danish financial services sector
- Nykredit and its development rest on two strong legs – banking and mortgage lending
- Nykredit has the most satisfied customers among leading Danish providers
- Nykredit offers one of the most attractive and challenging workplaces in Denmark.

## ORGANISATION AND DELEGATION OF RESPONSIBILITIES

The Board of Directors of Nykredit Realkredit A/S counts 14 members, of which nine are elected by the General Meeting for a term of one year and five are elected by and among the staff for a term of four years.

The Board of Directors is the supreme management body of the Company, which makes decisions of a strategic and fundamental nature and lays down guidelines for the day-to-day management of the Group Executive Board.

Nykredit is committed to having a Board of Directors of a suitable size, composition and diversity, which possesses the competencies required to meet the management tasks and the responsibility resting at all times with the Board of Directors as the supreme management body of the Company.

The Board of Directors reviews its competency profile on an ongoing basis. It has been decided that the Board of Directors should have special competencies as regards:

- Strategy
- Knowledge of the business sector and real property
- Economics, finance and accounting
- Capital markets, securities and funding
- Politics, management and associations
- Legal and regulatory matters of importance to financial business
- Management of large companies
- Market conditions, customer relations and sales
- Organisation/HR, IT and processes
- Credit matters.

Further details on the competency profile of the Board of Directors, the special competencies of each board member and the composition, size

and diversity of the Board of Directors are available at [nykredit.com/organisationuk](http://nykredit.com/organisationuk).

### Board committees

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

#### Audit Board

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

The Audit Board consists of Steffen Kragh, CEO (Chairman), Anders C. Obel, CEO, and Nina Smith, Professor, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting. The Board of Directors of Nykredit Realkredit A/S has appointed Steffen Kragh, CEO, as the independent, proficient member of the Audit Board.

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

The Audit Board held four meetings in 2012.

#### Remuneration Board

The Remuneration Board consists of Steen E. Christensen, Attorney (Chairman), Hans Bang-Hansen, Farmer, and Steffen Kragh, CEO, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting.

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

The Remuneration Board held three meetings in 2012.

#### Nomination Board

The Nomination Board consists of Steen E. Christensen, Attorney (Chairman), Hans Bang-Hansen, Farmer, Steffen Kragh, CEO, and Nina Smith, Professor, who are all members of the Board of Directors of Nykredit Realkredit A/S elected by the General Meeting.

The Nomination Board is tasked with drawing up recommendations for the Board of Directors on the nomination of candidates for the Committee of Representatives, the Board of Directors and the Executive Board. In addition, the Nomination Board, which is accountable to the Board of Directors, is overall responsible for the competency profiles and continuous evaluation of the work and results of the Board of Directors and the Executive Board.

The Nomination Board held five meetings in 2012.

### Group committees

Nykredit has appointed a number of group committees which are to perform specific tasks within selected business fields. All the committees include one or more members of the Group Executive Board.

*The Group Credits Committee* is charged with overseeing and supervising the management of risks in the Nykredit Group in the credits area.

*The Group Treasury Committee* is charged with ensuring efficient management of securities and funding activities in the Nykredit Group.

### Organisation and delegation of responsibilities

#### Board of Directors

- Overall governance and strategic management
- Lays down overall policies and guidelines

#### Audit Board

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

#### Remuneration Board

- Prepares and recommends the remuneration policy

#### Nomination Board

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

#### Group Executive Board

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

#### Group committees

- Governance and management within selected fields of business

##### Group Credits Committee

- Manages and formulates the credit policy
- Approves large exposures

##### Group Contingency Committee

- Responsible for compliance with contingency plans and related IT security policy

##### Group Treasury Committee

- Manages market risk
- Endorses market risk limits at individual company level
- Operational liquidity management

##### Group Advisory Committee

- Lays down guidelines for Nykredit's advisory services

##### Group Asset/Liability Committee

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

##### Group Products Committee

- Ensures development and maintenance of concepts and products

##### Group Risk Committee

- General capital and risk management
- General risk policy
- Approves risk models

##### Group Pricing Committee

- Reviews recommended prices for group products

##### Group Audit Committee

- Reviews audit-related issues

##### Group IT Portfolio Committee

- Determines and approves all aspects of IT operations

*The Group Asset/Liability Committee* is tasked with supervising and coordinating liquidity, ALM and capital management.

*The Group Risk Committee* is charged with overseeing the total risk exposures and capital requirements of the Nykredit Group.

*The Group Audit Committee* is charged with reviewing audit-related issues, including internal and external audit reporting (group audit plan, long-form audit reports and management summaries) and preparing items for review by the Audit Board.

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

*The Group Advisory Committee* lays down the overall guidelines for Nykredit's advisory services, including coordination of advisory statements and recommendations across lending and investments and across tactical and strategic asset allocation.

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

*The Group Pricing Committee* reviews Nykredit's recommended prices for banking and mortgage services.

*The Group IT Portfolio Committee* determines and approves all aspects of the Group's IT operations, including the allocation of resources between system development, management and operating activities, including outsourced activities.

## CORPORATE GOVERNANCE

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

In consequence, the Nykredit Realkredit Group complies with the revised Recommendations on Corporate Governance of the Committee on Corporate Governance subject to the adjustments that follow from its special ownership and management structure. The recommendations form part of the rules of NASDAQ OMX Copenhagen A/S.

The recommendations concerning the composition and organisation of the Board of Directors, and in particular the independence of the Board of Directors and shareholders' role and interaction with the company management, address an ordinary listed company with many shareholders.

Nykredit Realkredit A/S differs from ordinary listed companies, as the company has only one shareholder, Nykredit Holding A/S, which has a limited number of shareholders: Foreningen Nykredit (the Nykredit Association), Foreningen Østifterne, Industriens Fond and PRAS A/S.

The purpose of the recommendations concerning shareholders' role and interaction with the company management is to create an appropriate setting encouraging shareholders to enter into a dialogue with

the company management. The limited number of shareholders of Nykredit Realkredit A/S and Nykredit Holding A/S per se creates a good setting for a close dialogue with the company management. The Board of Directors does therefore not consider this part of the recommendations relevant to the Nykredit Realkredit Group.

In 1991 the mortgage association Nykredit was converted into a public limited company. Nykredit operates through Nykredit Realkredit A/S, the objects of which are to carry on mortgage banking and other financial business. The company is wholly owned by Nykredit Holding A/S, the object of which is to carry on Nykredit's activities. Foreningen Nykredit is the largest shareholder of Nykredit Holding A/S, owning 89.80% of the shares. Its objects are to be a shareholder of the Nykredit Group and to carry on mortgage banking and other financial business.

The majority of the directors of Nykredit Holding A/S, who are also directors of Nykredit Realkredit A/S with a few exceptions, are elected by Foreningen Nykredit among the members of its Committee of Representatives who are directors of Foreningen Nykredit. They are elected by Foreningen Nykredit's members, who are borrowers of Nykredit Realkredit A/S and its bondholders. This board structure is considered appropriate as Foreningen Nykredit, Nykredit Holding A/S and Nykredit Realkredit A/S share objects and interests. Accordingly, the Board of Directors does not consider the recommendation that at least half the directors should be independent of controlling shareholder interests as relevant to the Nykredit Realkredit Group.

Further information on Nykredit's organisation and corporate governance policy is available at [nykredit.com/corporategovernanceuk](http://nykredit.com/corporategovernanceuk).

## REMUNERATION

### Bonus programmes

Variable remuneration, including bonus programmes, does not apply to the Board of Directors and the Group Executive Board. The total remuneration of the Board of Directors and the Group Executive Board appears from note 11 of this report.

### Risk-takers

The Group has designated 30 risk-takers, who together with 9 subsidiary executives receive variable remuneration. The numbers are unchanged on 2011. Pursuant to the Danish Financial Business Act, this group is subject to special restrictions, chiefly in relation to payout of bonus. Some of these restrictions are deferral of payout over a several-year period, partial payout through bonds subject to selling restrictions instead of cash payment and Nykredit's ability to retain the deferred amount under special circumstances.

The risk-takers are designated by the Board of Directors based on the size of the loss that the individual risk-taker may inflict on Nykredit in terms of credit or market risk.

As Nykredit is the largest provider of domestic loans in Denmark, the majority of the risk-takers have been designated because of their possibility of inflicting credit losses on Nykredit.

The 2012 bonus provisions were DKK 16m for all subsidiary executives and significant risk-takers compared with an earned bonus of DKK

11m for 2011. The 2012 bonus provisions correspond to 25% of the group's total salaries.

The total remuneration of significant risk-takers appears from note 11 of this report. Details on bonuses for risk-takers, remuneration policy and practices are available at [nykredit.com/aboutnykredit](http://nykredit.com/aboutnykredit).

#### *Individual bonus programmes*

Nykredit has designed a number of individual bonus programmes applying to the senior executives and specialists in key areas.

Executives reporting directly to the Group Executive Board and other selected executives participate in an individual bonus programme with a potential bonus of up to three months' salary. The 2012 bonus provisions in respect of this group of executives amounted to DKK 9m compared with the bonus of DKK 10m paid out for 2011. The 2012 bonus provisions correspond to 4% of the group's total salaries.

Individual bonus programmes meeting market standards apply to selected executives and staff in Nykredit Markets, Nykredit Asset Management and Group Treasury. The remuneration of these staff members is based on their job performance. The 2012 bonus provisions in respect of these staff members amounted to DKK 93m compared with the bonus of DKK 56m paid out for 2011. The 2012 bonus provisions correspond to 54% of the group's total salaries.

Similar individual bonus programmes apply to staff with responsibility for the largest customers. The 2012 bonus provisions in respect of these staff members amounted to DKK 16m compared with the bonus of DKK 13m paid out for 2011. The 2012 bonus provisions correspond to 10% of the group's total salaries.

#### *General programme*

Bonus programmes no longer apply to other management and staff members, but they may receive an individual performance award. For 2012, provisions of DKK 10m were made for performance awards compared with a total bonus of DKK 13m paid out for 2011. The performance award provisions for 2012 correspond to slightly more than 0.5% of the group's total salaries.

#### *Bonus provisions*

The total charge for bonuses and performance awards for 2012 came to DKK 144m against a total charge of DKK 102m in 2011. The increase mainly stemmed from the significant rise in investment portfolio income in 2012. The total bonus and performance award charge for 2012 corresponds to 6% of total salaries.

### **INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS**

The Group's internal controls and risk management relating to the financial reporting process are designed to efficiently manage rather than eliminate the risk of errors and omissions in connection with financial reporting.

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

### **Financial reporting process**

The financial reporting process is based on internal control and risk management systems, which together ensure that all relevant financial transactions are correctly reflected for accounting purposes and in financial statements. Nykredit's management continuously reviews items in respect of which estimates may have a material impact on the value of assets and liabilities.

Group Finance undertakes the Group's total financial control and reporting as well as the presentation of the financial statements. Furthermore, Group Finance is responsible for ensuring that the Group's financial reporting complies with policies laid down and current legislation.

The finance areas of subsidiaries contribute to the Group's financial control and reporting. They are responsible for the financial reporting of the subsidiaries, which includes compliance with current legislation and the Group's accounting policies.

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

Group Finance prepares monthly internal reports, performs budget control and is responsible for the Group's external annual and interim financial reporting.

The finance area of each subsidiary is responsible for its own reporting. Financial data and Management's comments on financial and business developments are reported monthly to Group Finance.

### **Control environment**

Business procedures are laid down and controls are implemented for all material risk areas, including areas of significance to the financial reporting process.

The Executive Board and a number of group committees, each chaired by a Group Managing Director, are responsible for risk delineation, management and monitoring.

Other important participants in connection with financial reporting are Group Treasury, Risk Management, Group Credits and Administration Services, which are responsible for the current risk and capital management, including reporting, bookkeeping and monitoring of group activities.

### **Risk assessment**

The risk management of the Board of Directors and the Executive Board relating to the financial reporting process may generally be summarised as follows:

- Periodical review of risk and financial reporting, including IT systems, general procedures and business procedures
- Review of the areas which include assumptions and estimates material to the financial statements
- Review of business and financial development
- Review and approval of budgets and forecasts
- Review of annual and interim reports and other financial data
- Review of reports from the Chief Risk Officer
- Annual assessment of the risk of fraud.

## Controls

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

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

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

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

The three functional levels are to ensure:

- Reliable internal and external reporting
- Compliance with legislation, other external rules and internal guidelines
- The value of the Group's assets, including efficient management of relevant risks. In connection with the preparation of financial statements, a number of fixed procedures and internal controls are performed to ensure a fair presentation of the financial statements in accordance with current legislation.

## Information and communication

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

Internal and external financial reports are submitted to the Group's Board of Directors and Executive Board on an ongoing basis. Internal reporting contains analyses of material matters in for instance the Group's business areas and subsidiaries.

Risk reports are submitted to the Board of Directors, the Executive Board, relevant management levels and the individual business areas and form the basis of Management's accounting estimates. For further information on the Group's risk and capital management, please refer

to the publication Risk and Capital Management 2012 available at [nykredit.com/reports](http://nykredit.com/reports).

## Monitoring

The Group's Audit Board continuously receives reports from the Executive Board and internal/external audit on compliance with the guidelines provided, business procedures and rules.

# GROUP RISK MANAGEMENT

## GROUP CHARACTERISTICS

Nykredit's activities comprise match-funded mortgage lending, bank deposits and lending, trading in securities and financial instruments, debt capital, asset management, pension products and insurance mediation. The business activities combined with the investment portfolio involve credit, market, liquidity and operational risks.

Nykredit strives to meet best international practice for risk management including disclosure of the Group's risk exposures. Nykredit's advanced models for quantifying group risks are central elements of the Group's risk and capital management.

Risk management is the responsibility of the Board of Directors and the Executive Board and is a key element of the Group's business operations. Through risk management, Nykredit seeks to ensure financially sustainable solutions in the short and long term.

The Group's investment assets are marked to market for which reason group earnings exhibit a certain degree of volatility.

Each year, Nykredit publishes a detailed report entitled Risk and Capital Management. The report contains a wide selection of risk key figures in accordance with the disclosure requirements of the Danish Executive Order on Capital Adequacy. The report also describes Nykredit's risk and capital management and is available at [nykredit.com/reports](http://nykredit.com/reports).

Nykredit publishes detailed quarterly reports on the loan portfolio by capital centre. The reports are available under "Cover pool disclosure reports" at [nykredit.com/coverpool](http://nykredit.com/coverpool).

### Balance principle

By far the greater part of group lending is mortgage lending governed by the balance principle. The legislative framework behind the balance principle is the Danish Financial Business Act, the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, and the Danish Executive Order on bonds.

Danish mortgage banks may apply either the specific balance principle

or the general balance principle. Nykredit applies the general balance principle, but operates internally according to a set of rules that is considerably stricter than the specific balance principle. That way, Nykredit is better able to support a smooth prepayment process for customers even in situations where it is difficult to purchase specific bonds in the market.

The balance principle is described further at [nykredit.com/documentation](http://nykredit.com/documentation).

### Connection between Nykredit's compliance with the balance principle and match funding

Loans funded by Danish covered bonds (SDOs and ROs) are granted according to uniform principles of market and liquidity risk.

More than 99% of the Group's mortgage loans are match-funded and have the following characteristics:

- On granting loans, Nykredit issues the bonds that fund loans on a daily basis.
- Each loan is match-funded through bonds sold in the market.
- Loans are denominated in the same currency as that of the bonds sold.
- The loan rates equal the yield-to-maturity of the bonds sold.
- Fixed-rate loans have fixed funding for the entire loan term. The funding of adjustable-rate mortgage loans is not fixed; they are funded by bonds with maturities between 1 and 11 years. On refinancing, the loan rate is adjusted to the yield-to-maturity of the new bonds funding the loan.
- When loans are prepaid, the matching proportion of the outstanding funding is reduced. Borrowers cover Nykredit's costs incidental to prepayments.
- The due dates of payment of interest and principal are fixed so that Nykredit receives the funds on or before the dates when the payments to bondholders fall due, provided borrowers make timely payments.
- Nykredit's earnings margin consists of a separate administration margin, chiefly calculated on the basis of the debt outstanding, which may be changed if market conditions change, for instance if losses increase. In addition, various fees may be charged.

### Strengths of Danish mortgage lending

- The statutory balance principle lays down strict limits to the liquidity and market risks allowed in connection with mortgage lending and the underlying funding.
- Mortgage loans are issued against security in the form of mortgages on real property. Legislation specifies LTV limits of between 60% and 80% depending on the type of property. Losses on mortgage loans are therefore very limited.
- Pursuant to statutory requirements, 60% of the regulatory capital must be placed in listed bonds. Bond issuers are therefore characterised by a high degree of liquidity under normal market conditions.

### Risk types

*Credit risk* reflects the risk of loss following the non-performance of counterparties.

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

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

*Operational risk* reflects the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

In practice, these characteristics mean that Nykredit incurs negligible interest rate risk, foreign exchange risk and liquidity risk on its mortgage lending and its underlying funding.

## CREDIT RISK

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

The Board of Directors lays down the overall framework of credit granting and is presented with the Group's largest credit applications for approval or briefing on a current basis.

Within the framework laid down by the Board of Directors, the Executive Board sets out the policies governing the individual business areas and Treasury. On behalf of the Executive Board, the Group Credits Committee considers large credit applications on a current basis.

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

Nykredit's local centres are authorised to decide on most credit applications in line with the Group's aim to process most credit applications locally.

Credit applications exceeding the authority assigned to the centres are processed centrally by Group Credits. At both group and subsidiary level, exposures over a specified amount are subject to approval by the Group Credits Committee or the board of directors of the group company concerned.

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

When the credit lines relating to derivative financial instruments are granted, Nykredit will often require that a contractual basis be established providing group companies with a netting option. The contractual framework is typically based on current market standards such as ISDA or GMRA agreements.

At least once a year, exposures of a certain size are reviewed, as are exposures showing signs of risk. This forms part of the monitoring of credit exposures and is based on updated financial and customer information.

Nykredit has the approval of the Danish FSA to apply a statistical model in the valuation of certain owner-occupied dwellings with no physical inspection.

Furthermore, Nykredit uses a statistical model for the ongoing monitoring of the market values of certain residential properties. The statistical valuations are performed centrally and supplemented with local valuations.

A substantial part of the Group's residential mortgage lending is arranged by Danish local and regional banks. In these cases, the bank performs the initial assessment of the customer and valuation of the property.

As a main rule, mortgage loans to personal customers arranged by banks are covered by a set-off agreement for recognised losses. The right of set-off applies to the part of the loan that exceeds 60% of the property value at the time of loan disbursement, and it applies for the entire loan term. In respect of losses on loans subject to set-off, To-talkredit is entitled subsequently to offset the part of the losses specified above against the commission paid to the banks for arranging the loans.

### Credit risk models

Nykredit uses internal ratings-based (IRB) models in the determination of credit risk for the greater part of the loan portfolio. Credit risk is determined using three key parameters: Probability of Default (PD), Loss Given Default (LGD) and Exposure Value (EV).

The models used to determine PD and LGD are built on historical data allowing for periods of low as well as high business activity. PD is therefore estimated by weighting current data against data dating back to the early 1990s. Current data carry a 40% weighting, while data from the early 1990s carry a 60% weighting. The LGD level for mortgage products reflects the level of losses during the recession in 1991-1993.

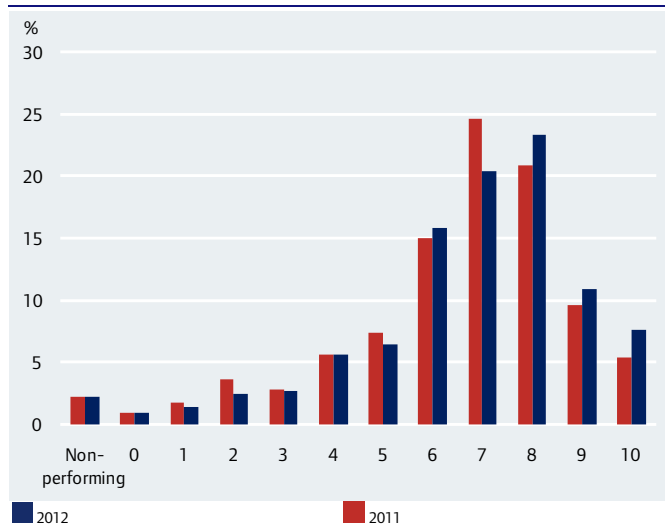
For personal customers and small enterprises, a statistical calculation of the customer's creditworthiness is applied for credit scoring. The PD is determined on the basis of a customer's credit score and payment behaviour.

### Parameters used to determine credit risk

PD	Probability of Default – the probability of a customer defaulting on an obligation to the Nykredit Group.
LGD	Loss Given Default – the loss rate of an exposure in case of a customer's default.
EV	Exposure value – the total exposure to a customer in DKK at the time of default, including any drawn part of a credit commitment.
LTV	Loan-To-Value, also called mortgageable value – the debt outstanding on a mortgage loan relative to the estimated property value.
Default	For mortgage products, an exposure is considered in default 75 days past due, while for banking products the third reminder will constitute default. Exposures for which individual impairment provisions have been made or a direct loss has been incurred are also considered in default.

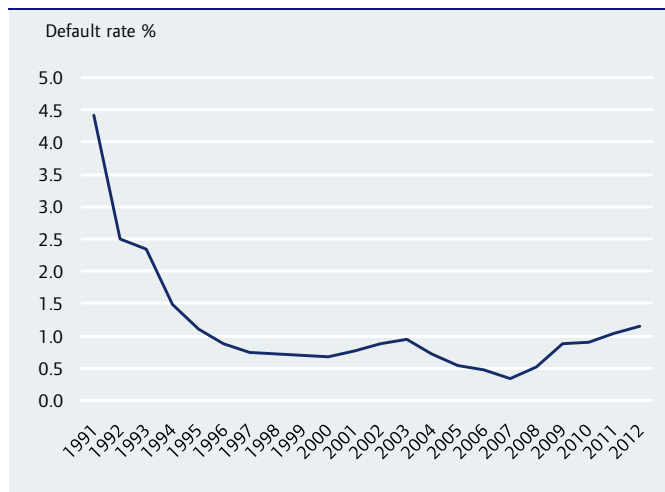
The PD is customer-specific, while the other parameters are product-specific. A PD is therefore assigned to each customer, while each customer exposure has a separate LGD, LTV and EV.

**The Nykredit Realkredit Group**  
**Debt outstanding by rating category**



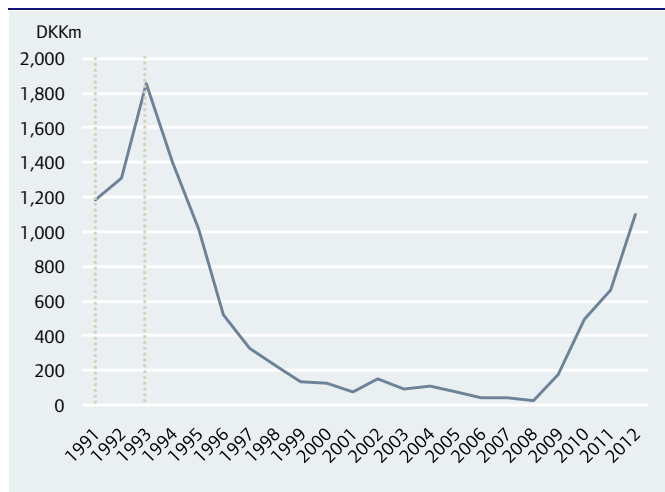
Note: The distribution shows the total debt outstanding by rating category, reflecting customers' probability of defaulting on their loans with Nykredit. 10 is the highest rating.

**Nykredit Realkredit A/S**  
**Data behind PDs – observed default rates**



Note: Determined as the number of customers.

**The Nykredit Realkredit Group – mortgage activities**  
**Data behind LGDs – recognised losses**



Note: Data behind LGD level: 1991-1993.

With respect to other customer segments, statistical models have been developed based on conditional probabilities estimating PDs that factor in business-specific circumstances such as financial data, arrears and loan impairment as well as industry-specific conditions and the macroeconomic climate.

The PDs of individual customers are converted into ratings from 0 to 10, 10 being the highest rating. Non-performing loans fall outside the rating scale and thus constitute a separate category. Customer ratings are an important element of the credit policy and customer assessment.

The LGD is calculated for each customer exposure. The LGDs of the majority of the Group's exposures are determined using internal approaches based on loss and default data. The calculations factor in any security such as mortgages on real property, including the type and quality of security and the ranking in the order of priority.

Mortgage banking is characterised by low LGDs as the security provided by way of mortgages on properties offers good protection against losses.

**Market development**

Labour and property market conditions as well as interest rate levels are of particular importance to the levels of arrears and loan default.

2012 saw a slight rise in unemployment, which landed at 6.3% at year-end, against 6.2% at end-2011. Nykredit expects unemployment to peak at around 6.5% in late 2013. From a historical perspective, the current unemployment rate is largely on the same level as in 2002 and 2003. Hence, the level of unemployment is not alarming, which is one of the reasons why the levels of arrears and forced sales are relatively low.

Interest rates have also developed favourably for the level of arrears and losses.

The number of forced sales fell markedly in December 2012, deviating from the otherwise upward trend towards the end of 2012. Nonetheless, the number of forced sales remained relatively high and was above 5,000 for the third consecutive year. The continued low interest rate levels have the opposite effect for the benefit of many homeowners. Moreover, through loans with interest-only periods, homeowners may stave off a forced sale in case of unemployment or other events implying a loss of income. The number of forced sales is expected to remain stable during 2013.

**Concentration risk**

Assessing concentration risk is a natural element of the Group's risk management. Concentration risk may be divided into two types: single-name concentrations and sectoral concentrations.

*Single-name concentrations*

Pursuant to the Danish Financial Business Act, individual exposures after deduction of particularly secure assets must not exceed 25% of the capital base. Nykredit had no exposures exceeding this limit in 2012. The Group had no large exposures that exceeded 10% of the capital base. The Group's largest approved exposure to non-financial counterparties amounted to DKK 5.9bn, equivalent to 9.5% of the capital base. The Group's 20 largest approved exposures to non-financial counterparties amounted to an aggregate DKK 64.5bn,



equivalent to 103% of the capital base, against 114% at end-2011. The vast majority of these exposures are mortgage loans with underlying security. Nykredit had 45 non-financial counterparties to which the approved exposure represented over 2% of the capital base.

*Sectoral concentrations*

Nykredit has a special credit exposure to personal customers which is secured by mortgages on real property. The exposure to personal customers secured by mortgages on real property accounted for 61.6% of total lending, compared with 61.9% at end-2011. Furthermore, Nykredit is exposed to the agricultural segment, the total exposure representing 8.8% of total lending against 9.1% at end-2011.

**LTV limits by property category**

Owner-occupied properties for all-year habitation	80% <sup>1</sup>
Private housing cooperative units	
Private residential rental properties	
Non-profit housing	
Youth housing	
Senior housing	
Properties used for social, cultural or educational purposes	60%
Holiday homes	
Agricultural and forestry properties, market gardens, etc <sup>2</sup>	
Office and retail properties <sup>2</sup>	
Industry and trades properties <sup>2</sup>	
Utilities	
Other properties – including undeveloped land	40%

<sup>1</sup> Some loan types offered for residential properties are subject to a lower LTV limit than 80%, but no supplementary security is required unless the LTV ratio subsequently exceeds 80%.

<sup>2</sup> The LTV limit may be extended up to 70% against supplementary security for the part in excess of 60%.

**Loan-to-value ratios (LTVs)**

The Group introduced two-tier mortgaging for personal customers in June 2012. Two-tier mortgaging reduces the supplementary collateral which the Nykredit Group must provide under SDO legislation in case of declining property prices. This solution helps ensure that customers can still obtain inexpensive home financing and that up to 80% of the mortgageable value of a property may be funded by mortgage loans.

At the time of granting, a mortgage loan must not exceed a certain proportion of the value of the mortgaged property pursuant to Danish legislation.

Subsequently, the ratio between the mortgage debt outstanding and the value of the property will change with the amortisation of the loan and/or as a result of changes in the market value of the property or the mortgage loan.

If the LTV ratio determined on an ongoing basis exceeds the statutory LTV limits, mortgage banks must provide supplementary collateral for the individual loans secured by mortgages on real property and funded by way of issuance of covered bonds. The bulk of the mortgage loans have original maturities of 20-30 years.

**The Nykredit Realkredit Group****Mortgage debt outstanding relative to estimated property values**

DKKm/%	LTV						Total	LTV avg, % <sup>1</sup>
	0-40	40-60	60-80	80-90	90-100	>100		
Private residential property	391,192	156,539	108,415	23,328	9,170	6,926	695,570	76
Private residential rental	73,437	23,971	12,932	1,483	639	565	113,027	65
Industry and trades	17,341	4,938	1,360	100	49	71	23,859	57
Office and retail	86,980	23,014	4,213	499	221	224	115,151	54
Agricultural	71,199	20,729	7,971	1,394	662	599	102,553	61
Non-profit housing	-	-	-	-	-	-	69,852	-
Other	14,033	2,660	922	60	40	70	17,785	50
<b>Total 2012</b>	<b>654,182</b>	<b>231,850</b>	<b>135,812</b>	<b>26,864</b>	<b>10,781</b>	<b>8,456</b>	<b>1,137,797</b>	<b>68</b>
Total 2011	639,976	218,468	124,416	23,446	7,446	4,335	1,085,890	66

<sup>1</sup> Determined as the top part of the debt outstanding relative to estimated property values.

Note: The figures are actual LTV ratios including any financed costs. Public authority guarantees reduce the credit risk relating to subsidised housing that forms part of lending to the non-profit housing segment. For this reason, LTVs of non-profit housing offer no relevant risk data.

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

**The Nykredit Realkredit Group****Mortgage debt outstanding relative to estimated property values**

%	LTV						Middle LTV % <sup>2</sup>
	0-40	40-60	60-80	80-90	90-100	>100	
Private residential property	56	23	16	3	1	1	35
Private residential rental	65	21	11	1	1	1	29
Industry and trades	73	21	6	0	0	0	26
Office and retail	76	20	4	0	0	0	24
Agricultural	69	20	8	1	1	1	27
Non-profit housing	-	-	-	-	-	-	-
Other	79	15	5	0	0	0	21
<b>Total 2012 <sup>1</sup></b>	<b>61</b>	<b>22</b>	<b>13</b>	<b>3</b>	<b>1</b>	<b>1</b>	<b>31</b>
Total 2011	63	21	12	2	1	0	30

<sup>1</sup> Calculated on the basis of debt outstanding including non-profit housing for which reason the totals do not add up to 100%.

<sup>2</sup> Determined as the mid part of the debt outstanding relative to estimated property values. The median LTV for private residential property thus shows that 50% of the debt outstanding falls within an LTV limit of 35%.

Note: In the table, debt outstanding is distributed continuously by LTV category. Loans with security covering for example between 0% and 60% of the mortgageable value are distributed with two thirds of the debt outstanding in the LTV range 0-40% and one third in the LTV range 40-60%. The table shows that where private residential property is concerned, 79% of mortgage lending falls within 60% of the property values.

Since December 2007, the Group has raised supplementary collateral through the issuance of junior covered bonds. At end-2012, the Group had issued DKK 43.3bn worth of junior covered bonds.

Nykredit monitors the development in the loan portfolio relative to property values (LTVs) very closely. To ensure sustainable credit and capital policies in the long term, scenario analyses and stress tests are used to assess the effects of significant price decreases in the housing market. In the scenarios, the development in future LTVs for different property types is analysed as well as the consequences thereof.

The table "Mortgage debt outstanding relative to estimated property values" shows the LTVs of group mortgage lending. The proportion of lending covered by guarantees provided by public authorities has been deducted. Public authority guarantees reduce the credit risk relating to subsidised housing that forms part of lending to the non-profit housing segment. For this reason, LTVs of non-profit housing offer no relevant risk data.

The share of residential properties with LTVs above 100% rose in the last two quarters of 2012, primarily due to declining housing prices.

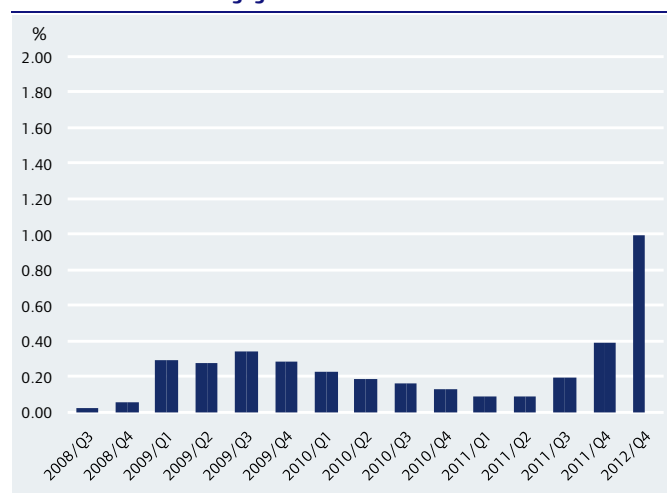
It should be noted that home loans with LTVs over 100% rarely result in losses for Nykredit, the typical loss trigger being socioeconomic events such as loss of job, divorce or illness. Divorce is by far the most frequent cause.

The areas in which Nykredit incurs losses in particular have a number of characteristics in common. The three main characteristics are:

- Shrinking population
- Higher unemployment rates than at national level
- Longer times-on-market than at national level

Further detailed information on the Group's mortgage loan portfolio is available under "Cover pool disclosure" at [nykredit.com/coverpool](http://nykredit.com/coverpool).

#### The Nykredit Realkredit Group Private residential mortgage loans with LTVs > 100%



Note: Only the part of loans beyond 100% LTV has been included.

### Counterparty risk

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

Counterparty risk is a measure of the size of the loss which Nykredit may sustain if a counterparty defaults on its obligations. For the purpose of calculating the capital requirement, the exposure value of counterparty risk is calculated according to the market value method,

ie as any positive market value of the transaction plus a potential future credit exposure.

The exposure value for counterparty risk amounted to DKK 75.4bn at end-2012, and the capital requirement was DKK1.3bn. The exposure broke down into DKK 49.0bn of repos and DKK 26.5bn of derivatives.

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

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

In 2012, Nykredit began clearing derivatives through a clearing broker. The derivatives clearing activity will increase at Nykredit in the course of 2013 as a result of the coming clearing requirement.

#### Value adjustment of derivatives

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

Nykredit makes fair value adjustments of financial instruments in accordance with the International Financial Reporting Standards (IFRS).

A number of commercial customers with floating-rate mortgages have hedged their interest rate risk through swap contracts with Nykredit Bank.

The decline in interest rates in recent years has resulted in increasing market values of interest rate swaps and other instruments and has also increased the credit risk exposure in respect of commercial customers that have not pledged collateral on an ongoing basis. As a consequence, a number of fair value adjustments have been made in recent years.

Credit value adjustment (CVA) is calculated on an ongoing basis for derivatives entered into with customers based on the customer's current credit quality.

Nykredit's interest rate risk on this portfolio is very limited. The risk is hedged by entering into offsetting financial contracts with major European and US banks under netting and financial collateral agreements.

#### Credit risk of investment portfolio

In line with Nykredit's investment strategy, the securities portfolio consists mainly of high-rated Danish as well as Nordic and Central European covered bonds. The portfolio also includes high-rated bank bonds, whereas investments in CDOs, CLOs, US subprime, etc are minimal.

### The Nykredit Realkredit Credit derivatives in the trading book

Nominal value 2012 DKK million	Risk disposed of	Risk received	Total
Financial institutions	-	-	-
Corporates	-	-	-
Sovereign	558	-	558
Index-linked	-	448	448
<b>Total credit derivatives 2012</b>	<b>558</b>	<b>448</b>	<b>1,006</b>
Total credit derivatives 2011	1,041	1,428	2,469

### The Nykredit Realkredit Group Investment portfolio credit risk

DKK million	2012	2011
<b>Government bonds</b>		
Denmark	3,170	18,216
Exposure to GIIISP countries <sup>1</sup>	-	57
Other countries	(5,162)	(715)
<b>Total exposure</b>	<b>(1,992)</b>	<b>17,558</b>
<b>Covered bonds including ROs and SDOs</b>		
Rating Aaa/AAA	41,136	63,089
Rating Aa1/AA+ – Aa3/AA-	18,336	33,800
Rating A1/A+ – Baa3/BBB-	3,810	1,356
Rating Ba1/BB+ or lower	70	-
Not rated	9	7
<b>Total exposure</b>	<b>63,362</b>	<b>98,252</b>
<b>Credit bonds</b>		
Rating Aaa/AAA	514	(329)
Rating Aa1/AA+ – Aa3/AA-	-	1,506
Rating A1/A+ – Baa3/BBB-	4,171	4,560
Rating Ba1/BB+ or lower	783	772
Not rated	913	1,672
<b>Total exposure</b>	<b>6,381</b>	<b>8,181</b>
<i>Of which:</i>		
<i>Subordinate loan capital and hybrid capital in Danish banks<sup>2</sup></i>	<i>1,051</i>	<i>1,775</i>
<i>Subordinate loan capital and hybrid capital in other banks<sup>2</sup></i>	<i>1,095</i>	<i>1,294</i>
<i>Kalvebod and Scandinotes</i>	<i>77</i>	<i>91</i>
<i>Structured bonds</i>	<i>9</i>	<i>53</i>
<i>Hedge funds</i>	<i>-</i>	<i>-</i>
<i>Collateralised Loan Obligations (CLOs)</i>	<i>-</i>	<i>-</i>
<b>Total credit exposures</b>	<b>67,751</b>	<b>123,991</b>

<sup>1</sup> Greece, Ireland, Italy, Spain and Portugal.

<sup>2</sup> Excl Kalvebod and Scandinotes.

Note: Kalvebod and Scandinotes are structured bonds with cover assets in the form of hybrid capital and subordinate loan capital in Scandinavian banks.

The figures in the table are not directly comparable with the notes, as they include derivative financial instruments. In addition, a different determination method is applied.

At end-2012, the Nykredit Realkredit Group had a net short government bond position of DKK 2.0bn. The Group had no sovereign exposures to GIISP countries.

Of the Nykredit Realkredit Group's total exposure in ROs, SDOs, other covered bonds and credit bonds of an aggregate DKK 69.7bn, the exposure to securities rated Aa3/AA- or higher amounted to DKK 60.0bn.

## MARKET RISK

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

The Nykredit Realkredit Group assumes various market risks in the course of its business activities.

By far the greater part of group lending is mortgage lending. The statutory balance principle limits the interest rate, volatility, foreign exchange and liquidity risks relating to mortgage lending and the associated funding.

However, Nykredit's risk in connection with mortgage lending is far below the limits provided by legislation. Nykredit funds its mortgage lending according to the match-funding principle. For this reason, Nykredit's mortgage banking activities involve insignificant liquidity, interest rate and refinancing risks.

Nykredit's market risk relates mainly to the investment portfolios. Furthermore, the banking activities involve market risk.

The limits relating to market risk in the Nykredit Realkredit Group are subject to approval by the Board of Directors. Through the Group Treasury Committee and within the limits provided by the Board of Directors, the Executive Board delegates and approves market risk limits to the group companies.

### Key figures on market risk

To obtain a full picture of group market risk, Nykredit combines various key figures that express sensitivity to the development in the financial markets. The Group's determination, management and reporting of market risk take place by combining a range of different

tools in the form of statistical models, stress tests and key ratios with subjective assessments.

The traditional risk measures, such as interest rate, equity price, volatility and foreign exchange risks, are so-called portfolio sensitivity tests. They are used to calculate the effect on the value of a portfolio in case of changing market conditions, such as increasing/decreasing interest rates, equity prices or volatility. Calculations are only made for one type of risk at a time. The traditional risk measures do not indicate how likely a particular event is to occur, but rather how much it would affect the value of a portfolio.

Value-at-Risk (VaR) models can be applied to calculate the maximum value decrease of a portfolio over a given period and at a given probability. VaR models measure the effect and probability of several risks occurring at the same time.

### Value-at-Risk

VaR is applied in the day-to-day internal management and determination of the required capital base.

The confidence level of the VaR model is 99%, but the choice of time horizon depends on the specific purpose of the calculations. For the day-to-day internal management, a time horizon of one day is applied, while a time horizon of 10 days is applied for the determination of the required capital base. VaR is calculated for both the trading book and the banking book. The model factors in the risk relating to the spread between bond yields and swap rates.

The model results are back tested on a day-to-day basis against actual realised returns on the investment portfolios to ensure that the model results are reliable and correct at any time.

As a consequence of any lower exceedings of the internal model back test, Nykredit Realkredit has added risk factors in order to capture the overall risk more accurately.

The Group's internal VaR totalled DKK 78m at end-2012 against DKK 120m at end-2011. This means that, according to Nykredit's model, the Group would, at a 99% probability, lose a maximum of DKK 78m in one day in consequence of market fluctuations.

## The Nykredit Realkredit Group Market risk

DKK million	2012			2011		
	Min	Max	Year-end	Min	Max	Year-end
Value-at-Risk (99%, time horizon of 1 day)	66	155	78	89	321	120
Interest rate risk (change of 100bp)	(83)	579	193	(261)	455	367
- of which outside the trading book	(27)	155	86	(43)	134	134
- of which from mortgage activities	(31)	131	69	(7)	108	50
Equity price risk (general decrease of 10%)	318	437	345	320	514	369
- of which adjusted against equity	173	248	177	203	336	255
Foreign exchange risk:						
Foreign exchange positions, EUR	8	768	294	11	1.222	187
Foreign exchange positions, other currencies	(246)	120	9	8	377	271
Interest rate volatility risk (Vega)	3	35	7	28	48	30

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

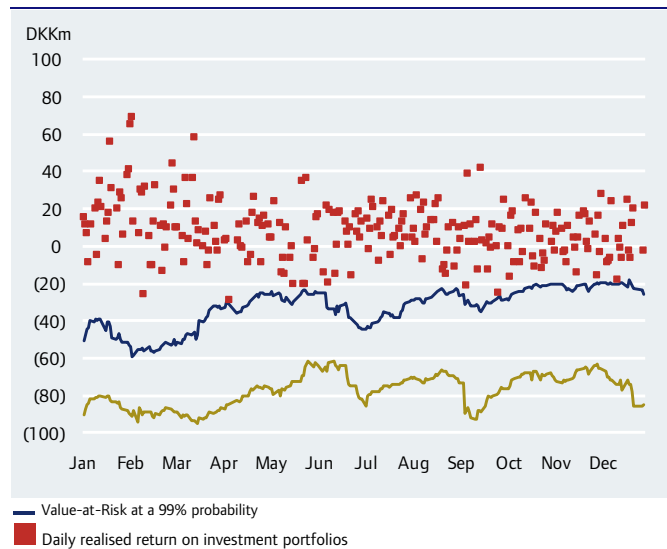
Nykredit Realkredit A/S and Nykredit Bank A/S have the approval of the Danish FSA to apply VaR in determining the capital requirement for market risk.

A confidence level of 99% and a time horizon of 10 days are applied to determine the statutory capital requirement. For the capital requirement determination, Nykredit applies a slightly smaller portfolio than that applied for the internal management.

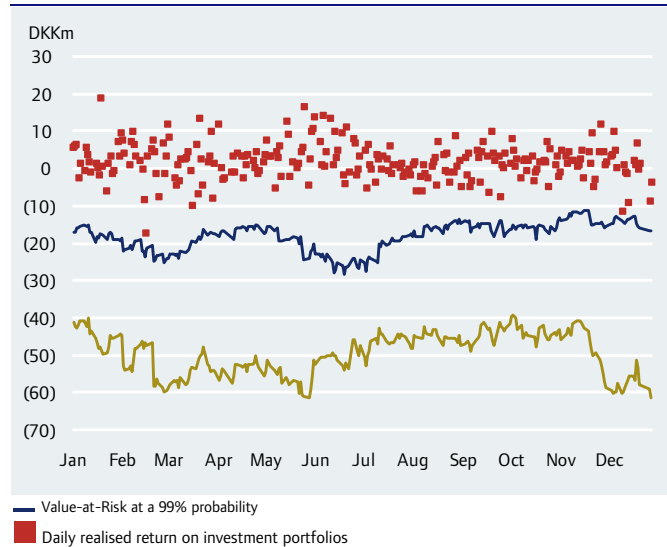
As a result of the new capital adequacy rules introduced at end-2011, a stressed VaR must be computed in addition to the current VaR.

Stressed VaR is also determined using a confidence level of 99% and a time horizon of 10 days. Stressed VaR must be calculated for the current portfolio, but using volatilities and correlations (market data) from a period of significant stress. The measurement period for market fluctuations is from September 2008 to September 2009 for Nykredit Bank and from March 2008 to March 2009 for Nykredit Realkredit. This period will be determined annually on the basis of the current

**Nykredit Realkredit A/S**  
**Back test for total VaR – market risk**



**Nykredit Bank A/S**  
**Back test for total VaR – market risk**



portfolios of Nykredit Realkredit and Nykredit Bank, respectively. The stressed VaR is added to the current VaR to determine the total capital requirement.

The Group's total VaR amounted to DKK 1,518m at end-2012 against DKK 2,036m at end-2011. Stressed VaR was first calculated as at end-2011.

**Interest rate risk**

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

The Group's interest rate exposure was DKK 193m at end-2012.

Following refinancing, borrowers' loan rate mirrors the yield-to-maturity of the bonds sold. Hence, any change in interest rates is fully borne by customers.

Refinancing risk is the risk of having to refinance debt in a period of high interest rates or unfavourable loan terms. With a view to reducing its refinancing risk, Nykredit has spread its refinancing auctions more evenly over the year.

**Foreign exchange risk**

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

The Nykredit Realkredit Group hedges its foreign exchange exposures except for some minor tactical foreign exchange positions to achieve a gain. Therefore, the Group had only minor foreign exchange positions in currencies other than EUR in 2012.

**Volatility risk**

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

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

This risk is determined and managed on a continuous basis with respect to all financial instruments with embedded options by means of limits.

### Equity price risk

Equity price risk is the risk of loss as a result of changes in equity prices, and it is calculated as the loss in case of an equity market decrease of 10%. The equity price risk exposure of the Nykredit Realkredit Group was DKK 345m at end-2012.

During 2012 the strategic equity investment exposure ranged between DKK 1.7bn and DKK 2.5bn. At end-2012, the portfolio stood at DKK 1.8bn, of which DKK 0.8bn in Danish banks and DKK 1.0bn in the property sector.

### The Nykredit Realkredit Group

#### Market risk

2012 DKK million	Interest rate expo- sure (100 bp change)	Interest rate volatility exposure (Vega)	Equity price exposure (10% change)
Money market instruments	(489)	-	-
Government bonds	(270)	-	-
ROs	1,273	1	-
SDOs	834	1	-
Other bonds, loans and advances	(627)	-	-
Equities	-	-	352
Derivative financial instruments	(528)	4	(7)
Securitisations	-	-	-
<b>Total</b>	<b>193</b>	<b>7</b>	<b>345</b>

### The Nykredit Realkredit Group

#### Equity portfolio

DKK million	Equity portfolio 2012	Equity portfolio 2011	Change	Equity price risk 2012
Outside trading book	2,459	3,015	-556	246
- of which strategic equities	1,766	2,064	-298	177
Trading book	408	79	329	41
Private equity	585	595	-10	59
<b>Total</b>	<b>3,452</b>	<b>3,689</b>	<b>-237</b>	<b>345</b>

Note: In addition to the portfolio described in note 20, the equity portfolio for determination of equity price risk includes derivative financial instruments and associates.

### **OPERATIONAL RISK**

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

Nykredit's capital requirement for operational risk is determined using the basic indicator approach. This means that the capital charge is calculated as 15% of average gross earnings of the past three years. At end-2012, the capital charge for operational risk came to DKK 1.7bn.

The operational risk relating to the Group's primary activities, mortgage banking, is inherently limited as mortgage products are highly standardised.

The responsibility for the day-to-day management of own operational risk is decentralised and lies with the individual business areas. Operational risk management activities are coordinated centrally to ensure coherence, consistency and optimisation across the Group.

As part of operational risk management, operational loss events are systematically recorded, categorised and reported with a view to identifying loss sources and gaining experience for sharing across the organisation.

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

Lastly, efforts are made centrally within the Group to identify highly improbable operational events with far-reaching consequences, known as black swans. One of the main purposes of this work is to create an overview of the business contingency plans to be applied if the Group experiences such an event.

The Group strives always to limit operational risk taking into consideration the costs involved.

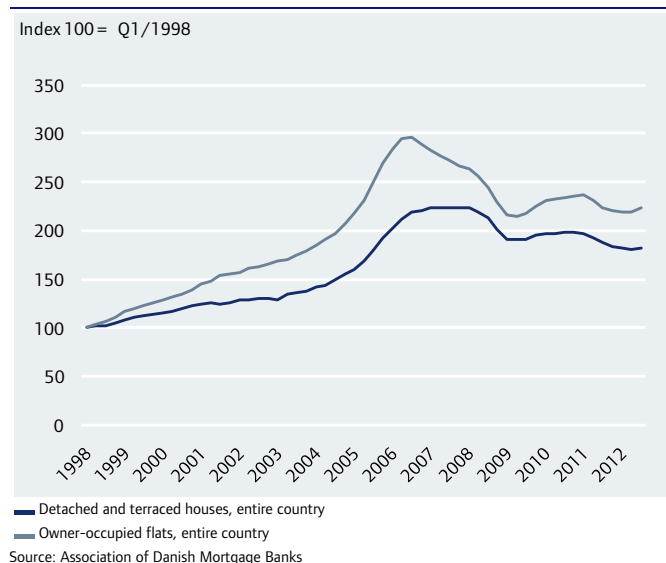
### **UNCERTAINTY AS TO RECOGNITION AND MEASUREMENT**

The preparation of the Annual Report involves the use of informed accounting estimates. These estimates are made by Group Management in accordance with the accounting policies and based on previous experience and, in Management's judgement, reasonable and realistic assumptions. The points of uncertainty as to recognition and measurement are described in more detail in note 1 "Accounting policies" under "Significant accounting estimates and assessments".



# LENDING

## The Nykredit Realkredit Group Housing prices in Denmark



The Group reported total lending of DKK 1,159bn at end-2012 against DKK 1,123bn at the beginning of the year. Total lending included nominal mortgage lending and bank lending excluding reverse transactions.

Group mortgage lending at fair value was DKK 1,136bn against DKK 1,084bn at the beginning of the year. The Group's nominal mortgage lending improved by DKK 41bn to DKK 1,109bn.

Group bank lending declined by DKK 6.0bn to DKK 49.7bn at end-2012. The Group's reverse transactions amounted to DKK 35.4bn against DKK 22.0bn at the beginning of the year. Part of the increase derived from the activities of the Stockholm branch.

Impairment provisions for mortgage and bank lending totalled DKK 7.0bn compared with DKK 6.8bn at the beginning of the year. At end-2012, the Group had made no impairment provisions for receivables from credit institutions/central banks or reverse transactions.

The Group issued guarantees of DKK 4.8bn against DKK 5.4bn at the beginning of the year.

## The Nykredit Realkredit Group Loans, advances, guarantees and impairment losses on loans and advances

DKK million	Loans, advances and guarantees		Total provisions for loan impairment and guarantees		Impairment losses on loans and advances, earnings impact	
	2012	2011	2012	2011	2012	2011
<b>Mortgage lending<sup>1</sup></b>						
Nykredit Realkredit <sup>2</sup>	598,882	594,040	2,051	1,781	1,052	579
Totalkredit <sup>3</sup>	509,915	473,566	903	704	540	447
<b>Total</b>	<b>1,108,797</b>	<b>1,067,606</b>	<b>2,954</b>	<b>2,485</b>	<b>1,592</b>	<b>1,026</b>
<b>Bank lending<sup>4</sup></b>						
Nykredit Bank <sup>5</sup>	48,116	53,494	2,838	2,885	480	453
Terminated exposures <sup>6</sup>	1,611	2,282	1,220	1,409	109	(93)
<b>Total</b>	<b>49,727</b>	<b>55,776</b>	<b>4,058</b>	<b>4,294</b>	<b>589</b>	<b>360</b>
Reverse transactions	35,401	22,007	-	-	-	-
Guarantees	4,806	5,375	82	114	(32)	28
<b>Loan impairment for the year, %<sup>7</sup></b>						
Nykredit Realkredit	-	-	0.34	0.30	0.18	0.10
Totalkredit	-	-	0.18	0.15	0.11	0.09
<b>Total</b>	<b>-</b>	<b>-</b>	<b>0.27</b>	<b>0.23</b>	<b>0.14</b>	<b>0.10</b>
Nykredit Bank	-	-	5.57	5.12	0.94	0.80
Terminated exposures <sup>6</sup>	-	-	43.09	38.17	3.85	(2.52)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>7.55</b>	<b>7.15</b>	<b>1.10</b>	<b>0.60</b>

<sup>1</sup> Nominal mortgage lending.

<sup>2</sup> Excluding intercompany lending of DKK 1,161m (2011: DKK 1,233m).

<sup>3</sup> Adjusted for intercompany set-off, the earnings impact was DKK 13m in 2012. (2011: DKK 0m).

<sup>4</sup> Bank lending after total loan impairment provisions.

<sup>5</sup> Excluding intercompany lending of DKK 80m (2011: DKK 125m).

<sup>6</sup> From the former Forstædernes Bank.

<sup>7</sup> Loan impairment excludes reverse transactions and guarantees.

**MORTGAGE LENDING**

**Loan portfolio**

Group credit exposures in terms of nominal mortgage lending increased by DKK 41bn to DKK 1,109bn at end-2012 from DKK 1,068bn at the beginning of the year. Lending for private residential property accounted for DKK 22bn of the increase.

For a breakdown of the Group's mortgage loan portfolio by property and loan type, see page 41. The portfolio is highly diversified in terms of geography and loan type.

The distribution of lending by loan type changed slightly in 2012. The share of interest-only loans went up from 55% to 56%. The share of variable-rate loans to personal customers grew to 72% from 71% the year before. Of these loans, 29% had interest rate caps. The share of variable-rate loans to commercial customers amounted to 82% against 86% the year before.

Geographically, around half of lending was in Jutland and 26% in the Capital region. The proportion of international lending was unchanged at 5% at end-2012.

Lending by property type indicates that 62% of the total loan portfolio at end-2012 was loans granted for private residential property in Denmark. The proportions of loans for private rental property and agricultural property was 10% and 9%, respectively.

**Security**

A cornerstone of Nykredit's credit policy is to reduce the risk relating to the loan portfolio by accepting security. The main type of security provided for loans is mortgages on real property. The security provided is valued on an ongoing basis relative to the current market value of a property.

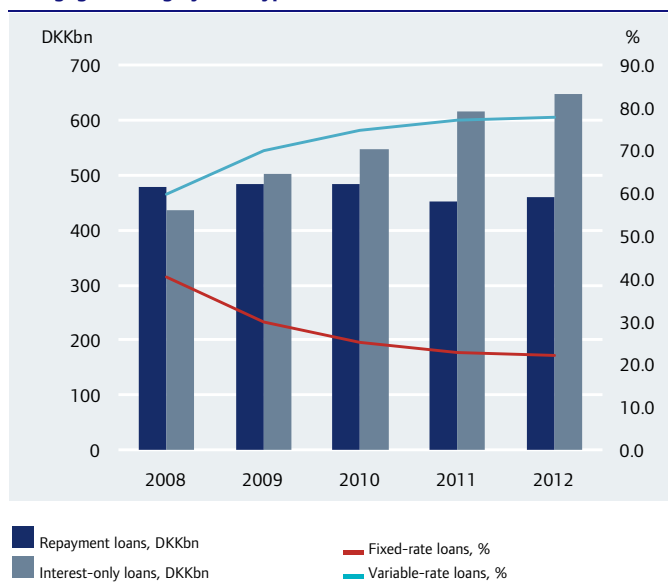
The security behind the mortgage loan portfolio remains substantial.

In addition to mortgages on real property, Nykredit accepts security in the form of guarantees issued by public authorities and banks. Guarantees issued by public authorities mitigate the credit risk mainly of mortgage loans for non-profit housing. Such guarantees are guarantees whereby the guarantor assumes primary liability. Mortgage lending guaranteed by public authorities amounted to DKK 49bn at end-2012.

The bank guarantees comprise guarantees for the registration of mortgages free from any adverse endorsements, guarantees for interim loans in connection with new building and loss guarantees. Mortgage lending guaranteed by partner banks amounted to DKK 19bn at end-2012.

Furthermore, mortgage loans granted via Totalkredit are covered by set-off agreements with partner banks offering Totalkredit loans. Under these agreements, Totalkredit may set off part of realised losses on mortgage lending against future commission payments to these partner banks. Lending covered by set-off agreements totalled DKK 381bn at end-2012.

**The Nykredit Realkredit Group**  
**Mortgage lending by loan type**



**The Nykredit Realkredit Group**  
**Mortgage lending by property type**



**The Nykredit Realkredit Group**  
**Mortgage lending by property type<sup>1</sup>**

Nominal value at end-2012 DKK million/number	Private residential property	Private residential rental	Industry and trades	Office and retail	Agricultural property	Non-profit housing	Other	Total
<b>Mortgage lending</b>								
- Bond debt outstanding	682,859	115,777	23,578	108,103	97,688	63,237	17,555	1,108,797
- Number of loans	711,221	32,541	3,393	17,513	38,005	19,928	3,074	825,675
Bond debt outstanding by loans involving								
- public guarantees	1	203	-	18	320	47,928	106	48,576
- bank guarantees	18,917	4	-	-	-	-	1	18,922
- set-off agreement with partner banks	381,144	-	-	-	-	-	-	381,144
- no guarantee	282,797	115,570	23,578	108,084	97,369	15,310	17,447	660,155
<b>Total</b>	<b>682,859</b>	<b>115,777</b>	<b>23,578</b>	<b>108,103</b>	<b>97,688</b>	<b>63,237</b>	<b>17,555</b>	<b>1,108,797</b>
<b>Bond debt outstanding by loan type</b>								
Fixed-rate loans								
- repayment loans	133,289	13,015	1,514	6,203	6,841	14,053	3,116	178,031
- interest-only loans	59,949	3,858	3	2,712	1,923	19	125	68,589
Adjustable-rate mortgages (ARMs)								
- repayment loans, 1-year funding	50,471	9,231	2,834	11,400	14,388	12,259	1,239	101,822
- other repayment loans	45,583	4,151	973	5,284	2,408	11,095	555	70,049
- interest-only loans, 1-year funding	123,214	23,608	2,202	25,781	24,796	111	788	200,500
- other interest-only loans	121,471	16,890	4,082	12,736	4,618	275	242	160,314
Money market-linked loans								
Capped								
- repayment loans	59,224	2,107	262	1,280	2,742	87	865	66,567
- interest-only loans	82,729	1,506	17	379	2,874	25	64	87,594
Uncapped								
- repayment loans	1,093	6,146	6,507	15,854	8,438	277	5,849	44,164
- interest-only loans	5,823	35,110	5,184	26,448	28,406	303	4,487	105,761
Index-linked loans	13	156	-	25	254	24,733	224	25,405
<b>Total</b>	<b>682,859</b>	<b>115,777</b>	<b>23,578</b>	<b>108,103</b>	<b>97,688</b>	<b>63,237</b>	<b>17,555</b>	<b>1,108,797</b>
<b>Bond debt outstanding by region</b>								
- Capital region	184,847	41,003	1,794	29,358	3,257	25,762	6,044	292,065
- Other Eastern Denmark	69,517	6,578	1,988	4,272	13,184	4,843	1,532	101,914
- Funen	58,728	7,510	916	5,091	8,923	5,568	1,222	87,958
- Jutland	358,256	44,700	14,619	43,381	72,155	27,064	8,753	568,928
- Faroe Islands and Greenland	2,058	301	1	166	-	-	2	2,528
- International	9,453	15,685	4,262	25,834	169	-	1	55,404
<b>Total</b>	<b>682,859</b>	<b>115,777</b>	<b>23,578</b>	<b>108,103</b>	<b>97,688</b>	<b>63,237</b>	<b>17,555</b>	<b>1,108,797</b>
<b>Bond debt by debt outstanding, DKKm</b>								
0-2	527,297	19,365	1,723	9,285	19,973	6,573	1,179	585,395
2-5	141,710	19,332	2,376	12,329	30,507	8,173	1,900	216,327
5-20	12,826	34,247	5,013	23,577	39,959	26,034	6,111	147,767
20-50	975	15,930	2,789	13,931	5,826	15,461	3,927	58,839
50-100	50	6,525	1,865	10,337	1,016	4,013	1,169	24,975
100-	-	20,378	9,811	38,644	407	2,984	3,270	75,494
<b>Total</b>	<b>682,859</b>	<b>115,777</b>	<b>23,578</b>	<b>108,103</b>	<b>97,688</b>	<b>63,237</b>	<b>17,555</b>	<b>1,108,797</b>
<b>Bond debt outstanding by remaining loan term, years</b>								
0-10	16,263	11,074	4,453	29,610	2,186	2,852	758	67,196
10-15	27,101	12,613	8,404	26,528	3,397	6,370	2,394	86,807
15-20	51,803	11,610	5,184	29,830	9,831	12,333	3,002	123,593
20-25	236,545	41,460	2,829	10,532	55,372	9,298	4,785	360,821
25-30	351,146	38,974	2,709	11,603	26,903	16,394	6,616	454,345
30-35	-	37	-	-	-	12,463	-	12,500
35-	-	7	-	-	-	3,528	-	3,535
<b>Total</b>	<b>682,859</b>	<b>115,777</b>	<b>23,578</b>	<b>108,103</b>	<b>97,688</b>	<b>63,237</b>	<b>17,555</b>	<b>1,108,797</b>

<sup>1</sup> The breakdown by property type is not directly comparable with the Group's business areas.

### Provisions for mortgage loan impairment

Group mortgage credit exposure rose by DKK 41 bn to DKK 1,109bn at end-2012.

The Group's total impaired mortgage loans increased by DKK 452m to DKK 8,604m at end-2012. The rise was attributable to lending for private residential property, office and retail and agricultural property, whereas lending for private residential rental property declined.

Impaired loans include loans with evidence of impairment (OEI) for which individual impairment provisions have been made.

Group mortgage loans with low customer ratings for which no impairment provisions have been made came to DKK 41.5bn at end-2012. These loans have an elevated risk of default, but not necessarily a high risk of future losses, as the loss risk also depends on any security behind the loan.

#### Impairment provisions

The Group's total provisions for mortgage loan impairment increased by DKK 469m in 2012, landing at DKK 2,954m at year-end. Total impairment provisions came to 0.27% of total mortgage lending. Private residential property accounted for DKK 1,544m of impairment provisions at end-2012, while other commercial property accounted for DKK 1,410m.

Of the Group's total impairment provisions, individual impairment provisions represented 63% and collective impairment provisions 37%.

Individual impairment provisions grew by DKK 491m to DKK 1,851m at end-2012. Growth in individual impairment provisions included new provisions of DKK 1,321m, reversals of DKK 246m and recognised losses of DKK 584m.

The Group's collective impairment provisions declined by DKK 22m to DKK 1,103m at end-2012. Of the collective impairment provisions at year-end, private residential property and agricultural property accounted for 67% and 12%, respectively.

#### Earnings impact

The total earnings impact of impairment losses on mortgage loans increased by DKK 566m in 2012, landing at DKK 1,592m in 2012. Of total impairment losses for the year, DKK 1,093m, or 69%, was attributable to private residential property.

### The Nykredit Realkredit Group

#### Credit exposure to mortgage lending by property type<sup>1</sup>

DKK million	2012			2011		
	Lending, year-end	Impaired loans, individual provisioning	Loans to customers with low ratings, no individual provisioning	Lending, year-end	Impaired loans, individual provisioning	Loans to customers with low ratings, no individual provisioning
Private residential property	682,859	3,700	20,119	660,765	3,372	21,661
Private residential rental	115,777	1,922	7,901	107,953	3,437	7,143
Industry and trades	23,578	299	612	24,489	274	672
Office and retail	108,103	807	5,626	98,346	380	6,080
Agricultural property	97,688	1,663	6,617	97,251	563	5,846
Non-profit housing	63,237	118	463	62,302	72	734
Other	17,555	95	195	16,500	54	218
<b>Total</b>	<b>1,108,797</b>	<b>8,604</b>	<b>41,533</b>	<b>1,067,606</b>	<b>8,152</b>	<b>42,354</b>

<sup>1</sup> The breakdown by property type is not directly comparable with the Group's business areas.

Note: For a complete breakdown of mortgage lending by rating category, see note 47.

### The Nykredit Realkredit Group

#### Provisions for mortgage loan impairment by property type<sup>1</sup>

DKK million	2012				2011			
	Individual impairment provisions	Collective impairment provisions	Total impairment provisions	Total earnings impact	Individual impairment provisions	Collective impairment provisions	Total impairment provisions	Total earnings impact
Private residential property	807	737	1,544	1,093	643	417	1,060	735
Private residential rental	333	95	428	148	336	126	462	(163)
Industry and trades	123	20	143	43	96	71	167	78
Office and retail	219	84	303	207	131	98	229	70
Agricultural property	311	129	440	61	114	366	480	288
Non-profit housing	14	13	27	20	7	3	10	(10)
Other	44	25	69	20	33	44	77	28
<b>Total</b>	<b>1,851</b>	<b>1,103</b>	<b>2,954</b>	<b>1,592</b>	<b>1,360</b>	<b>1,125</b>	<b>2,485</b>	<b>1,026</b>

<sup>1</sup> The breakdown by property type is not directly comparable with the Group's business areas.

### The Nykredit Realkredit Group Properties repossessed/sold



### Repossessed properties

The Group acquired 551 properties and sold 542 in 2012. The portfolio totalled 356 properties against 347 at the beginning of the year. Private residential property accounted for 246 of the repossessed properties at year-end.

### Arrears

The arrears ratio declined throughout 2012. At the September 2012 due date, 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.52% against 0.60% at the same time in 2011.

Despite decreasing arrears ratios, mortgage impairment provisions rose. This was in particular the result of low marketability and declining prices of some property types.

### The Nykredit Realkredit Group Arrears ratio – 75 days past the due date

Due dates	Arrears relative to total mortgage payments %	Bond debt outstanding affected by arrears of total bond debt outstanding %	Bond debt outstanding affected by arrears DKKbn
<b>2012</b>			
- September	0.52	0.51	5.6
- June	0.56	0.63	7.1
- March	0.57	0.56	6.2
<b>2011</b>			
- December	0.58	0.71	7.7
- September	0.60	0.67	7.1

### The Nykredit Realkredit Group Arrears ratio, mortgage lending – 75 days past the September due date



**BANK LENDING**

Group credit exposures in terms of bank loans increased by DKK 6.7bn to DKK 89.9bn at end-2012 from DKK 83.2bn at the beginning of the year. Part of the increase derived from the activities of the Stockholm branch.

Bank lending accounted for DKK 49.7bn of the total credit exposures at end-2012 against DKK 55.8bn at the beginning of the year. Bank lending before impairment provisions was DKK 53.8bn against DKK 60.0bn at the beginning of 2012.

**Total impairment provisions**

The Group's impaired bank loans dropped by DKK 260m to DKK 5,942m at end-2012.

Bank loans with low customer ratings for which no individual impairment provisions have been made came to DKK 2.5bn at end-2012. These loans have an elevated risk of default, but not necessarily a high risk of future losses, as the loss risk also depends on any security behind the loan.

*Provisions for loan impairment and guarantees*

The Group's total provisions for bank loan impairment dropped by DKK 236m in 2012 to DKK 4,058m at year-end.

Total impairment provisions came to 7.55% of total bank lending.

At end-2012, Retail accounted for DKK 2,141m of impairment provisions, Wholesale excluding terminated exposures DKK 590m, terminated exposures DKK 1,220m and Group Items DKK 106m.

Of the Group's impairment provisions, individual impairment provisions represented 94% and collective impairment provisions 6%.

**Bank loans, advances and guarantees by industry**

DKK million	Loans, advances and guarantees		Provisions	
	2012	2011	2012	2011
<b>Public sector</b>	<b>513</b>	<b>542</b>	<b>4</b>	<b>0</b>
Agriculture, hunting, forestry and fishing	1,957	2,448	167	120
Manufacturing, mining and quarrying	6,377	5,652	155	105
Energy supply	523	1,306	9	33
Construction	1,816	1,687	279	254
Trade	2,217	2,472	237	287
Transport, accommodation and food service activities	2,135	2,308	101	90
Information and communication	879	964	73	65
Financial and insurance activities	39,703	28,656	742	935
Property	13,056	14,488	1,367	1,312
Other commercial	8,109	7,767	397	530
<b>Total commercial</b>	<b>76,772</b>	<b>67,748</b>	<b>3,527</b>	<b>3,731</b>
<b>Personal customers</b>	<b>20,012</b>	<b>19,636</b>	<b>608</b>	<b>677</b>
<b>Total</b>	<b>97,297</b>	<b>87,926</b>	<b>4,139</b>	<b>4,408</b>
- of which intercompany guarantees	7,363	4,768	-	-

The breakdown is based on public sector statistics and is therefore not directly comparable with the Bank's business areas.

**The Nykredit Realkredit Group****Total provisions for bank loan impairment**

DKK million	2012			2011		
	Lending, year-end	Impaired loans, individual provisioning	Loans to customers with low ratings, no individual provisioning	Lending, year-end	Impaired loans, individual provisioning	Loans to customers with low ratings, no individual provisioning
Retail	27,105	2,848	1,742	29,005	2,703	2,308
Wholesale excluding terminated exposures	18,041	789	264	21,823	764	564
Terminated exposures	1,613	2,001	498	2,282	2,430	588
Group Items	2,968	304	0	2,666	305	1
<b>Total</b>	<b>49,727</b>	<b>5,942</b>	<b>2,504</b>	<b>55,776</b>	<b>6,202</b>	<b>3,461</b>

For a complete breakdown of bank loans and advances by rating category, see note 47.

**The Nykredit Realkredit Group**  
**Bank loans, advances and guarantees**

DKK million	2012	2011
Bank loans and advances	48,116	53,494
Terminated exposures	1,611	2,282
Reverse transactions	35,401	22,007
Guarantees	4,806	5,375
<b>Total</b>	<b>89,934</b>	<b>83,158</b>

**The Nykredit Realkredit Group**  
**Earnings impact of bank loan impairment and provisions for guarantees**

DKK million	2012	2011
Retail	500	391
Wholesale excluding terminated exposures	(32)	41
Terminated exposures	109	(93)
Group Items	12	21
<b>Total impairment losses before guarantees</b>	<b>589</b>	<b>360</b>
Provisions for guarantees	(32)	28
<b>Total</b>	<b>557</b>	<b>388</b>

The Group's individual impairment provisions for bank lending totalled DKK 3,821m against DKK 3,985m at the beginning of 2012.

The decline in individual impairment provisions of DKK 164m consists of new provisions of DKK 1,102m, reversal of DKK 742m and recognised losses of DKK 524m.

The most important change resulted from terminated exposures; total provisions were down from DKK 1,382m to DKK 1,170m at end-2012. The decline was mainly due to reversal of DKK 340m.

The Group's collective impairment provisions for bank lending amounted to DKK 236m against DKK 308m at the beginning of the year. The development was mainly attributable to a decline in Retail and Wholesale excluding terminated exposures, whereas the portfolio of terminated exposures saw a slight increase.

At end-2012, provisions for guarantees amounted to DKK 82m against DKK 114m at the beginning of the year.

*Earnings impact*

Impairment losses on bank lending for the year increased by DKK 169m to DKK 557m against DKK 388m in 2011.

The rise was attributable to Retail, which rose by DKK 109m from DKK 391m to DKK 500m, and terminated exposures, which were up DKK 202m.

Provisions for guarantees were a credit of DKK 32m against a charge of DKK 28m in 2011.

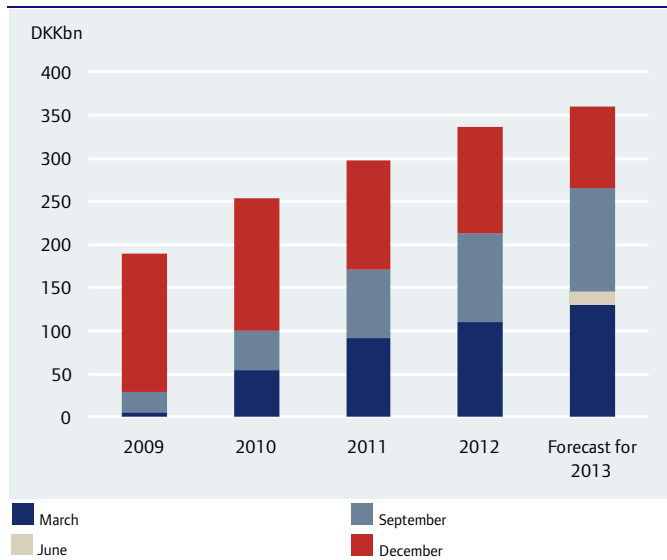
**The Nykredit Realkredit Group**  
**Provisions for bank loan impairment and guaranties by business area**

DKK million	2012				2011			
	Provisions for guarantees	Individual impairment provisions	Collective impairment provisions	Total	Provisions for guarantees	Individual impairment provisions	Collective impairment provisions	Total
Retail	74	2,001	140	2,215	62	1,935	179	2,176
Wholesale excluding terminated exposures	-	559	31	590	-	577	102	679
Terminated exposures <sup>1</sup>	8	1,170	50	1,228	52	1,382	27	1,461
Group Items	-	91	15	106	-	91	-	91
<b>Total</b>	<b>82</b>	<b>3,821</b>	<b>236</b>	<b>4,139</b>	<b>114</b>	<b>3,985</b>	<b>308</b>	<b>4,407</b>

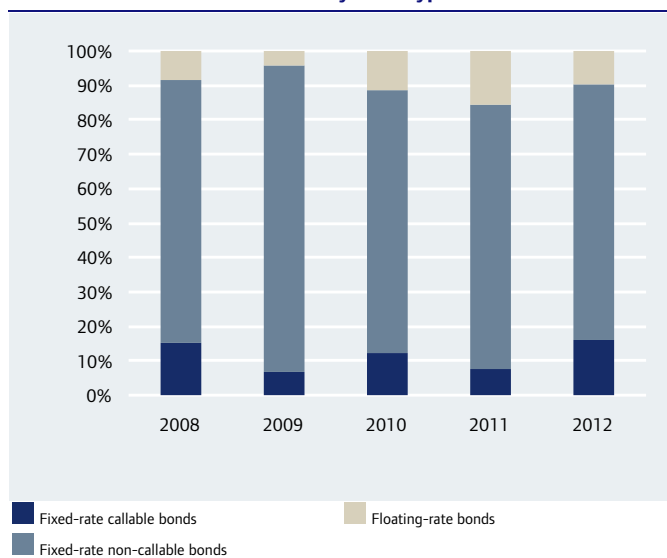
<sup>1</sup> From the former Forstædernes Bank.

# FUNDING

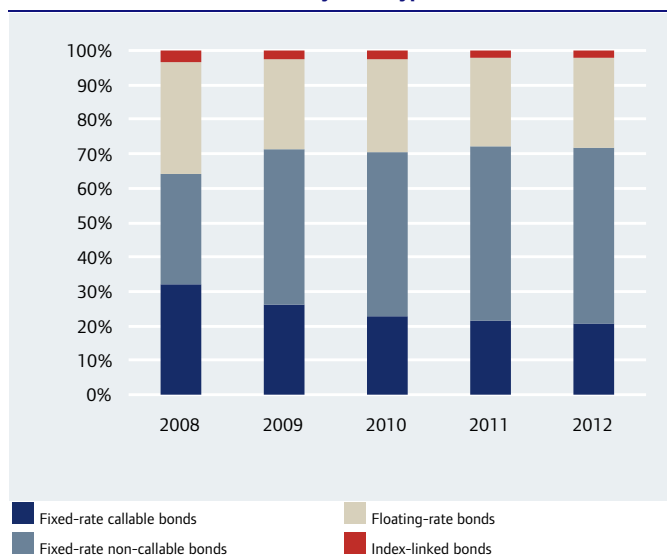
## The Nykredit Realkredit Group's refinancing auctions of SDOs and ROs



## Annual issuance of SDOs and ROs by bond type



## Total issuance of SDOs and ROs by bond type



## FUNDING

The Nykredit Group's mortgage lending is funded through the issuance of covered bonds (SDOs and ROs). In 2012 lending by Nykredit Bank was deposit-funded, and the Bank had a deposit surplus of DKK 4.8bn at year-end. The Group's excess liquidity is also funded through other bond issues at year-end, senior debt and equity.

## BOND ISSUANCE

Nykredit is one of the largest private bond issuers in Europe.

The Group's bond issuance mainly consists of SDOs and ROs. Bonds are issued with a view to match funding loans secured by mortgages on real property.

In addition, Nykredit Realkredit A/S issues junior covered bonds to fund supplementary collateral.

Nykredit Bank A/S issues unsecured senior debt under its EMTN and ECP programmes.

Finally, Nykredit Realkredit A/S issues subordinated debt to meet the capital adequacy requirements.

## SDOs and ROs

The Nykredit Realkredit Group's bonds are issued by tap on a day-to-day basis coupled with refinancing auctions for ARMs, Cibar-linked loans and capped floating-rate loans. From 2013, four refinancing auctions will be held in March, June, September and December.

In connection with the refinancing of variable-rate loans in 2012, bonds of DKK 337bn were issued. The day-to-day tap issuance of bonds amounted to DKK 243bn in 2012. Of total issuance, fixed-rate non-callable bonds accounted for 75%.

The Nykredit Realkredit Group introduced two-tier mortgaging for personal customers at end-Q2/2012. Two-tier mortgaging applies when the total loan amount exceeds 60% of the property value. Loans of up to 60% of the property value (base loans) are funded by SDOs, whereas loans for the 60-80% bracket (top loans) are funded by ROs. In the long term, this will reduce the Nykredit Group's supplementary collateral requirement if property prices decline.

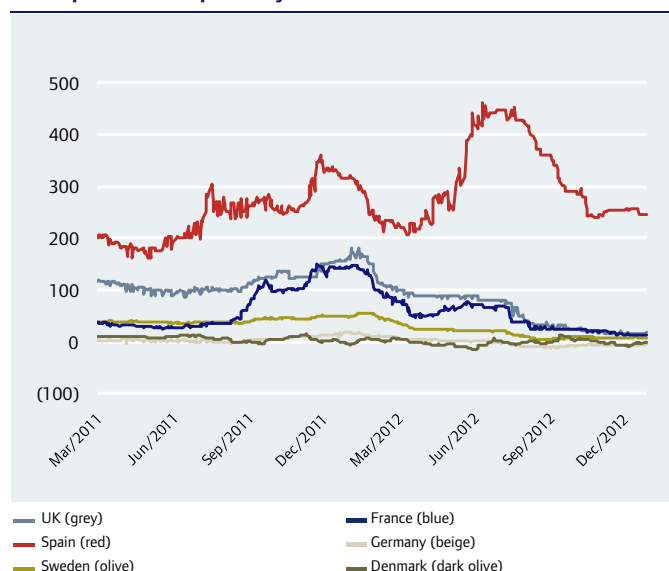
The Nykredit Realkredit Group has opened a new capital centre (I) for the issuance of ROs to fund personal and commercial customers' top loans not subject to refinancing. Top loans subject to refinancing are issued out of Capital Centre G.

At end-2012, a nominal amount of DKK 908bn of SDOs and DKK 375bn of ROs had been issued, of which DKK 28bn for the funding of personal and commercial customers' top loans.

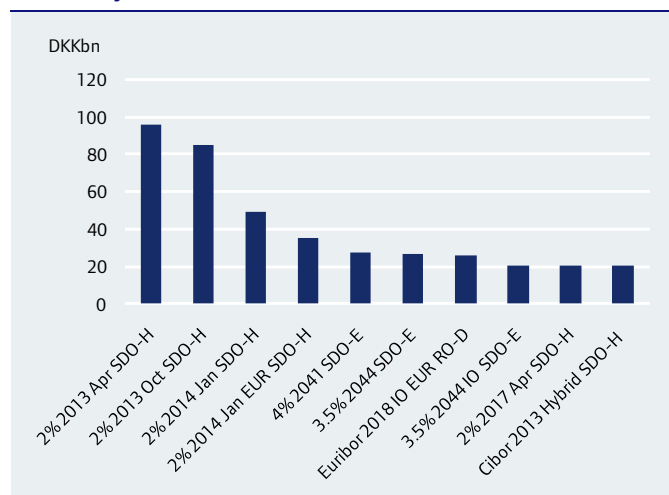
The introduction of two-tier mortgaging means that the issuance of ROs in the Nykredit Realkredit Group will increase. The majority of the Group's issues will still be SDOs.



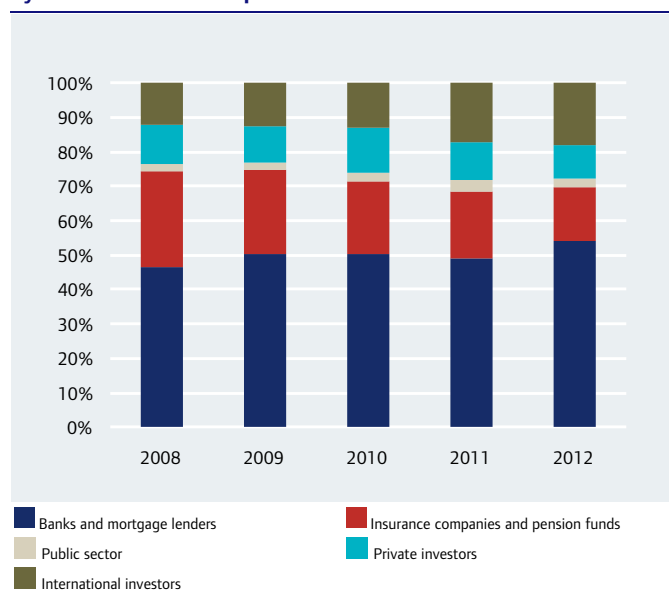
**Yield spreads vs swaps on 5-year covered bonds**



**Nykredit's largest series on NASDAQ OMX Copenhagen A/S at 2 January 2013**



**Investor base  
Nykredit Realkredit Group SDOs and ROs**



Due to very low short-term rates, recent years have seen a movement towards short-term ARMs. Thanks to a marked decline in long-term rates towards end-2011, borrowers could raise loans funded by 30-year fixed-rate bonds, some of which with coupon rates as low as 3% in 2012.

**The SDO and RO market**

The Nykredit Realkredit Group strives to build large, liquid benchmark bond series to obtain effective pricing of the Group's bonds. Nykredit Realkredit and Totalkredit's joint bond issuance fosters large volumes and deep liquidity of the Group's key bond series. Liquidity is also furthered through the Group's high market share and market making agreements between a number of the members of NASDAQ OMX Copenhagen A/S.

Nykredit's investor base mainly comprises Danish banks and mortgage lenders, which hold 54%, and insurance companies and pension funds, which hold 16%. Foreign ownership amounts to 18%. The savings ratio in the Danish economy means that secure assets are in high demand from domestic investors. This demand has a stabilising effect on the mortgage bond market in times of turmoil in international financial markets.

At 2 January 2013, 46% of the Group's issued bonds fell within 22 series, each with an outstanding amount of more than DKK 10bn. The ten largest bond series combined had an outstanding amount of more than DKK 407bn, equal to 32% of the total amount of issued bonds.

Again in 2012, the Danish SDO and RO market benefited from the general perception of the Danish economy as a safe haven – primarily in comparison with the Southern European economies. Danish bonds consequently traded at relatively tight yield spreads to equivalent foreign bonds.

Nykredit's two-tier mortgaging has generally been well received by the market. The underlying bonds trade at yield spreads 15-40bp above those of equivalent SDOs.

The liquidity of the series is expected to deepen over time, which will contribute to improving the spread relative to SDOs.

**Supplementary collateral – junior covered bonds**

SDO cover pools must consist of one of the following three types of cover assets:

- Mortgages on real property
- Government bonds or other claims against EU/EEA member states
- Claims against credit institutions, including guarantees for registration of mortgages free from adverse endorsements and guarantees for interim loans in connection with new building.

At the time of granting, a mortgage loan must not exceed a certain proportion of the value of the mortgaged property, pursuant to Danish legislation. Subsequently, the ratio between the mortgage debt outstanding and the value of the property (LTV) will change with the amortisation of a loan and/or as a result of changes in the market value of the property or the mortgage loan concerned.

If LTV ratios determined on an ongoing basis exceed the statutory LTV limits, mortgage banks must provide supplementary collateral for each individual loan secured by a mortgage on real property and funded by issuing SDOs. Nykredit funds part of the supplementary collateral by issuing junior covered bonds.

Nykredit Realkredit A/S and Totalkredit A/S may raise supplementary collateral by investing part of their own portfolios or any borrowed funds in government bonds, SDOs etc, and placing them as cover assets in the SDO Capital Centres E and H.

It is Nykredit's policy to maintain a sizeable cover pool buffer against declining property prices. Nykredit therefore monitors the need for supplementary collateral closely. In this connection, various stress tests are conducted on an ongoing basis to assess the sensitivity of such need to declining property prices, etc.

To reduce the collateral requirement in case of declining property prices, Nykredit introduced two-tier mortgaging for personal customers.

At end-2012 the supplementary collateral requirement was DKK 47.8bn. If housing prices were to decline by an additional 5%, the requirement would rise to a total of DKK 65.4bn. The supplementary collateral requirement should be seen in relation to Nykredit's capital base of DKK 62.4bn and issued junior covered bonds of DKK 43.3bn. To this should be added the legal option to use guarantees, including intercompany guarantees. Nykredit has not taken up this option.

The funds satisfying the requirement for supplementary collateral are generally placed in government bonds and SDOs.

#### Junior covered bond market

The considerable property price declines towards end-2011 resulted in vast issuance activity in the junior covered bond market in H1/2012.

In a market characterised by turmoil due to the Southern European debt crisis, Nykredit Realkredit issued DKK 20bn of junior covered bonds. Nykredit's issuance costs have grown in the past year due to general market trends.

Aiming to build an international investor base for junior covered bonds, Nykredit has issued EUR 750m in a 5-year international benchmark bond in 2012. In addition, Nykredit issues unlisted junior covered bonds to German investors.

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

DKK billion	
Supplementary collateral requirement at end-2012	47.8
Supplementary collateral requirement if housing prices decline by an additional 5%	65.4
Capital provided as supplementary collateral	71.9
- of which funded by junior covered bonds <sup>1</sup>	42.5

<sup>1</sup> Exclusive of Nykredit Realkredit A/S's own portfolio of junior covered bonds.

#### Nykredit Bank senior debt

As part of its liquidity management, Nykredit issues senior debt in the form of EMTN and ECP issues.

The Bank's long-term funding activities progressed as planned, with EMTN issues totalling DKK 20.9bn at 31 December 2012.

Further, the Bank continued refinancing short-term ECP issues, now totalling DKK 8.8bn.

The aggregate amount issued under the ECP and EMTN programmes was DKK 29.7bn at 31 December 2012 against DKK 26.8bn at end-2011.

In line with general market trends, the Bank's EMTN funding costs rose noticeably, but the Bank's new issues continue to be in demand among investors.

#### Subordinated debt

Nykredit applies subordinated debt to strengthen its capital base relative to regulatory and rating agency requirements. However, it is Nykredit's policy that the majority of the current requirements must be covered by equity at all times.

The new international regulatory framework for capital adequacy will tighten the requirements for Nykredit's capital base considerably. Therefore, Nykredit's equity must be raised significantly through earnings before the rules are fully implemented. Going forward, subordinated debt is still expected to form a natural part of Nykredit's capital base.

#### Central bank access

Nykredit provides bonds as collateral for loans with Danmarks Nationalbank as part of the Group's ordinary liquidity management and bond settlement, but not as part of its business model for refinancing ARMs.

The Group had not provided bonds or credit claims as collateral with Danmarks Nationalbank at end-2012.

#### Issuance in 2013

Nykredit Realkredit's SDO and RO issuance will continue to take place as a combination of tap issuance and refinancing auctions. Recent years have seen issuance of between DKK 464bn and DKK 580bn, and issuance around the same levels is expected for 2013.

Nykredit Realkredit also expects to issue junior covered bonds in 2013, albeit on a smaller scale than in 2012. Issuance of around DKK 5bn-10bn is expected, which should be seen in the context of an estimated amount of DKK 7bn maturing in 2013. The issuance requirement depends on property prices and rating agency requirements.

In 2013 the total amount maturing under Nykredit Bank's EMTN programme will be DKK 8bn, the refinancing of which was initiated in autumn 2012.

As regards short-term ECP issues, Nykredit Bank expects to maintain an outstanding amount of DKK 7bn-12bn in 2013.

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

Nykredit expects that the existing hybrid capital will be replaced in part or in full by subordinated debt within a few years. Nykredit will start issuing subordinated debt in 2013.

## RATINGS

### Standard & Poor's

In Q2/2012 Standard & Poor's (S&P) assigned the top rating AAA to ROs issued out of Capital Centres G and I. All rated SDO and RO capital centres have now been assigned AAA ratings by S&P.

S&P also assigned an A+ rating to the junior covered bonds issued out of Capital Centres E and H. Junior covered bonds are applied to fund supplementary collateral in the capital centres.

### Fitch Ratings

Nykredit has engaged the services of Fitch Ratings. In August 2012, the credit rating agency announced that both Nykredit Realkredit A/S and Nykredit Bank A/S had been assigned a long-term Issuer Default Rating (IDR) of A and a short-term IDR of F1. Both ratings have stable outlooks.

### Moody's Investors Service

In April 2012, Nykredit requested Moody's Investors Service to cease rating the Nykredit Group. The request related to all ratings of group companies and their issues. In this connection, Nykredit ceased supplying information for the purpose of Moody's rating process.

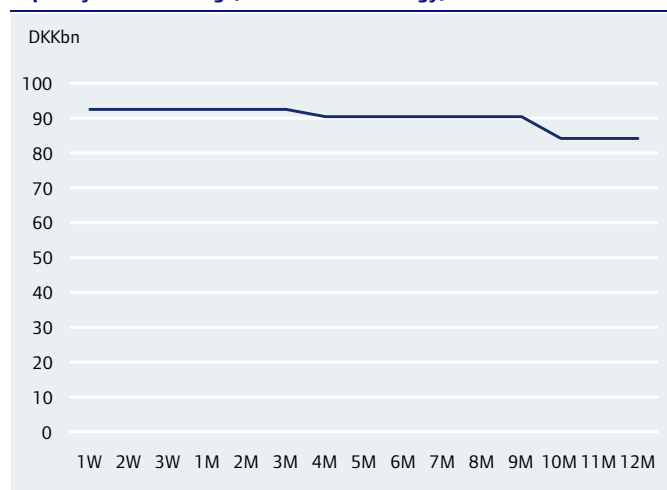
Moody's has opted to publish unsolicited ratings for some group companies.

Moody's most recent announcements regarding Danish banks and mortgage lenders have not affected the market for Danish covered bonds, including Nykredit's issues.

## The Nykredit Realkredit Group Ratings

	Bonds, DKKbn <sup>1</sup>	S&P	Fitch
<b>SDOs, ROs and junior covered bonds</b>			
<b>Nykredit Realkredit A/S</b>			
- Capital Centre C (covered bonds (ROs))	4	AAA	
- Capital Centre D (covered bonds (ROs))	257	AAA	
- Capital Centre E (covered bonds (SDOs))	338	AAA	
- Capital Centre E (junior covered bonds (JCBs))	24	A+	
- Capital Centre G (covered bonds (ROs))	25	AAA	
- Capital Centre H (covered bonds (SDOs))	570	AAA	
- Capital Centre H (junior covered bonds (JCBs))	19	A+	
- Capital Centre I (covered bonds (ROs))	3	AAA	
- Nykredit Realkredit In General (covered bonds (ROs))	2	AAA	
<b>Totalkredit A/S</b>			
- Capital Centre C (covered bonds (ROs))	56	AAA	
<b>Other ratings</b>			
<b>Nykredit Realkredit A/S</b>			
- Short-term unsecured rating		A-1	F1
- Long-term unsecured rating		A+	A
- Hybrid capital (Tier 1)		BBB	
<b>Nykredit Bank A/S</b>			
- Short-term deposit rating		A-1	F1
- Long-term deposit rating		A+	A
<b>Euro MTN Programme</b>			
- Short-term senior debt		A-1	F1
- Long-term senior debt		A+	A
<b>Euro Commercial Paper Programme and Certificate of Deposit Programme</b>			
- Short-term senior debt		A-1	F1

<sup>1</sup> Issued bonds at nominal value as at 31 December 2012.

**Mortgage lending****Liquidity stress testing (internal methodology)**

Note: Liquidity raised by issuing junior covered bonds is included up to their maturity.

**Banking****Liquidity stress testing (internal methodology)****The Nykredit Realkredit Group****Difference between mortgage lending and issued bonds at end-2012**

DKK billion	2012	2011
Mortgage loans – nominal value, cf note 17 a	1,109	1,068
Issued bonds – nominal value, cf notes 30 a and 30 b	1,283	1,243
	<b>174</b>	<b>175</b>

The difference comprises:

- Bonds sold in connection with the refinancing of ARMs <sup>1</sup>	121	124
- Ordinary principal payments and prepayments <sup>2</sup>	50	50
- Pre-issued bonds in respect of which the underlying loans have not been disbursed	3	1
<b>Total</b>	<b>174</b>	<b>175</b>

<sup>1</sup> Nykredit issues and auctions new bonds about one month prior to the maturity of the existing bonds. The proceeds are used to buy back/draw the bonds maturing on 2 January. For a period there is a double set of bonds of which Nykredit generally owns up to half.

<sup>2</sup> The loan portfolio will be reduced by ordinary principal payments and prepayments, while the outstanding amount of bonds will be reduced on the next payment date, 2 January, and on subsequent payment dates in accordance with the terms of termination. Nykredit will generally place the proceeds in bonds maturing on one of the next payment dates.

**LIQUIDITY**

Nykredit's balance sheet structure ensures a high level of liquidity. The greater part of group lending consists of mortgage loans funded by covered bonds (ROs and SDOs) according to the match-funding principle. Nykredit's mortgage borrowers make their payments on or before the date on which Nykredit pays bondholders. Accordingly, mortgage lending and the funding thereof produce positive liquidity. The loans may be funded by SDOs/ROs matching the loan term or by bonds which are refinanced one or more times during the loan term. For loans subject to refinancing, the structure of the loan agreements eliminates any market risk on funding on Nykredit's part. Add to this that the Group's bank lending largely equals its bank deposits.

The Group's equity and capital market funding, excluding ROs and SDOs, are mainly placed in liquid Danish and European government and covered bonds. These securities are eligible as collateral with the Danish or other European central banks and thus directly exchangeable into cash. To this should be added a small portfolio of money market deposits, equities, credit bonds and similar assets.

Nykredit's stock of liquid assets constitutes a sizeable buffer against liquidity movements driven by customer flows, loan arrears, current costs and maturing capital market funding. In addition, the Group applies its stock of liquid assets to ensure compliance with statutory liquidity requirements, including the requirement of Danish mortgage legislation for supplementary collateral in case of falling property prices in connection with SDOs, the liquidity requirement of the Danish Financial Business Act and credit rating agencies' requirements for maintaining the current high ratings.

The liquidity of the Group's mortgage lenders totalled DKK 92bn at end-2012 against DKK 76bn at end-2011.

Growth in the stock of liquid assets was chiefly funded through issuance of junior covered bonds.

At end-2012, Nykredit Bank's liquidity reserve stood at DKK 44.8bn against DKK 41.2bn at end-2011, determined in accordance with section 152 of the Danish Financial Business Act.

**Bond portfolio**

Nykredit's liquidity is in part invested in bonds. The gross bond portfolio of DKK 209bn comprises mortgage bank reserves, bank liquidity reserves, portfolios related to market-making in the mortgage lending and banking areas as well as proceeds from the issuance of junior covered bonds.

In addition, the Group holds a temporary portfolio of DKK 60bn in accordance with the balance principle for mortgage lenders and related to the refinancing of Nykredit's non-callable fixed-rate bullet bonds (RTLs) and placement of funds prepaid by borrowers. The Group's portfolio of self-issued bonds held in accordance with the balance principle chiefly comprises short-term bonds maturing on the next payment date. The portfolio is used to secure payment in connection with the drawing of bonds.

The Group's bond portfolio thus totalled DKK 269bn at end-2012, of which self-issued bonds excluding mandatory portfolios under the balance principle accounted for DKK 135bn.

In the period preceding payment dates, the value of the Group's issued bonds is higher than the value of its mortgage lending. The main reason is refinancing. In connection with refinancing, bonds are issued immediately after the refinancing auctions, which are held approximately one month prior to a payment date, whereas existing bonds do not mature until the payment date. Another important factor is ordinary principal payments and prepayments.

#### LIQUIDITY COVERAGE RATIO

Nykredit expects to become subject to the new international regulatory framework regarding the Liquidity Coverage Ratio (LCR) in 2015. It is Nykredit's expectation that SDOs and ROs will be eligible for inclusion in the stock of liquid assets. Nykredit expects to replace self-issued bonds by other bonds in connection with the implementation of the rules, which is not considered to give rise to any problems.

Under these assumptions, the LCR of group companies was as follows at end-2012:

The Nykredit Realkredit Group	319%
Nykredit Realkredit A/S	219%
Totalkredit A/S	346%
Nykredit Bank A/S	136%

Given Nykredit's liquidity reserve combined with measures already initiated, Nykredit expects to fulfil the expected LCR requirements well ahead of schedule regardless of the final implementation. In that connection, the bond portfolio may require some reallocation and the product offering minor adjustments.

A measure of stable funding is also being discussed – the Net Stable Funding Ratio (NSFR). So far, the NSFR is only a reporting requirement. If the NSFR is introduced as a hard requirement in its present form, Nykredit will probably have to restrict borrowers' access to ARMs with very short-term funding.

# GROUP ENTITIES

## NYKREDIT HOLDING A/S

Nykredit Holding is the Parent Company of Nykredit Realkredit A/S.

The Company's main activity is the ownership of Nykredit Realkredit A/S.

Nykredit Holding has issued a maximum loss guarantee.

Furthermore, the Company has issued a loss guarantee in favour of Nykredit Bank A/S, covering the part of the Bank's impairment losses and provisions (earnings impact for the year) that exceeds 2% of loans, advances and guarantees. The maximum guarantee amount is DKK 2bn for the guarantee period. The related commission came to DKK 80m in 2012.

The Parent Company recorded a profit of DKK 76m excluding the profit of the subsidiary Nykredit Realkredit A/S.

The Annual Report of Nykredit Holding has not been included in the Annual Report of the Nykredit Realkredit Group.

Reference is made to the Annual Report 2012 of Nykredit Holding A/S.

## NYKREDIT REALKREDIT A/S

Nykredit Realkredit posted a profit before tax of DKK 2,846m against a loss of DKK 83m in 2011. Profit after tax was DKK 2,392m against DKK 261m the year before.

Core income from mortgage operations gained DKK 549m to DKK 4,766m. Gross new lending of DKK 87bn was unchanged on 2011, whereas the loan portfolio rose by DKK 5bn to DKK 600bn in nominal terms.

### Nykredit Realkredit A/S

#### Core earnings and investment portfolio income

DKK million	2012	2011
<b>Core income from</b>		
- business operations	4,766	4,217
- junior covered bonds	(202)	(99)
- securities	130	311
<b>Total</b>	<b>4,694</b>	<b>4,429</b>
Operating costs, depreciation and amortisation, excl special value adjustments	3,510	3,424
Operating costs, depreciation and amortisation – special value adjustments	(270)	(37)
<b>Core earnings before impairment losses</b>	<b>1,454</b>	<b>1,042</b>
Impairment losses on loans and advances	1,057	570
Profit from equity investments	672	764
<b>Core earnings after impairment losses</b>	<b>1,069</b>	<b>1,236</b>
Investment portfolio income	2,242	(857)
Net interest on hybrid capital	(465)	(462)
<b>Profit (loss) before tax</b>	<b>2,846</b>	<b>(83)</b>
Tax	454	(344)
<b>Profit for the year</b>	<b>2,392</b>	<b>261</b>

Core income from securities amounted to DKK 130m against DKK 311m in 2011.

Operating costs, depreciation and amortisation, excluding value adjustment of special staff benefits, went up by DKK 86m to DKK 3,510m, equal to an increase of 2.5%. Of the rise DKK 58m was due to higher impairment losses on intangible assets.

Impairment losses on loans and advances were DKK 1,057m against DKK 570m in 2011. The business area Retail represented DKK 1,020m of impairment losses for the year, equal to 0.24%. The business area Wholesale accounted for DKK 37m, corresponding to 0.02%.

Mortgage loan impairment losses represented 0.17% of total loans and advances at fair value of DKK 615bn.

Impairment provisions totalled DKK 2,051m at end-2012, up DKK 270m. Individual impairment provisions stood at DKK 1,394m and collective impairment provisions at DKK 657m.

Profit from equity investments came to DKK 672m compared with DKK 764m in 2011.

The investment portfolio generated income of DKK 2,242m against a loss of DKK 857m in 2011.

The investment portfolio of bonds, liquidity and interest rate instruments generated income of DKK 1,829m in 2012, while earnings from portfolio equities and equity instruments came to DKK 134m. To this should be added value adjustment of strategic equities of DKK 279m. Unlike in the Consolidated Financial Statements, strategic equities are not value adjusted against equity but against investment portfolio income.

Nykredit's securities portfolio consists mainly of high-rated Danish and North and Central European covered bonds. The exposure to equities and credit bonds was low.

Nykredit has no exposures to the capital markets in Southern Europe.

### Profit distribution

Profit for the year has been taken to equity in accordance with the Articles of Association and the guidelines laid down by the Board of Directors.

For the financial year 2012, Nykredit Realkredit continued the distribution practice applied the year before as adopted by the Board of Directors. Consequently, no series reserve funds receive any share of results for the year directly.

Equity is allocated to the individual series in compliance with statutory capital requirements and the requirements of rating agencies for a given rating (generally AAA). The remaining part of equity is allocated to Nykredit Realkredit In General.

In accordance with the articles of association of a number of pre-1972 series, the reserve fund shares will be distributed when a loan is partially or fully redeemed. In case of losses or a need to provide for a non-performing mortgage of a pre-1972 series, the series in question will be reduced by an equivalent amount. The reserve funds of pre-1972 series will therefore chiefly be affected by distributed reserve fund shares for the year and any loan impairment. Any contributed capital consequent to the capital requirements is not distributable.

After distribution of profit for the year, equity landed at DKK 57.6bn at year-end.

It will be recommended for approval by the Annual General Meeting that a dividend of DKK 150m be distributed for 2012. Equity will be DKK 57.4bn after distribution of dividend.

### Capital base and capital adequacy

The capital adequacy requirements governing Danish mortgage banks are laid down in Part 10 of the Danish Financial Business Act. The capital base must at any time make up at least 8% of the risk-weighted assets of a mortgage bank.

At end-2012, the capital base was DKK 61.6bn, corresponding to a total capital ratio of 16.4%.

The Group's internal capital adequacy requirement (ICAAP) was 9.0% at year-end.

### Hybrid capital

Pursuant to the Danish Financial Business Act, Nykredit may include hybrid capital for capital requirement purposes. Interest payments on the issued capital will lapse should Nykredit no longer meet the capital requirement. Interest payments may not be resumed until Nykredit complies with statutory capital requirements again, and only interest accrued from this point in time may be paid.

At end-2012 the Company's capital requirement was DKK 30.0bn relative to a capital base of DKK 61.6bn.

#### Nykredit Realkredit A/S Capital base

DKK million	2012	2011
<b>Tier 1 capital</b>		
- Equity, end of period	57,556	55,310
- Revaluation reserves transferred to supplementary capital	(2)	(2)
- Proposed dividend	(150)	(200)
- Intangible assets, including goodwill	(3,654)	(4,137)
- Capitalised tax assets	0	(170)
- Hybrid capital	10,445	10,965
- Other deductions from Tier 1 capital <sup>1</sup>	(2,599)	(2,389)
<b>Tier 1 capital after statutory deductions</b>	<b>61,596</b>	<b>59,376</b>
<b>Supplementary capital</b>	<b>40</b>	<b>51</b>
<b>Statutory deductions from capital base</b>	<b>(40)</b>	<b>(51)</b>
<b>Total capital base after statutory deductions</b>	<b>61,596</b>	<b>59,376</b>

<sup>1</sup> Pursuant to section 28 of the Danish Executive Order on capital base determination, certain investments in credit and financial institutions must be deducted by 50% from Tier 1 capital and supplementary capital, respectively.

#### Capital requirement and capital adequacy

DKK million	2012	2011
Credit risk	27,751	27,419
Market risk	1,346	2,276
Operational risk	886	1,097
<b>Total capital requirement<sup>1</sup></b>	<b>29,983</b>	<b>30,792</b>
<b>Capital base</b>	<b>61,596</b>	<b>59,376</b>
Tier 1 capital ratio, % <sup>2</sup>	16.4	15.4
Total capital ratio, %	16.4	15.4
Capital adequacy requirement (SREP), %	8.0	8.0
Internal capital adequacy requirement (Pillar I and Pillar II)	9.0	9.2
<b>Weighted assets</b>	<b>374,788</b>	<b>384,897</b>

<sup>1</sup> The capital requirement is determined subject to a transitional rule in accordance with the transitional provisions of the Danish Executive Order on Capital Adequacy. The capital requirement must constitute at least 80% of the capital requirement determined under Basel I. At end-2012, the total capital requirement subject to transitional rules was DKK 33,683m.

<sup>2</sup> The Tier 1 capital ratio has been determined relative to risk-weighted assets without applying the transitional rule.

**TOTALKREDIT A/S**

Totalkredit recorded a profit before tax of DKK 697m against DKK 749m in 2011. Profit after tax was DKK 522m against DKK 562m the year before.

Results for 2012 were positively affected by high lending activity and price increases as at 1 April 2012. Conversely, results were negatively affected by a higher loan provisioning requirement, a fall in investment portfolio income and increased interest expenses for supplementary collateral for SDO-funded loans and advances.

Core income from business operations went up by DKK 437m to DKK 1,753m in 2012, reflecting gross new lending of DKK 131bn against DKK 70bn in 2011 and a rise in the loan portfolio of DKK 36bn to DKK 510bn in nominal terms.

Core income from securities amounted to DKK 21m against DKK 156m in 2011.

Operating costs, depreciation and amortisation saw a modest upturn of DKK 5m to DKK 372m compared with 2011.

Loan impairment losses rose by DKK 80m to DKK 527m in 2012. They equalled 0.10% of lending, which was unchanged relative to the year before.

Totalkredit's business concept is based on partner banks being responsible for customer services and for managing the credit risk relating to the loan portfolio.

Risk is hedged by agreement with the partner banks. Under the agreement, recognised losses corresponding to the part of a loan exceeding 60% of the mortgageable value at the time of granting are offset against future commission payments from Totalkredit to the partner banks.

Accordingly, the company has offset DKK 253m against commission for the year payable to the partner banks. The amount has been recognised in "Impairment losses on loans and advances".

After recognition of profit for the year and a capital increase of DKK 750m at end-H1/2012, equity stood at DKK 15.1bn at year-end.

The capital base was DKK 18,117m at end-2012, corresponding to a total capital ratio of 22.2% against 18.8% at end-2011.

The internal capital adequacy requirement (ICAAP) was 10.6% at year-end.

Reference is made to the Annual Report 2012 of Totalkredit A/S.

**Totalkredit A/S****Core earnings and investment portfolio income**

DKK million	2012	2011
<b>Core income from</b>		
- business operations	1,753	1,316
- junior covered bonds	(234)	(91)
- securities	21	156
<b>Total</b>	<b>1,540</b>	<b>1,381</b>
Operating costs, depreciation and amortisation	372	367
<b>Core earnings before impairment losses</b>	<b>1,168</b>	<b>1,014</b>
Impairment losses on loans and advances	527	447
<b>Core earnings after impairment losses</b>	<b>641</b>	<b>567</b>
Investment portfolio income	56	182
<b>Profit before tax</b>	<b>697</b>	<b>749</b>
Tax	175	187
<b>Profit for the year</b>	<b>522</b>	<b>562</b>

**Totalkredit A/S****Summary balance sheet, year-end**

DKK million	2012	2011
Mortgage loans at fair value	523,069	481,111
Bonds and equities	85,235	86,512
Issued bonds, Totalkredit	58,516	78,328
Issued bonds, Nykredit Realkredit	520,688	461,893
Subordinated debt	3,100	3,100
Equity	15,090	13,818
<b>Total assets</b>	<b>632,397</b>	<b>586,397</b>



**THE NYKREDIT BANK GROUP**

The Nykredit Bank Group recorded a profit before tax of DKK 67m against DKK 593m in 2011. Profit after tax was DKK 68m against DKK 433m the year before.

Results for 2012 reflected growth in business volumes with personal customers and higher activity and earnings in both Nykredit Markets and Nykredit Asset Management, whereas earnings in CIB was lower. Results were negatively affected by increased value adjustment of interest rate swaps and impairment losses on loans and advances.

Core income from business operations was DKK 3,447m in 2012, equal to a 2% decline on 2011 when income came to DKK 3,506m.

Core income from securities amounted to DKK 61m against DKK 175m in 2011.

Operating costs, depreciation and amortisation rose by DKK 9m to DKK 1,824m. To this should be added payments to the Guarantee Fund for Depositors and Investors of DKK 23m against DKK 100m in 2011.

Impairment losses on loans and advances rose by DKK 169m to DKK 557m in 2012. The rise was attributable to increased lending to personal customers as well as SMEs.

The investment portfolio generated income of DKK 30m in 2012 against a charge of DKK 153m in 2011.

Equity was DKK 14,270m at end-2012 against DKK 14,202m at the beginning of the year.

The Bank's capital base was DKK 14,463m at end-2012, corresponding to a total capital ratio of 21.3% against 19.3% at end-2011.

The internal capital adequacy requirement (ICAAP) was 10.5% at year-end.

Reference is made to the Annual Report 2012 of the Nykredit Bank Group.

**The Nykredit Bank Group****Core earnings and investment portfolio income**

DKK million	2012	2011
<b>Core income from</b>		
- business operations	3,447	3,506
- value adjustment of derivatives and corporate bonds	(1,067)	(632)
- securities	61	175
<b>Total</b>	<b>2,441</b>	<b>3,049</b>
Operating costs, depreciation and amortisation	1,824	1,815
Payment to the Guarantee Fund for Depositors and Investors	23	100
<b>Core earnings before impairment losses</b>	<b>594</b>	<b>1,134</b>
Impairment losses on loans and advances	557	388
<b>Core earnings after impairment losses</b>	<b>37</b>	<b>746</b>
Investment portfolio income	30	(153)
<b>Profit before tax</b>	<b>67</b>	<b>593</b>
Tax	(1)	160
<b>Profit for the year</b>	<b>68</b>	<b>433</b>

**The Nykredit Bank Group****Summary balance sheet, year-end**

DKK million	2012	2011
Loans and advances	85,208	77,908
Bonds and equities	58,399	61,063
Payables to credit institutions and central banks	55,355	63,093
Deposits	54,701	57,551
Equity	14,270	14,202
<b>Total assets</b>	<b>240,518</b>	<b>232,368</b>

**NYKREDIT MÆGLER A/S**

Nykredit Mægler's core business is being the franchiser of the estate agency chain Nybolig and business partner of the estate agency chain Estate.

At end-2012, the agency network comprised 312 estate agencies, of which 229 Nybolig agencies and 83 Estate agencies.

The Nykredit Mægler franchisees sold 13,527 properties in 2012, 5.3% more than the year before. The continued housing market slow-down has influenced the activity as well as earnings levels of the franchisees and Nykredit Mægler. However, 2012 saw improvement on 2011.

Nykredit Mægler realised a profit of DKK 31m before tax and DKK 23m after tax for 2012 relative to a profit of DKK 6m and DKK 5m, respectively, the year before.

The company's equity was DKK 141m at year-end.

**NYKREDIT EJENDOMME A/S**

Nykredit Ejendomme's main activity is the leasing of the commercial properties from which the Nykredit Realkredit Group operates.

Nykredit Ejendomme posted a profit of DKK 49m after tax for 2012 against a loss of DKK 195m the year before. Results for 2011 were reduced by impairment losses on the Company's properties of DKK 224m. In 2012 no impairment losses were posted for the Company's properties.

The Company's equity was DKK 469m at year-end.

**THE EJENDOMSSELSKABET KALVEBOD GROUP**

The principal activity of the Company is to temporarily own and manage non-performing exposures, directly or indirectly through subsidiaries, on behalf of companies in the Nykredit Group.

The Company posted a profit after tax of DKK 9m in 2012 against a loss of DKK 41m in 2011. Results for 2012 were affected by positive net value adjustment of investment properties and interest rate swaps of DKK 5m against a total negative value adjustment of DKK 65m in 2011.

At end-2012, the property portfolio of Ejendomsselskabet Kalvebod A/S totalled DKK 652m.

The Company's equity was DKK 218m at year-end.

**Nykredit Mægler A/S**

DKK million	2012	2011
Profit for the year	23	5
Balance sheet total	174	137
Equity	141	118

**Nykredit Ejendomme A/S**

DKK million	2012	2011
Profit (loss) for the year	49	(195)
Land and buildings	1,647	1,577
Balance sheet total	1,677	1,601
Equity	469	367

**The Ejendomsselskabet Kalvebod Group**

DKK million	2012	2011
Profit (loss) for the year	9	(41)
Investment properties	652	753
Balance sheet total	820	900
Equity	218	209

# MANAGEMENT STATEMENT AND AUDIT REPORTS

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## STATEMENT BY THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD ON THE ANNUAL REPORT

The Board of Directors and the Executive Board have today reviewed and approved the Annual Report 2012 of Nykredit Realkredit A/S and the Nykredit Realkredit Group.

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds. The Financial Statements and the Management's Review have been prepared in accordance with the Danish Financial Business Act.

In our opinion, the Consolidated Financial Statements and the Financial Statements give a fair presentation of the Group's and the Company's assets, liabilities, equity and financial position at 31 December 2012 and of the results of the Group's and the Company's operations as well as the Group's cash flows for the financial year 2012.

We are furthermore of the opinion that the Management's Review gives a fair review of the development in the operations and financial circumstances of the Group and the Company as well as a description of the material risk and uncertainty factors which may affect the Group and the Company.

The Annual Report is recommended for approval by the General Meeting.

Copenhagen, 7 February 2013

### Executive Board

Peter Engberg Jensen  
Group Chief Executive

Kim Duus  
Group Managing Director

Søren Holm  
Group Managing Director

Karsten Knudsen  
Group Managing Director

Per Ladegaard  
Group Managing Director

Bente Overgaard  
Group Managing Director

### Board of Directors

Steen E. Christensen  
Chairman

Hans Bang-Hansen  
Deputy Chairman

Steffen Kragh  
Deputy Chairman

Kristian Benggaard

Michael Demsitz

Merete Eldrup

Marlene Holm

Allan Kristiansen

Anders C. Obel

Erling Bech Poulsen

Lars Peter Skaarup

Nina Smith

Jens Erik Udsen

Leif Vinther

**INTERNAL AUDITORS' REPORT****Report on the Consolidated Financial Statements and the Financial Statements**

We have audited the Consolidated Financial Statements and the Financial Statements of Nykredit Realkredit A/S for the financial year 1 January – 31 December 2012. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds. The Financial Statements have been prepared in accordance with the Danish Financial Business Act.

**Basis of opinion**

We conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Undertakings etc. as well as Financial Groups and the International Standards on Auditing. This requires us to plan and perform the audit to obtain reasonable assurance that the Consolidated Financial Statements and the Financial Statements are free from material misstatement.

The audit has been performed in accordance with the division of work agreed with the external auditors and has included an assessment of business procedures and internal control established, including the risk management organised by Management relevant to the Company's reporting processes and significant business risks. Based on materiality and risk, we have examined, on a test basis, the basis of amounts and other disclosures in the Consolidated Financial Statements and the Financial Statements. Furthermore, the audit has included assessing the appropriateness of the accounting policies applied by Management, the reasonableness of the accounting estimates made by Management and the overall presentation of the Consolidated Financial Statements and the Financial Statements.

We have participated in the audit of risk and other material areas and believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

**Opinion**

In our opinion, the business procedures and internal control established, including the risk management organised by Management aimed at the Group's and the Company's reporting processes and significant business risks, are working satisfactorily.

Furthermore, in our opinion, the Consolidated Financial Statements and the Financial Statements give a fair presentation of the Group's and the Company's assets, liabilities, equity and financial position at 31 December 2012 and of the results of the Group's and the Company's operations as well as the Group's cash flows for the financial year 1 January – 31 December 2012 in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds in respect of the Consolidated Financial Statements, and in accordance with the Danish Financial Business Act in respect of the Financial Statements.

**Statement on the Management's Review**

We have read the Management's Review pursuant to the Danish Financial Business Act. We have performed no further procedures in addition to the audit of the Consolidated Financial Statements and the Financial Statements.

On this basis, it is our opinion that the information in the Management's Review is consistent with the Consolidated Financial Statements and the Financial Statements.

Copenhagen, 7 February 2013

Claus Okholm  
Chief Audit Executive

Kim Stormly Hansen  
Deputy Chief Audit Executive

## INDEPENDENT AUDITORS' REPORT

### To the shareholder of Nykredit Realkredit A/S

#### Report on the Consolidated Financial Statements and the Financial Statements

We have audited the Consolidated Financial Statements and the Financial Statements of Nykredit Realkredit A/S for the financial year 1 January – 31 December 2012, comprising income statements, statements of comprehensive income, balance sheets, statement of changes in equity and notes, including the Group's and the Company's accounting policies as well as the Group's cash flow statement. The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds. The Financial Statements have been prepared in accordance with the Danish Financial Business Act.

#### Management's responsibility for the Consolidated Financial Statements and the Financial Statements

Management is responsible for the preparation and fair presentation of Consolidated Financial Statements in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds as well as for the preparation and fair presentation of Financial Statements in accordance with the Danish Financial Business Act. Management is also responsible for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Financial Statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' responsibilities

Our responsibility is to express an opinion on the Consolidated Financial Statements and the Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements in Danish audit legislation. This requires us to comply with ethical requirements and to plan and perform the audit to obtain reasonable assurance that the Consolidated Financial Statements and the Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence for the amounts and disclosures in the Consolidated Financial Statements and the Financial Statements. The audit procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the Consolidated Financial Statements and the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of Consolidated Financial Statements and Financial Statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes assessing the appropriateness of the accounting policies adopted by Management, the reasonableness of the accounting estimates made by Management and the overall presentation of the Consolidated Financial Statements and the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

#### Opinion

In our opinion, the Consolidated Financial Statements and the Financial Statements give a fair presentation of the Group's and the Company's assets, liabilities, equity and financial position at 31 December 2012 and of the results of the Group's and the Company's operations as well as the Group's cash flows for the financial year 1 January – 31 December 2012 in accordance with the International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for issuers of listed bonds in respect of the Consolidated Financial Statements, and in accordance with the Danish Financial Business Act in respect of the Financial Statements.

#### Statement on the Management's Review

We have read the Management's Review pursuant to the Danish Financial Business Act. We have performed no further procedures in addition to the audit of the Consolidated Financial Statements and the Financial Statements.

On this basis, it is our opinion that the information in the Management's Review is consistent with the Consolidated Financial Statements and the Financial Statements.

Copenhagen, 7 February 2013

Deloitte  
Statsautoriseret Revisionspartnerselskab

Anders O. Gjelstrup  
State-Authorised Public Accountant

Henrik Wellejus  
State-Authorised Public Accountant

## Income statements for 1 January – 31 December

DKK million

Nykredit Realkredit A/S			The Nykredit Realkredit Group		
2011	2012		Note	2012	2011
36,446	33,544	Interest income	5	40,905	44,237
31,682	28,189	Interest expenses	6	30,067	34,134
4,764	5,355	<b>NET INTEREST INCOME</b>		<b>10,838</b>	<b>10,103</b>
61	97	Dividend on equities	7	100	65
897	1,042	Fee and commission income	8	2,305	1,904
250	276	Fee and commission expenses	9	2,084	1,647
5,472	6,218	<b>NET INTEREST AND FEE INCOME</b>		<b>11,159</b>	<b>10,425</b>
(2,399)	196	Value adjustments	10	(547)	(1,935)
26	11	Other operating income		230	226
2,711	2,510	Staff and administrative expenses	11	4,739	4,931
672	730	Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	12	766	930
3	0	Other operating expenses		30	114
570	1,057	Impairment losses on loans, advances and receivables	13	2,149	1,414
774	719	Profit from investments in associates and group enterprises	14	47	10
(83)	2,846	<b>PROFIT (LOSS) BEFORE TAX</b>		<b>3,205</b>	<b>1,338</b>
(345)	454	Tax	15	575	223
261	2,392	<b>PROFIT FOR THE YEAR</b>		<b>2,629</b>	<b>1,115</b>
-	-	<b>DISTRIBUTION OF PROFIT FOR THE YEAR</b>			
		Shareholders of Nykredit Realkredit A/S		2,629	1,115
		<b>PROPOSAL FOR THE DISTRIBUTION OF PROFIT</b>			
1,361	689	Statutory reserves			
(1,300)	1,553	Retained earnings			
200	150	Proposed dividend			

## Statements of comprehensive income for 1 January – 31 December

DKK million

Nykredit Realkredit A/S			The Nykredit Realkredit Group		
2011	2012		Note	2012	2011
261	2,392	<b>PROFIT FOR THE YEAR</b>		2,629	1,115
		<b>OTHER COMPREHENSIVE INCOME</b>			
-	-	- Fair value adjustment of equities available for sale		279	(927)
-	-	- Tax on fair value adjustment of equities available for sale		(43)	245
		Realised value adjustment of equities available for sale reclassified to the income statement		(455)	(205)
-	-	- Tax on realised value adjustment of equities available for sale reclassified to the income statement		(18)	(0)
-	-	Unrealised capital loss on equities available for sale reclassified to the income statement due to impairment of a significant or permanent nature		-	45
-	-	- Tax on unrealised capital loss on equities available for sale reclassified to the income statement due to impairment of a significant or permanent nature		-	(11)
-	-	- Fair value adjustment of owner-occupied properties		71	27
-	-	- Tax on fair value adjustment of owner-occupied properties		(18)	(7)
21	53	Share of comprehensive income in associates and group enterprises		-	-
21	53	<b>OTHER COMPREHENSIVE INCOME</b>		(184)	(833)
282	2,445	<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		2,445	282
		<b>DISTRIBUTION OF COMPREHENSIVE INCOME</b>			
-	-	- Shareholders of Nykredit Realkredit A/S		2,445	282

## Balance sheets, end of year

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group			
2011	2012		Note	2012	2011
		<b>ASSETS</b>			
4,540	2,465	Cash balance and demand deposits with central banks		9,497	7,084
34,631	31,526	Receivables from credit institutions and central banks	16	50,677	59,175
1,085,179	1,162,099	Loans, advances and other receivables at fair value	17	1,172,253	1,106,581
940	378	Loans, advances and other receivables at amortised cost	18	50,111	56,716
68,621	38,379	Bonds at fair value	19	79,055	97,115
		<b>Equities</b>			
3,264	2,982	Equities measured at fair value through profit or loss		1,592	1,615
-	-	Equities available for sale		1,766	2,064
3,264	2,982	<b>Total</b>	20	3,358	3,679
149	155	Investments in associates	21	158	151
28,714	30,189	Investments in group enterprises	22	-	-
4,137	3,654	Intangible assets	23	3,705	4,199
		<b>Land and buildings</b>			
-	-	Investment properties		652	753
20	18	Owner-occupied properties		1,668	1,598
20	18	<b>Total</b>	24	2,319	2,351
309	324	Other property, plant and equipment	25	377	356
344	141	Current tax assets	35	353	344
662	171	Deferred tax assets	34	184	741
451	465	Assets in temporary possession	26	1,412	556
18,913	16,083	Other assets	27	59,724	53,619
201	190	Prepayments		221	239
1,251,073	1,289,219	<b>TOTAL ASSETS</b>		1,433,405	1,392,905



## Balance sheets, end of year

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group			
2011	2012		Note	2012	2011
<b>LIABILITIES AND EQUITY</b>					
89,065	48,597	Payables to credit institutions and central banks	28	67,539	117,626
-	-	Deposits and other payables	29	54,509	57,404
1,060,979	1,145,585	Issued bonds at fair value	30	1,103,818	1,021,942
195	182	Issued bonds at amortised cost	31	27,595	25,864
4,421	2,025	Other non-derivative financial liabilities at fair value	32	34,557	30,908
-	-	Current tax liabilities	35	17	201
-	-	Liabilities temporarily assumed		478	22
29,172	23,570	Other liabilities	33	75,099	71,180
-	-	Deferred income		4	4
<b>1,183,832</b>	<b>1,219,960</b>	<b>Total payables</b>		<b>1,363,616</b>	<b>1,325,152</b>
<b>Provisions</b>					
351	161	Provisions for pensions and similar obligations	36	167	356
492	393	Provisions for deferred tax	34	465	526
94	87	Repayable reserves in pre-1972 series	37	87	94
-	-	Provisions for losses under guarantees	38	82	114
30	26	Other provisions	39	150	149
<b>967</b>	<b>668</b>	<b>Total provisions</b>		<b>951</b>	<b>1,239</b>
<b>10,965</b>	<b>11,035</b>	<b>Subordinated debt</b>	<b>40</b>	<b>11,281</b>	<b>11,204</b>
<b>Equity</b>					
1,182	1,182	Share capital		1,182	1,182
<b>Accumulated changes in value</b>					
2	2	- revaluation reserves		202	151
-	-	- value adjustment of equities available for sale		745	982
<b>Other reserves</b>					
2,155	2,896	- statutory reserves		-	-
47,720	44,054	- series reserves		44,054	47,720
4,051	9,272	Retained earnings		11,223	5,075
200	150	Proposed dividend		150	200
<b>55,310</b>	<b>57,556</b>	<b>Total equity</b>		<b>57,556</b>	<b>55,310</b>
<b>1,251,073</b>	<b>1,289,219</b>	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,433,405</b>	<b>1,392,905</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
-	-	Contingent liabilities	41	4,806	5,375
1,981	1,620	Other commitments		9,213	8,389
<b>1,981</b>	<b>1,620</b>	<b>TOTAL</b>		<b>14,019</b>	<b>13,764</b>

## Statement of changes in equity for 1 January – 31 December

DKK million

Nykredit Realkredit A/S

	Share capital	Revaluation reserves	Statutory reserves*	Series reserves	Retained earnings	Proposed dividend	Total
<b>2012</b>							
Equity, 1 January	1,182	2	2,155	47,720	4,051	200	55,310
Profit for the year	-	-	689	-	1,553	150	2,392
<b>Other comprehensive income</b>							
Share of comprehensive income in associates and group enterprises	-	-	53	-	-	-	53
<b>Total other comprehensive income</b>	-	-	53	-	-	-	53
<b>Total comprehensive income for the year</b>	-	-	743	-	1,553	150	2,445
Dividend from associates	-	-	(2)	-	2	-	-
Distributed dividend	-	-	-	-	-	(200)	(200)
Adjustment pursuant to capital adequacy rules	-	-	-	(3,666)	3,666	-	-
Transferred from provisions – pre-1972 series	-	-	-	(0)	1	-	1
<b>Equity, 31 December</b>	<b>1,182</b>	<b>2</b>	<b>2,896</b>	<b>44,054</b>	<b>9,272</b>	<b>150</b>	<b>57,556</b>
<b>2011</b>							
Equity, 1 January	1,182	4	1,357	35,490	16,987	300	55,320
Profit (loss) for the year	-	-	786	-	(724)	200	261
<b>Other comprehensive income</b>							
Share of comprehensive income in associates and group enterprises	-	-	21	-	-	-	21
<b>Total other comprehensive income</b>	-	-	21	-	-	-	21
<b>Total comprehensive income for the year</b>	-	-	806	-	(724)	200	282
Dividend from associates	-	-	(8)	-	8	-	-
Distributed dividend	-	-	-	-	-	(300)	(300)
Adjustment pursuant to capital adequacy rules	-	-	-	12,230	(12,230)	-	-
Transferred from provisions – pre-1972 series	-	-	-	-	8	-	8
Other adjustments	-	(2)	-	0	2	-	0
<b>Equity, 31 December</b>	<b>1,182</b>	<b>2</b>	<b>2,155</b>	<b>47,720</b>	<b>4,051</b>	<b>200</b>	<b>55,310</b>

\* The item relates to transfer to reserves for net revaluation according to the equity method. The reserves are non-distributable.

The share capital is divided into shares of DKK 100 and multiples thereof. Nykredit Realkredit A/S has only one class of shares, and all the shares confer the same rights on shareholders.

## Statement of changes in equity for 1 January – 31 December

DKK million

The Nykredit Realkredit Group

	Share capital	Revaluation reserves	Accumulated value adjustment of equities available for sale	Series reserves	Retained earnings	Proposed dividend	Total
<b>2012</b>							
Equity, 1 January	1,182	151	982	47,720	5,075	200	55,310
Profit for the year	-	-	-	-	2,479	150	2,629
<b>Other comprehensive income</b>							
Fair value adjustment of equities available for sale	-	-	236	-	-	-	236
Realised value adjustment of equities available for sale reclassified to the income statement	-	-	(473)	-	-	-	(473)
Fair value adjustment of owner-occupied properties	-	53	-	-	-	-	53
<b>Total other comprehensive income</b>	-	<b>53</b>	<b>(237)</b>	-	-	-	<b>(184)</b>
<b>Total comprehensive income for the year</b>	-	<b>53</b>	<b>(237)</b>	-	<b>2,479</b>	<b>150</b>	<b>2,445</b>
Distributed dividend	-	-	-	-	-	(200)	(200)
Adjustment pursuant to capital adequacy rules	-	-	-	(3,666)	3,666	-	-
Transferred from provisions – pre-1972 series	-	-	-	(0)	1	-	1
Other adjustments	-	(2)	-	-	2	-	-
<b>Equity, 31 December</b>	<b>1,182</b>	<b>202</b>	<b>745</b>	<b>44,054</b>	<b>11,223</b>	<b>150</b>	<b>57,556</b>
<b>2011</b>							
Equity, 1 January	1,182	132	1,836	35,490	16,380	300	55,320
Profit for the year	-	-	-	-	915	200	1,115
<b>Other comprehensive income</b>							
Fair value adjustment of equities available for sale	-	-	(682)	-	-	-	(682)
Unrealised capital loss on equities available for sale reclassified to the income statement due to impairment of a significant or permanent nature	-	-	34	-	-	-	34
Realised value adjustment of equities available for sale reclassified to the income statement	-	-	(205)	-	-	-	(205)
Fair value adjustment of owner-occupied properties	-	21	-	-	-	-	21
<b>Total other comprehensive income</b>	-	<b>21</b>	<b>(854)</b>	-	-	-	<b>(833)</b>
<b>Total comprehensive income for the year</b>	-	<b>21</b>	<b>(854)</b>	-	<b>915</b>	<b>200</b>	<b>282</b>
Distributed dividend	-	-	-	-	-	(300)	(300)
Adjustment pursuant to capital adequacy rules	-	-	-	12,230	(12,230)	-	-
Transferred from provisions – pre-1972 series	-	-	-	-	8	-	8
Other adjustments	-	(2)	1	0	1	-	0
<b>Equity, 31 December</b>	<b>1,182</b>	<b>151</b>	<b>982</b>	<b>47,720</b>	<b>5,075</b>	<b>200</b>	<b>55,310</b>

## Cash flow statement for 1 January – 31 December

DKK million

	The Nykredit Realkredit Group	
Note	2012	2011
<b>Profit for the year</b>	<b>2,629</b>	<b>1,115</b>
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	766	930
Profit from investments in associates	(47)	(10)
Impairment losses on loans, advances and receivables	2,149	1,414
Prepayments/deferred income, net	17	(22)
Tax calculated on profit for the year	575	223
Other adjustments	(210)	(832)
<b>Total</b>	<b>3,251</b>	<b>1,703</b>
<b>Profit for the year adjusted for non-cash operating items</b>	<b>5,880</b>	<b>2,818</b>
<b>Change in working capital</b>		
Loans, advances and other receivables	(61,217)	(61,171)
Deposits and payables to credit institutions	(52,982)	23,684
Issued bonds	83,608	40,917
Other working capital	931	4,448
<b>Total</b>	<b>(29,660)</b>	<b>7,878</b>
<b>Corporation tax paid, net</b>	<b>(352)</b>	<b>(200)</b>
<b>Cash flows from operating activities</b>	<b>(24,132)</b>	<b>10,497</b>
<b>Cash flows from investing activities</b>		
Purchase of group enterprises	-	(28)
Purchase of associates	(0)	(2)
Divestment of associates	39	9
Dividend received	2	8
Purchase and sale of bonds and equities	18,381	(1,639)
Purchase of intangible assets	(139)	(217)
Purchase of property, plant and equipment	(166)	(224)
Sale of property, plant and equipment	125	72
<b>Total</b>	<b>18,241</b>	<b>(2,021)</b>
<b>Cash flows from financing activities</b>		
Redemption of subordinated debt	-	(594)
Purchase and sale of self-issued subordinated debt instruments	6	20
Distributed dividend	(200)	(300)
<b>Total</b>	<b>(194)</b>	<b>(874)</b>
<b>Total cash flows</b>	<b>(6,085)</b>	<b>7,602</b>
<b>Cash and cash equivalents, beginning of year</b>		
Cash balance and demand deposits with central banks	7,084	507
Receivables from credit institutions and central banks	59,175	58,149
<b>Total</b>	<b>66,258</b>	<b>58,657</b>
<b>Cash and cash equivalents, year-end</b>		
Cash balance and demand deposits with central banks	9,497	7,084
Receivables from credit institutions and central banks	50,677	59,175
<b>Total</b>	<b>60,174</b>	<b>66,258</b>

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# Notes

## 1. ACCOUNTING POLICIES

### GENERAL

The Consolidated Financial Statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The Consolidated Financial Statements are furthermore prepared in accordance with additional Danish disclosure requirements relating to annual reports of issuers of listed bonds.

Additional Danish disclosure requirements for the annual reports of the Group are stated in the Executive Order on the application of IFRS by financial companies issued pursuant to the Danish Financial Business Act and by NASDAQ OMX Copenhagen A/S.

All figures in the Annual Report are rounded to the nearest million kroner (DKK). The totals stated are calculated on the basis of actual figures. Due to the rounding-off, the sum of individual figures and the stated totals may differ slightly.

### Changes to accounting presentation

Segment reporting has been changed due to reorganisation of the Group in early 2012. The new organisation is shaped around the three main business areas – Retail, Totalkredit Partners and Wholesale. In addition, a number of income statement and balance sheet items are not allocated to any of the above business areas. Those items are carried under Group Items.

The most significant changes relative to previous segment reporting are that the activities of personal customers, SMEs, the activities of Nykredit Mægler A/S and mortgage loans granted via Nykredit's branch in Poland have merged under the business area Retail. The Group's corporate and institutional clients have been separated from other commercial customers (SMEs) and included in the business area Wholesale along with Nykredit Markets and Nykredit Asset Management. The portfolio of terminated corporate exposures of the former Forstædernes Bank is also included in the business area Wholesale. The activities of Ejendomsselskabet Kalvebod A/S, Nykredit Ejendomme A/S and Group Treasury are included in Group Items. The business area Totalkredit has been renamed Totalkredit Partners.

Mortgage loans to personal customers provided by Totalkredit A/S through the former Forstædernes Bank have been transferred from Totalkredit Partners to Retail.

Comparative figures have been restated, and the changes do not affect the Nykredit Group's results, comprehensive income, balance sheet or equity.

In all other respects, the accounting policies are unchanged compared with the Annual Report for 2011.

### Changes to the Executive Order on the presentation of financial reports

In 2012 the Danish Financial Supervisory Authority issued an amended Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

The amendments mainly concern specifications for objective evidence of impairment (OEI), including determination of the provisioning need, assessment of the security provided and impairment calculations etc.

The implementation of the amended Executive Order on Financial Reports has not had a significant impact on the Parent Company's or the Group's results, comprehensive income, balance sheet or equity.

### New and amended standards and interpretations

Implementation of new or amended standards and interpretations in force and effective for financial years beginning 1 January 2012:

IFRS 7 "Financial Instruments: Disclosures" (specification of standard).

IAS 12 "Income Taxes" (specification of standard) (approved for use in the EU, effective from 1 January 2012 according to the IASB).

The implementation has had no impact on results for the year, comprehensive income, balance sheet or equity.

### Reporting standards and interpretations that have not yet entered into force

At the time of presentation of the Annual Report, a number of new or amended standards and interpretations had not yet entered into force and/or had not been approved for use in the EU.

IAS 1 "Presentation of Financial Statements" (specification of standard) (approved for use in the EU) (effective from 1 January 2013).

IAS 19 "Employee Benefits" (amendments to standard) (approved for use in the EU, effective from 1 January 2013). To the Nykredit Group, the amendments to the standard mean that actuarial changes are recognised in "Other comprehensive income" going forward. On implementation of the standard and restatement of comparative figures for 2012 the amendments will have a negative impact of DKK 60m on profit for the year and a positive impact of DKK 60m on "Other comprehensive income". Elimination of the corridor approach will have no impact as this approach is not currently used.

Improvements to IFRS 2009-2011 ("Minor amendments to IFRS as a result of the IASB's annual improvements") (not approved for use in the EU, expected to be effective from 1 January 2013).

IFRS 1 "First-time Adoption of International Financial Reporting Standards", Government Loans (specification of standard) (not approved for use in the EU, expected to be effective from 1 January 2013).

IAS 27 "Separate Financial Statements" (amendment to standard) (approved for use in the EU, effective from 1 January 2014).

IAS 28 "Investments in Associates" (amendment to standard) (approved for use in the EU, effective from 1 January 2014).

IFRS 10 "Consolidated Financial Statements" (new standard) (approved for use in the EU, effective from 1 January 2014).

IFRS 11 "Joint Arrangements" (new standard) (approved for use in the EU, effective from 1 January 2014).

IFRS 12 "Disclosure of Interests in Other Entities" (new standard) (approved for use in the EU, effective from 1 January 2014).

IFRS 13 "Fair Value Measurement" (new standard) (approved for use in the EU, effective from 1 January 2013).

IAS 32 "Financial Instruments: Presentation" (specification of standard) (approved for use in the EU, effective from 1 January 2014).

IFRS 7 "Financial Instruments: Disclosures" (specification of standard) (approved for use in the EU, effective from 1 January 2013).

IFRS 9 "Financial Instruments: Classification and Measurement" (financial assets (November 2009) and financial liabilities (October 2010)) (new standard) (not approved for use in the EU). Expected to be effective for financial years beginning on or after 1 January 2015.

The IASB is still working on a project which, in time, will replace the IAS 39 rules. The revised standard – IFRS 9 – is divided into three main phases comprising classification and measurement of financial assets and liabilities, impairments and hedge accounting.

The EU has opted not to adopt the IFRS 9 until the results of all three phases are available. The new standard is expected to be implemented in January 2015. The impact of the implementation of IFRS 9 on the Consolidated Financial Statements has not yet been analysed, as the standard is not currently available in a form that allows for an overall assessment of the effect.

In Management's view, the implementation of the above standards and amendments to standards will have only a modest impact on the Annual Report except for the implementation of IFRS 9 the impact of which had not been analysed before the presentation of the Annual Report.

#### **SIGNIFICANT ACCOUNTING ESTIMATES AND ASSESSMENTS**

The preparation of the Consolidated Financial Statements involves the use of informed accounting estimates. These estimates are made by Nykredit's Management in accordance with accounting policies and based on past experience and an assessment of future conditions.

Accounting estimates and assumptions are tested and assessed regularly. The estimates applied are based on assumptions which Management considers reasonable and realistic, but which are per se uncertain and unpredictable.

Areas implying a high degree of assessment or complexity or areas in which assumptions and estimates are material to the financial statements are:

#### *Fair value of financial instruments*

The fair value measurement of unlisted financial instruments is based on significant estimates. Notes 43 and 44 further specify the methods applied to determine the carrying amounts and the related specific uncertainties. Financial instruments the measurement of which is not based on listed prices represented about 7.8% of assets and 9.8% of liabilities at end-2012.

#### *Measurement of loans and advances – impairments*

Provisions for loan impairment involve significant estimates in the quantification of the risk of not receiving all future payments. If it is ascertained that not all future payments will be received, the determination of the time and amount of the expected payments is subject to significant estimates.

Furthermore, realisable values of security and expected dividend payments from bankrupt estates are subject to a number of estimates. Reference is made to ASSETS under "Provisions for loan and receivable impairment" below for a detailed description. Loans and advances made up some 85.3% of the Group's assets at end-2012.

#### *Valuation of goodwill*

Purchased goodwill is subject to an ongoing impairment test in which the assessment of the future earning capacity of the companies is based on significant estimates. Goodwill made up 0.2% of the Group's assets at end-2012.

#### *Investment and owner-occupied properties*

After initial recognition, investment and owner-occupied properties are measured at fair value or at a reassessed value when measurement is subject to significant estimates as regards the elements forming part of the fair value measurement. Investment properties and owner-occupied properties made up 0.2% of the Group's assets at end-2012.

#### *Provisions for losses under guarantees*

Provisions for losses under guarantees are subject to significant estimates where the determination of the extent to which a guarantee may become effective upon the financial collapse of the guarantee applicant is subject to uncertainty. Part of the provisions made in 2011 related to the Danish Guarantee Fund for Depositors and Investors where estimates and uncertainty are primarily based on a general expectation of losses inflicted by the distressed banks under the schemes. Provisions for losses under guarantees and off-balance sheet contingent liabilities totalled DKK 4,888m at end-2012.

#### *Pensions and similar obligations*

The present value of pension obligations under defined benefit plans depends on the assumptions underlying the actuarial calculations. The determination of the future development in eg wages, interest rates, inflation and mortality as well as return on plan assets is based on significant estimates.

#### **Recognition and classification of financial instruments**

Financial instruments represented more than 95% of the Group's assets as well as liabilities.

Financial instruments are recognised on the settlement date, and changes in the fair value of instruments purchased or sold in the period between the trade date and the settlement date are recognised as financial assets or liabilities in "Other assets"/"Other liabilities" and as value adjustments in the income statement.

Assets which are measured at amortised cost following initial recognition are not value adjusted between the trade date and the settlement date.

Financial assets or liabilities are derecognised when the right to receive or pay related cash flows has lapsed or been transferred, and the Group has transferred all risks and returns related to ownership in all material respects.

Financial instruments are initially recognised at fair value. Subsequent measurement depends on the classification at the time of recognition.

Measurement principles and classification of financial instruments are described below as well as in notes 43 and 44.

In Management's opinion, the methods and estimates applied as part of the measurement techniques give a reliable view of the fair value of the instruments.

Financial instruments are classified as follows:

- Loans, advances and receivables/Other financial liabilities at amortised cost
- Financial assets and liabilities at fair value through profit or loss (held for trading)
- Financial assets and liabilities at fair value through profit or loss (the fair value option)
- Financial assets available for sale.

*Loans, advances and receivables/Other financial liabilities at amortised cost*

Following initial recognition, loans, advances and liabilities are measured at the lower of amortised cost and net realisable value, including a constant effective interest rate over the life of the asset or liability.

Amortised cost is determined as initial cost less principal payments, provisions for loan impairment and other accounting adjustments, including any fees or transaction costs. Capital gains and losses as well as transaction costs are distributed over the life of the asset or liability.

*Financial assets and liabilities at fair value through profit or loss (held for trading)*

A financial asset/liability is classified as "held for trading" if:

- it was chiefly acquired with a view to a short-term gain,
- it forms part of a portfolio where there is evidence of realisation of short-term gains, or
- Management classifies it as such.

Derivative financial instruments are classified as financial assets held for trading unless classified as hedges for hedge accounting purposes.

Realised and unrealised gains and losses arising from changes in the fair value of "Financial assets and liabilities at fair value through profit or loss" are recognised in "Value adjustments" through profit or loss for the period in which they arose.

*Financial assets and liabilities at fair value through profit or loss (the fair value option)*

On initial recognition, a financial asset/liability is classified at fair value (the fair value option) if:

- a group of financial assets/liabilities is under management, and earnings are assessed by Nykredit's Management in accordance with a documented risk management strategy or investment strategy based on fair value,
- this classification eliminates or materially reduces measurement inconsistency that would arise on using the general measurement provisions of IAS 39.

Mortgage loans and issued covered bonds (ROs and SDOs)/junior covered bonds are included in this category.

Realised and unrealised gains and losses arising from changes in the fair value of "Financial assets and liabilities at fair value through profit or loss" are recognised in "Value adjustments" through profit or loss for the period in which they arose.

*Financial assets available for sale*

Financial assets available for sale include equities traded in an active market and unlisted equities. Up to a potential sale, unrealised value adjustments of equities available for sale are recognised in "Other comprehensive income" except for impairment losses resulting from material or permanent impairment. Such impairment losses are charged to "Value adjustments" in the income statement.

On realisation, the accumulated value adjustment recognised in "Other comprehensive income" is transferred to "Value adjustments" in the income statement.

## RECOGNITION AND MEASUREMENT IN GENERAL

### Recognition and measurement

Assets are recognised in the balance sheet if it is probable as a result of a previous event that future economic benefits will flow to the Group, and if the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet if it is probable as a result of a previous event that future economic benefits will flow from the Group, and if the value of the liability can be measured reliably.

Income is recognised in the income statement as earned. Furthermore, value adjustment of financial assets and liabilities measured at fair value or amortised cost is recognised through profit or loss or in other comprehensive income for the period in which it arose.

All costs incurred by the Company are recognised in the income statement, including depreciation, amortisation, impairment losses, provisions and reversals as a result of changed accounting estimates of amounts previously recognised in the income statement.

### Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently measured at fair value. Value adjustments are recognised in the income statement as such for the period in which they arose. Positive and negative fair values of deriva-



tive financial instruments are recognised in "Other assets" or "Other liabilities".

The fair values of derivative financial instruments are determined using generally accepted measurement methods based on market information and other generally accepted measurement methods.

#### **Hedge accounting**

The Group applies derivatives to hedge interest rate risk on some fixed-rate financial assets and liabilities measured at amortised cost.

Changes in the fair values of derivative financial instruments that are classified and qualify as fair value hedges of a recognised asset or liability are recorded in the income statement together with changes in the value of the hedged asset or liability that are attributable to the hedged risk.

The hedges are established for individual assets and liabilities and at portfolio level. The hedge accounting effectiveness is measured and assessed on a current basis.

If the criteria for hedging are no longer met, the accumulated value adjustment of the hedged item is amortised over its residual life.

#### **Netting**

Financial assets and liabilities are offset and presented as a net amount when the Group has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### **Consolidation**

Nykredit Realkredit A/S (the Parent Company) and the enterprises in which Nykredit Realkredit A/S exercises direct or indirect control over the financial and operational management are included in the Consolidated Financial Statements. Nykredit Realkredit A/S and its subsidiaries are collectively referred to as the Nykredit Realkredit Group.

Enterprises in which the Nykredit Realkredit Group has joint control together with other enterprises which do not form part of the Group are considered joint ventures. The Group's investments in joint ventures are recognised and measured according to the equity method.

The Consolidated Financial Statements are prepared on the basis of the financial statements of the individual enterprises by combining items of a uniform nature. The financial statements applied for the consolidation have been prepared in accordance with the Group's accounting policies. All intercompany income and costs, dividends, intercompany shareholdings and balances as well as realised and unrealised intercompany gains and losses are eliminated.

#### **Business combinations**

On acquisition of new enterprises where control is obtained over the acquired enterprise, the purchase method is applied.

Acquisitions are effected using the uniting-of-interests method of accounting in case of mergers with/between enterprises with the same management.

Acquired enterprises are included from the time of acquisition, which is when the acquiring party obtains control over the acquired enterprises' financial and operational decisions.

Identifiable assets, liabilities and contingent assets and liabilities of the acquired enterprises are measured at fair value at the time of acquisition. Identifiable intangible assets are recognised where they can be separated or arise out of a contractual right. Deferred tax on revaluations is recognised.

Positive balances (goodwill) between the cost of the enterprise and the fair value of the identifiable assets, liabilities and contingent liabilities acquired are recognised as goodwill in "Intangible assets". Subsequent measurement of goodwill is described under Intangible assets below. Any negative balances (badwill) are recognised in "Other operating income" through profit or loss.

Profits or losses on divestment or winding up of group enterprises and associates are determined as the difference between the selling price and the carrying amount including goodwill at the time of divestment as well as costs incidental to the divestment or winding up.

Divested enterprises are included up to the time of divestment.

#### **Core earnings and investment portfolio income**

The financial key figures in the Management's Review of the Group as well as its segment financial statements are presented in the statement of core earnings and investment portfolio income, as Management finds that this presentation reflects the activities and earnings in the Group.

Core earnings mirror income from customer activity and risk-free returns on the securities portfolio less operating costs, depreciation, amortisation and impairment losses on loans and advances. The value adjustment of derivatives and corporate bonds is recognised as a separate item showing the effect of a fair value adjustment. Net costs relating to junior covered bonds are also recognised as a separate item. Net costs relating to junior covered bonds consist of the yield spread between the issued junior covered bonds and the assets in which the proceeds are invested at the time of issuance. The issued junior covered bonds as well as the assets in which proceeds are invested are measured at fair value on an ongoing basis, and value adjustments are included in investment portfolio income.

Core income from securities includes the return which the Group would have obtained by placing its investment portfolios at a risk-free interest rate – Danmarks Nationalbank's average lending rate. Core income from securities also includes net interest expenses relating to supplementary capital and the acquisition of Totalkredit determined relative to risk-free interest.

Investment portfolio income is the excess income obtained from investing in equities, bonds and derivative financial instruments in addition to risk-free interest. Price spreads and interest margins relating to the mortgage lending of Nykredit Realkredit and Totalkredit as well as the trading activities of Nykredit Markets are included not as investment portfolio income, but as core income from business operations. The Group's expenses for a loss guarantee issued by Nykredit Holding in favour of Nykredit Bank are offset against investment portfolio income.

**Segment information**

Information is provided on business segments and geographic markets. Business areas are defined on the basis of differences in customer segments, services and group items. The presentation of the business areas is based on internal management reporting. The business areas reflect the Group's risk and return and are considered the Group's core segments. Segment information is in accordance with the Group's accounting policies.

Income and expenses included in the profit (loss) before tax of the individual business areas comprise directly as well as indirectly attributable items. Indirect allocation is based on internal allocation keys as well as agreements between the individual business areas. Items not directly or indirectly attributable are included in Group Items.

The financial assets and liabilities underlying the financial income and expenses forming part of the business area's profit (loss) are allocated to the relevant business area. Assets in the segment include the assets used directly in segment operations, including intangible assets, property, plant, equipment and investments in associates.

Goodwill is recognised in the business area which receives or pays the cash flows relating to the enterprise acquired.

The business capital of the individual business areas is determined according to the Basel II principles based on the method applied to determine the required capital base.

The required capital base is the statutory capital requirement plus a projection for a mild recession scenario. The business return is calculated as the results of the business area relative to the business capital.

No risk-free interest is calculated on capital allocated to the business areas.

Information is provided exclusively at group level.

**Currency**

The Consolidated Financial Statements are presented in Danish kroner (DKK), which is the functional as well as the presentation currency of the Parent Company. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction date. Exchange gains and losses arising on the settlement of these transactions are recognised in the income statement.

At the balance sheet date, monetary assets and liabilities in foreign currencies are translated at the exchange rates prevailing on the balance sheet date. Foreign currency translation adjustment is recognised in the income statement.

Currency translation differences arisen on translation of non-monetary assets and liabilities are recognised in the income statement as part of the fair value gain or loss.

The financial statements of independent foreign entities are translated into Danish kroner at the exchange rates prevailing on the balance sheet

date with respect to balance sheet items and at average exchange rates with respect to income statement items.

**Repo/reverse**

Securities sold as part of sale and repurchase transactions are retained in the appropriate principal balance sheet item, eg "Bonds". Sale and repurchase transactions are measured at fair value as they are considered an integral component of the trading book.

The amount received is recognised as payables to the counterparty or in "Non-financial liabilities at fair value". The liability is fair value adjusted over the life of the agreement through profit or loss.

Securities acquired as part of purchase and resale transactions are stated as receivables from the counterparty or in "Loans, advances and other receivables at fair value". The receivables are fair value adjusted over the life of the agreement through profit or loss.

Where the Group resells assets received in connection with purchase and resale transactions, and where the Group is obliged to return the instruments, the value thereof is included in "Other non-derivative financial liabilities at fair value".

Repo/reverse transactions are recognised and measured at fair value, and the return is recognised as interest income and interest expenses through profit or loss.

**Leases**

Leases are classified as finance leases when all material risk and returns associated with the title to an asset have been transferred to the lessee.

Receivables from the lessee under finance leases are included in "Loans, advances and other receivables at amortised cost". The leases are measured so that the carrying amount equals the net investment in the lease. Interest receivable under finance leases is recognised as income in "Interest income". Principal payments made are deducted from the carrying amount concurrently with the amortisation of the receivable.

Direct costs of establishment of leases are recognised in the net investment.

Other leases are classified as operating leases. Properties leased under operating leases are classified as investment properties.

**INCOME STATEMENT****Interest income and expenses**

Interest includes interest due and accrued up to the balance sheet date.

Interest income includes interest and interest-like income, including interest-like commission received and other income that forms an integral part of the effective interest rate of the underlying instruments. The item also includes index premium on assets, forward premium on securities and foreign exchange trades as well as adjustments over the life of financial assets measured at amortised cost and where the cost differs from the redemption price.

Interest income from impaired bank loans and advances is included in "Interest income" at an amount reflecting the effective interest rate of the impaired value of loans and advances. Any interest income from the underlying loans and advances exceeding this amount is included in "Impairment losses on loans, advances and receivables".

Interest expenses include all interest-like expenses including adjustment over the life of financial liabilities measured at amortised cost and where cost differs from the redemption price.

#### **Dividend**

Dividend from equity investments and equities is recognised as income in the income statement in the financial year in which the dividend is declared.

#### **Fees and commissions**

Fees and commissions include income and costs relating to services, including management fees. Fee income relating to services provided on a current basis is accrued over their terms.

For accounting purposes, fees, commissions and transaction costs are treated as interest if they form an integral part of the effective interest rate of a financial instrument.

Other fees and commissions are fully recognised in the income statement at the date of transaction.

#### **Value adjustments**

Value adjustments include foreign currency translation adjustment and value adjustment of assets and liabilities measured at fair value. Value adjustments relating to the credit risk of loans, advances and receivables measured at fair value are recognised in "Impairment losses on loans, advances and receivables".

#### **Other operating income**

Other operating income comprises operating income not attributable to other income statement items, including lease income.

#### **Staff and administrative expenses**

Staff expenses include wages and salaries as well as social security costs, pensions etc. Jubilee benefit and redundancy payment obligations are recognised successively.

#### **Other operating expenses**

Other operating expenses comprise operating expenses not attributable to other income statement items, including payment to the Danish Guarantee Fund for Depositors and Investors.

#### **Profit (loss) from investments in associates**

The proportionate share of the profit (loss) of associates and joint ventures after tax and after elimination of the proportionate share of inter-company profit (loss) is recognised in the consolidated income statement.

#### **Tax**

Tax for the year, consisting of current tax for the year and changes to deferred tax, is recognised in the income statement, unless the tax effect concerns items recognised in "Other comprehensive income". Adjustments relating to entries recognised directly in "Other comprehensive income" are recognised accordingly.

Current tax liabilities and current tax assets are recognised in the balance sheet as tax calculated on taxable income for the year adjusted for tax paid on account. The current tax for the year is calculated on the basis of the tax rates and rules prevailing on the balance sheet date.

The domestic corporation tax of the jointly taxed companies is payable in accordance with the scheme for payment of tax on account. Interest payable or deductible relating to voluntary payment of tax on account and interest payable or receivable on over-/underpayment of tax are recognised in "Other interest income" or "Other interest expenses", as appropriate.

Using the balance sheet liability method, deferred tax on all temporary differences between the carrying amounts and the tax base of an asset or liability is recognised except for deferred tax on temporary differences arisen on initial recognition of goodwill.

Deferred tax is determined on the basis of the intended use of each asset or the settlement of each liability. Deferred tax is measured using the tax rates expected to apply to temporary differences upon reversal and the tax rules prevailing on the balance sheet date or existing tax rules.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at the value at which they are expected to be realised, either by set-off against deferred tax liabilities or as net tax assets for set-off against future positive taxable income. On each balance sheet date, it is assessed whether it is probable that future taxable income will allow for the use of the deferred tax asset.

The Nykredit Group's Danish companies are jointly taxed with Foreningen Nykredit (the Nykredit Association). Current Danish corporation tax payable is distributed among the jointly taxed Danish companies relative to their taxable income (full distribution subject to refund for tax losses).

Current tax assets and current tax liabilities are offset when there is a legally enforceable right to offset. Deferred tax assets and deferred tax liabilities are offset when there is a legal right to offset.

#### **ASSETS**

##### **Receivables from credit institutions and central banks**

Receivables from credit institutions and central banks include receivables from other credit institutions and time deposits with central banks. Initial recognition is made at fair value. Subsequent measurement is made at amortised cost.

This item also includes receivables acquired as part of purchase and resale transactions (reverse transactions), which are subsequently measured at fair value, as these instruments form part of the trading book.

#### **Loans, advances and other receivables at fair value**

The item includes loans and advances included in the trading book and mortgage loans classified at fair value (the fair value option) as such classification eliminates the accounting mismatch that would arise on using the general measurement provisions of IAS 39.

Mortgage loans granted in accordance with Danish mortgage legislation have been funded by issued listed covered bonds (ROs or SDOs) of uniform terms. Such mortgage loans may be prepaid by way of a delivery of the underlying bonds. The Nykredit Realkredit Group buys and sells its self-issued mortgage bonds and covered bonds on a continuing basis as they constitute a key part of the Danish money market.

If mortgage loans and issued covered bonds (ROs and SDOs) were measured at amortised cost, the purchase and sale of self-issued covered bonds (ROs and SDOs) would lead to a time lag between the recognition of gains and losses in the financial statements. The purchase price of the holding would not equal the amortised cost of the issued bonds, and the elimination would lead to the recognition of a random earnings impact. If the holding of self-issued mortgage bonds/covered bonds was subsequently sold, the new amortised cost of the "new issue" would not equal the amortised cost of the matching mortgage loans, and the difference would be amortised over the time-to-maturity.

Mortgage loans are therefore measured at fair value and include an adjustment for the market risk based on the value of the underlying bonds and an adjustment for credit risk based on the provisioning need.

#### **Totalkredit mortgage loan funding**

Nykredit Realkredit A/S issues covered bonds (ROs and SDOs) for the funding of loans granted by Nykredit Realkredit A/S as well as Totalkredit A/S. Totalkredit A/S is therefore under an obligation to pay interest, drawing and prepayment amounts to Nykredit Realkredit A/S, which will transfer such payments to bond investors.

Mortgage loans are measured at fair value adjusted for market risk based on the value of the underlying bonds and any impairment provisions for credit risk.

Nykredit's Management has resolved to apply the fair value option as such classification eliminates the accounting mismatch that would arise on using amortised cost as defined by IAS 39, cf above.

#### **Loans, advances and other receivables at amortised cost**

On initial recognition, other loans, advances and other receivables at amortised cost are measured at fair value less/plus the costs and income relating to the acquisition. Subsequent measurement takes place at the lower of amortised cost and net realisable value less provisions for loan and receivable impairment.

If fixed-rate receivables/loans and advances are hedged effectively using derivatives, the fair value of the hedged interest rate exposure is added to the amortised cost of the asset.

#### **Provisions for loan and receivable impairment**

Provisions for loan and receivable impairment are divided into individual and collective provisions. The Group's loans and advances are generally always placed in groups of uniform credit risks. If there is objective evidence of impairment (OEI) and the event(s) concerned is(are) believed to have a reliably measurable effect on the size of expected future payments from the loan, individual impairment provisions are made for the loan, which is removed from the relevant group and treated separately.

##### *Individual impairment provisions*

The Nykredit Realkredit Group performs continuous individual reviews and risk assessments of all significant loans, advances and receivables to determine whether there is any OEI.

There is OEI in respect of a loan if one or more of the following events have occurred:

- The borrower has serious financial difficulties
- The borrower fails to honour its contractual payment obligations
- It is probable that the borrower will go into bankruptcy or be subject to other financial restructuring
- Nykredit has eased the borrower's loan terms, which would not have been relevant had the borrower not suffered financial difficulties.

The loan is impaired by the difference between the carrying amount before impairment and the present value of the expected future cash flows from the individual loan or exposure.

Strategy and action plans are prepared for all loans subject to individual impairment. The loans/exposures are reviewed quarterly.

Similar individual impairment provisions are made for non-significant loans, advances and receivables if there is OEI and the event(s) concerned is(are) believed to have a reliably measurable effect on the size of expected future payments from the exposure/loan.

If there is OEI in respect of loans at fair value, Nykredit assesses the probability of losses, which assessment is included in the calculation of individual impairment provisions.

Where OEI is identified on an individual basis and it is not possible to determine the deterioration of cash flows on individual loans reliably, the individual provisioning need is determined on the basis of a joint assessment of the loan and equivalent loans. Subsequently, collective provisions are made based on the most probable outcome for the deterioration of expected cash flows. This approach is generally used for very small loans and advances where the Group's information on the customer's financial position is not up to date.

##### *Collective impairment provisions*

At each balance sheet date, collective assessments are made of loans and advances for which no individual provisions have been made and, where OEI is identified in one or more groups, collective provisions for loan impairment are made.

The provisioning need is calculated based on the change in expected losses relative to the time the loans were granted. For each loan in a group of loans, the contribution to the impairment of that group is calculated as the difference between the present value of the loss flow

at the balance sheet date and the present value of the expected loss when the loan was granted.

Collective impairment provisions are the total of contributions from a rating model, a segmentation model and management judgement.

The rating model determines impairment based on credit quality migration as a result of the development in adjusted Basel parameters. The segmentation model supplements the rating model by adjusting the Basel parameters for events resulting from changes in the economic climate not yet reflected in the rating model. Management judgements supplement the models by including current expert opinions and expectations for the credit risk development of specific segments.

Having been adjusted to the current economic climate and accounting rules, the Basel parameters applied in the rating and segmentation models are based on cash flows until expiry of loan terms and the discounted present value of loss flows.

#### *Impairment provisions in general*

Total provisions for loan impairment are deducted from the relevant loans under asset items. Recognised losses, changes in loan impairment provisions for the year and provisions for guarantees are charged to the income statement in "Impairment losses on loans, advances and receivables".

Where events occur showing a partial or complete impairment reduction following individual or collective impairment provisioning, impairment provisions are reversed accordingly.

Loans and advances not expected to be collected are written off.

#### **Equities and bonds**

Equities and bonds are initially recognised at fair value and are subsequently measured at fair value based on listed prices or generally accepted measurement methods.

If no objective prices from recent trades in unlisted equities are available, these equities are measured at fair value using the IPEV Board's principles of valuation of unlisted equities.

The Group's portfolio of self-issued bonds is offset against issued bonds (the liability), and interest receivable relating to self-issued bonds is offset against interest payable.

Changes in the fair value are recognised on a current basis in "Value adjustments" in the income statement.

Equities classified as "available for sale" are initially recognised at fair value and are subsequently measured at fair value based on listed prices or generally accepted measurement methods. Unrealised value adjustments are recognised in "Other comprehensive income" except for impairment losses resulting from material or permanent impairment. Such impairment losses are charged to "Value adjustments" in the income statement.

On realisation, the accumulated value adjustment recognised in "Other comprehensive income" is transferred to "Value adjustments" in the income statement.

#### **Investments in associates**

Investments in associates include enterprises that are not group enterprises, but in which the Nykredit Realkredit Group exercises significant influence but not control, and joint ventures. Enterprises in which the Group holds between 20% and 50% of the voting rights are generally considered associates.

Investments in associates are recognised and measured according to the equity method and are therefore measured at the proportionate ownership share of the enterprises' equity value carried less/plus the proportionate share of unrealised intercompany profits or losses plus goodwill.

#### **Intangible assets**

##### *Goodwill*

Goodwill comprises positive balances between the cost of enterprises acquired and the fair value of the net assets of such enterprises. Goodwill is tested for impairment at least once a year, and the carrying amount is written down to the lower of the recoverable amount and the carrying amount through profit or loss.

Impairment losses are recognised in the income statement and are not reversed.

##### *Other intangible assets*

Costs relating to development projects are recognised as intangible assets provided that there is sufficient certainty that the value in use of future earnings will cover actual development costs.

Capitalised development costs comprise salaries and other costs directly and indirectly attributable to the Group's development activities.

Development costs not meeting the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Capitalised development costs are measured at cost less accumulated amortisation. Capitalised development costs are amortised on completion of the development project on a straight-line basis over the period in which it is expected to generate economic benefits. The amortisation period is 3-5 years.

Fixed-term rights are recognised at cost less accumulated amortisation. Fixed-term rights are amortised on a straight-line basis over their remaining terms. Fixed-term rights lapse after a period of 5-10 years.

Customer relationships are recognised at cost less accumulated amortisation. Customer relationships are amortised on a straight-line basis over the estimated useful lives of the assets. The amortisation period is 13 years.

Other intangible assets are written down to the recoverable amount where OEI is identified.

Impairment losses recognised in the income statement are not reversed.

**Land and buildings***Owner-occupied properties*

Owner-occupied properties are properties which the Group uses for administration, sales and customer contact centres or for other service activities.

On acquisition, owner-occupied properties are recognised at cost and subsequently measured at a reassessed value, equal to the fair value at the revaluation date less subsequent accumulated depreciation and impairment losses. Revaluations are made annually to prevent the carrying amounts from differing significantly from the values determined using the fair value on the balance sheet date. Subsequent costs are recognised in the carrying amount of the asset concerned or as a separate asset where it is probable that costs incurred will lead to future economic benefits for the Group, and the costs can be measured reliably. The costs of ordinary repair and maintenance are recognised in the income statement as incurred.

Fair value is determined in accordance with the return method, under which operating income from the properties is considered in relation to the required rates of return on the properties. The required rates of return under this method take into account the nature, location and state of repair of the property concerned. The measurement is performed by an internal valuer.

Positive value adjustments less deferred tax are added to revaluation reserves in equity. Impairment losses offsetting former revaluations of the same property are deducted from revaluation reserves directly in equity, while other impairment losses are recognised through profit or loss.

The asset is depreciated on a straight-line basis over the estimated useful life of 20–50 years, allowing for the expected scrap value at the expiry of the useful life when ready for entry into service. Land is not depreciated.

Profits and losses on divested assets are determined by comparing sales proceeds with carrying amounts. Gains and losses are recognised in the income statement. On divestment of revalued assets, revaluation amounts contained in the revaluation reserves are transferred to retained earnings.

*Investment properties*

Properties which are not occupied by the Group and which are held for the purpose of obtaining rental income and/or capital gains are classified as investment properties.

On acquisition, investment properties are recognised at cost, which includes the purchase price of the property and direct costs. Subsequently, investment properties are measured at fair value, and value adjustments are carried in the income statement.

Fair value is determined on the basis of open market prices or the return method. Where open market prices are applied, adjustment is made for any differences in the nature, location or state of repair of the asset concerned.

Under the return method, operating income from the properties is considered in relation to the required rates of return on the properties. The required rates of return under this method take into account the nature, location and state of repair of the property concerned. The measurement is performed by an internal valuer.

Properties acquired in connection with the settlement of an exposure are recognised in "Assets in temporary possession".

*Plant under construction*

Plant under construction is measured at cost and includes costs directly attributable to construction. Interest on capital borrowed to finance plant under construction is capitalised as part of the acquisition cost.

Plant under construction is written down for impairment, if deemed necessary, as a result of ongoing impairment tests to ensure that the assets are written down by the difference between the carrying amount and the recoverable amount.

Plant under construction is transferred to assets available for use when the asset is ready for entry into service.

**Other property, plant and equipment***Equipment*

Equipment is measured at cost less accumulated depreciation and impairment losses. Cost includes the purchase price and costs directly related to the acquisition up to the time when the assets are ready for entry into service.

Depreciation is made on a straight-line basis over the expected useful lives of:

- Computer equipment and machinery etc up to 5 years
- Equipment and motor vehicles up to 5 years
- Leasehold improvements; maximum term of the lease is 15 years.

The residual values and useful lives of the assets are revalued at each balance sheet date. The carrying amount of an asset is written down to the recoverable amount if the carrying amount of the asset exceeds the estimated recoverable amount.

Gains and losses on the current replacement of property, plant and equipment are recognised in "Other operating income" or "Other operating expenses".

**Assets in temporary possession**

Assets in temporary possession include property, plant and equipment or groups thereof (mainly repossessed properties), and subsidiaries and associates in respect of which:

- the Group's possession is temporary only
- a sale is intended in the short term, and
- a sale is highly likely.

Liabilities directly attributable to the assets concerned are presented as liabilities relating to assets in temporary possession in the balance sheet.

Assets in temporary possession are measured at the lower of the carrying amount at the time of classification as assets in temporary possession and the fair value less selling costs. Assets are not depreciated or amortised once classified as assets in temporary possession.

Impairment losses arising on initial classification as asset in temporary possession and gains or losses on subsequent measurement at the lower of the carrying amount and the fair value less selling costs are recognised in "Impairment losses on loans, advances and receivables" in the income statement.

#### Other assets

Other assets include interest receivable, net assets of defined benefit plans and positive fair values of derivative financial instruments.

#### Prepayments

Prepayments include prepaid costs.

### LIABILITIES AND EQUITY

#### Payables

Payables to credit institutions and central banks as well as deposits and other payables are initially recognised at fair value equal to the proceeds received less transaction costs incurred. Subsequently, payables are measured at amortised cost equal to the capitalised value using the effective interest rate. The difference between the proceeds and the nominal value is recognised in the income statement as interest expenses over the loan term.

Payables to credit institutions and central banks arisen as part of genuine sale and repurchase transactions are measured at fair value. Fair value adjustments are recognised through profit or loss.

Other liabilities include derivative financial instruments, which are measured at fair value, and other payables, which are measured at amortised cost.

#### Issued bonds at fair value

Issued covered bonds (ROs and SDOs) and junior covered bonds are classified at fair value on initial recognition (the fair value option) as such classification eliminates the accounting mismatch that would arise on using the general measurement provisions of IAS 39.

The fair value of the issued covered bonds (ROs and SDOs) and junior covered bonds is generally prevailing market prices. Bonds drawn at future payment dates are measured at a discounted value. Bonds not traded actively are recognised at calculated market prices.

#### Issued bonds at amortised cost

Issued bonds at amortised cost mainly comprise the Bank's EMTN and ECP issues.

Issued bonds are initially measured at fair value equal to consideration received less costs incurred. Issued bonds are subsequently measured at amortised cost. If the issued bonds are hedged effectively using derivatives, the fair value of the hedged interest rate exposure is added to the amortised cost of the liability.

#### Other non-derivative financial liabilities at fair value

Other non-derivative financial liabilities at fair value include deposits and negative securities portfolios held for trading, which are measured at fair value after initial recognition.

#### Provisions

Provisions are recognised where, as a result of an event occurred on or before the balance sheet date, the Group has a legal or constructive obligation which can be measured reliably and where it is probable that economic benefits must be given up to settle the obligation. Provisions are measured at Management's best estimate of the amount considered necessary to honour the obligation.

#### Provisions for losses under guarantees

Provisions for losses under guarantees and loss-making contracts are recognised if it is probable that the guarantee or the contract will become effective and if the liability can be measured reliably.

#### Repayable reserves

Repayable reserves include reserves in pre-1972 series repayable after full or partial redemption of loans in compliance with the articles of association of the series concerned.

#### Pensions and similar obligations

The Group has entered into pension agreements with the majority of its staff. The agreements may be divided into two main types of plans:

- Defined contribution plans according to which the Group makes fixed contributions to staff pension plans on a current basis. The Group is under no obligation to make further contributions. The contributions to defined contribution plans are recognised in the income statement at the due date, and any contributions payable are recognised in "Other payables" in the balance sheet.
- Defined benefit plans according to which the Group is obliged to make certain contributions in connection with retirement. Defined benefit plans are subject to an annual actuarial calculation (the projected unit credit method) of the value in use of future benefits payable under the plans.

The value in use is based on assumptions of the future development in eg wages, interest rates, inflation and mortality. The value in use is only calculated for benefits to which staff members have become entitled through their employment in the Group.

The actuarially calculated value in use less the fair value of plan assets is recognised in "Other assets"/"Other liabilities" in the balance sheet. Actuarial gains and losses are recognised in the income statement in the year in which they arose. The discount curve for company pension funds is applied for discounting purposes.

A number of the Group's staff members are entitled to receive a fixed amount on attaining retirement age and when having been employed by the Group for 25 and 40 years (jubilee benefits).

The obligations are recognised successively up to the date when the staff member is entitled to receive the benefit. The measurement of the size of the obligation allows for actuarial conditions, including the probability of staff members retiring before the benefit vests and therefore losing entitlement to the benefit. The obligations are recognised at present value using a zero-coupon yield curve plus a risk margin.

The present value changes prompted by an altered discount rate within the financial year are recognised in "Other interest income" or "Other interest expenses".

#### **Deferred income**

Deferred income includes payments received concerning income earned in subsequent years.

#### **Subordinated debt**

Subordinated debt consists of financial liabilities in the form of subordinate loan capital and hybrid capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.

Subordinated debt is initially recognised at fair value less transaction costs incurred. Subordinated debt is subsequently measured at amortised cost, and any differences between the proceeds less transaction costs and the redemption value are recognised in the income statement over the loan term using the effective interest method.

If fixed-rate subordinated debt is hedged effectively using derivatives, the fair value of the hedged interest rate exposure is added to the amortised cost of the liability.

#### **Equity**

##### *Share capital*

Shares are classified as equity where there is no obligation to transfer cash or other assets.

##### *Proposed dividend*

Proposed dividend is recognised as a liability at the time of adoption at the Annual General Meeting (time of declaration). Dividend expected to be distributed for the year is carried as a separate item in equity.

##### *Revaluation reserves*

Revaluation reserves include positive value adjustment of owner-occupied properties less deferred tax on the value adjustment. Increases in the reassessed value of properties are recognised directly in this item unless the increase cancels out a decrease previously recognised in the income statement. The item is adjusted for impairment fully or partially cancelling out previously recognised value increases. The item is also reduced on divestment of properties.

##### *Accumulated value adjustment of equities available for sale*

The reserve includes unrealised value adjustment of equities available for sale. The value adjustment is recognised in "Other comprehensive income". If there is impairment of a significant or permanent nature, the accumulated unrealised loss is reclassified from the reserve to the income statement.

##### *Series reserves*

Series reserves include series reserves where there is no obligation to repay the borrowers.

##### *Retained earnings*

Retained earnings comprise distributable reserves which may be distributed to the Company's shareholders.

#### **CASH FLOW STATEMENT**

The consolidated cash flow statement is prepared according to the indirect method based on profit (loss) for the year. The consolidated cash flow statement shows cash flows for the year stemming from:

- Operating activities
- Investing activities
- Financing activities
- Discontinued operations.

Furthermore, the consolidated cash flow statement shows the changes in cash and cash equivalents for the year and the Group's cash and cash equivalents at the beginning and end of the year.

Cash and cash equivalents consist of "Cash balance and demand deposits with central banks" and "Receivables from credit institutions and central banks".

#### **SPECIAL POLICIES FOR THE PARENT COMPANY NYKREDIT REALKREDIT A/S**

The Annual Report of Nykredit Realkredit A/S is prepared in accordance with the Danish Financial Business Act and the FSA Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc.

In all material respects, these rules comply with the International Financial Reporting Standards (IFRS) and the Nykredit Group's accounting policies. Exceptions to this practice and special circumstances relating to the Parent Company are described below.

#### **Investments in group enterprises**

Investments in group enterprises are recognised and measured according to the equity method.

The proportionate ownership share of the equity value of the enterprises less/plus unrealised intercompany profits or losses is recognised in "Investments in group enterprises" in the balance sheet. Any positive difference between the total cost of investments in group enterprises and the fair value of the net assets at the time of acquisition is recognised as an asset in "Intangible assets" in the balance sheet.

Nykredit's share of the enterprises' profits (losses) after tax and after elimination of unrealised intercompany profits and losses less depreciation, amortisation and impairment losses is recognised in the income statement.

Total net revaluation of investments in group enterprises is transferred through the profit distribution to equity and recorded as "Statutory reserves". The reserves are adjusted for the distribution of dividend to the Parent Company and for other changes in the equity of group enterprises.

The IFRS do not allow the equity method in the separate financial statements of parent companies. The IFRS prescribe measurement either at cost or at fair value.

#### **Financial assets available for sale**

Unlike the IFRS, the FSA Executive Order does not allow the classification of financial assets as "available for sale" with fair value adjustment in "Other comprehensive income". In the Parent Company, equities



available for sale are classified as equities measured at fair value through profit or loss.

*Statutory reserves*

The statutory reserves include value adjustments of investments in subsidiaries and associates (net revaluation according to the equity method). The reserves are adjusted for the distribution of dividend to the Parent Company and for other changes in equity in subsidiaries and associates.

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group		
2011	2012		2012	2011
<b>2. CAPITAL BASE AND CAPITAL ADEQUACY</b>				
<b>Capital base and capital adequacy</b>				
55,310	57,556	Equity, year-end	57,556	55,310
(2)	(2)	Revaluation reserves transferred to supplementary capital	(202)	(151)
<b>55,308</b>	<b>57,554</b>	<b>Tier 1 capital</b>	<b>57,354</b>	<b>55,159</b>
(200)	(150)	Proposed dividend	(150)	(200)
(4,137)	(3,654)	Intangible assets	(3,705)	(4,199)
(170)	-	Capitalised tax assets	-	(214)
<b>50,801</b>	<b>53,751</b>	<b>Core Tier 1 capital after primary statutory deductions</b>	<b>53,499</b>	<b>50,546</b>
10,965	10,445	Hybrid capital included	10,690	11,204
(773)	(882)	Difference between expected losses and impairments for accounting purposes	(917)	(1,050)
(1,616)	(1,717)	Other statutory deductions	(863)	(1,212)
<b>59,376</b>	<b>61,596</b>	<b>Tier 1 capital after statutory deductions</b>	<b>62,410</b>	<b>59,487</b>
51	40	Revaluation reserves and series reserves	241	200
<b>59,428</b>	<b>61,636</b>	<b>Capital base before statutory deductions</b>	<b>62,650</b>	<b>59,687</b>
(773)	(882)	Difference between expected losses and impairments for accounting purposes	(917)	(1,050)
(447)	(438)	Other statutory deductions	(93)	(181)
1,169	1,279	Set-off of excess capital deduction	769	1,031
<b>59,376</b>	<b>61,596</b>	<b>Capital base after statutory deductions</b>	<b>62,410</b>	<b>59,487</b>
<b>Capital requirement</b>				
27,419	27,751	Credit risk (incl settlement risk, statutory deduction for collective impairment provisions under the standardised approach and charge for exceeding large exposure limits)	22,051	23,293
2,276	1,346	Market risk	2,368	3,086
1,097	886	Operational risk	1,722	1,474
<b>30,792</b>	<b>29,983</b>	<b>Total capital requirement</b>	<b>26,142</b>	<b>27,852</b>
<b>384,897</b>	<b>374,788</b>	<b>Total risk-weighted assets</b>	<b>326,775</b>	<b>348,155</b>
<b>Financial ratios</b>				
12.6	13.6	Core Tier 1 capital ratio, %	15.8	13.9
15.4	16.4	Tier 1 capital ratio, %	19.1	17.1
15.4	16.4	Total capital ratio, %	19.1	17.1
<b>Required capital base and internal capital adequacy requirement</b>				
27,419	27,751	Credit risk	18,285	17,962
4,109	2,570	Market risk	3,812	5,821
1,844	1,697	- of which stressed VaR	2,372	2,797
752	898	Operational risk	1,662	1,373
-	-	Risk relating to own properties	133	128
<b>32,281</b>	<b>31,219</b>	<b>Total Pillar I</b>	<b>23,893</b>	<b>25,284</b>
1,572	1,208	Weaker economic climate (stress test, etc)	2,506	2,463
1,462	1,440	Other factors and uncertainties	4,879	5,659
<b>3,034</b>	<b>2,648</b>	<b>Total Pillar II</b>	<b>7,385</b>	<b>8,122</b>
<b>35,315</b>	<b>33,867</b>	<b>Total required capital base</b>	<b>31,278</b>	<b>33,405</b>
<b>384,897</b>	<b>374,788</b>	<b>Total risk-weighted assets</b>	<b>326,775</b>	<b>348,155</b>
<b>9.2</b>	<b>9.0</b>	<b>Internal capital adequacy requirement (ICAAP), %</b>	<b>9.6</b>	<b>9.6</b>

## Notes

DKK million

## The Nykredit Realkredit Group

3. CORE EARNINGS AND INVESTMENT PORTFOLIO INCOME	2012				2011			
	Core earnings	Investment portfolio income	Cost of capital	Total	Core earnings	Investment portfolio income	Cost of capital	Total
Net interest income	8,627	2,674	(463)	10,838	8,444	2,116	(457)	10,103
Dividend on equities	3	97	-	100	3	62	-	65
Fee and commission income, net	333	(112)	-	221	290	(33)	-	257
<b>Net interest and fee income</b>	<b>8,964</b>	<b>2,659</b>	<b>(463)</b>	<b>11,159</b>	<b>8,738</b>	<b>2,145</b>	<b>(457)</b>	<b>10,425</b>
Value adjustments	(284)	(262)	(1)	(547)	50	(1,980)	(5)	(1,935)
Other operating income	230	-	-	230	221	5	-	226
Staff and administrative expenses	4,739	-	-	4,739	4,932	-	-	4,932
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	766	-	-	766	930	-	-	930
Other operating expenses	30	-	-	30	114	-	-	114
Impairment losses on loans, advances and other receivables	2,149	-	-	2,149	1,414	-	-	1,414
Profit from investments in associates	-	47	-	47	-	10	-	10
<b>Profit (loss) before tax</b>	<b>1,225</b>	<b>2,444</b>	<b>(465)</b>	<b>3,205</b>	<b>1,620</b>	<b>179</b>	<b>(462)</b>	<b>1,338</b>

## Notes

DKK million

## The Nykredit Realkredit Group

## 4. RESULTS BY BUSINESS AREA

2012	Retail	Totalkredit Partners	Wholesale	Group Items	Total
<b>Core income from</b>					
- customer activity, gross	5,447	1,744	3,112	(104)	10,201
- payment for distribution	744	-	(744)	-	-
<b>Total business operations</b>	<b>6,192</b>	<b>1,744</b>	<b>2,368</b>	<b>(104)</b>	<b>10,201</b>
- value adjustment of derivatives and corporate bonds	(928)	-	(140)	-	(1,067)
- junior covered bonds	(147)	(263)	(26)	-	(436)
- securities	-	-	-	212	212
<b>Total core income</b>	<b>5,117</b>	<b>1,481</b>	<b>2,203</b>	<b>109</b>	<b>8,909</b>
Transactions between business areas represent	631	(21)	(654)	44	-
Operating costs	3,128	411	840	390	4,769
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	13	521	5	227	766
<b>Core earnings before impairment losses</b>	<b>1,977</b>	<b>549</b>	<b>1,358</b>	<b>(509)</b>	<b>3,374</b>
Impairment losses on loans and advances	1,559	508	70	12	2,149
<b>Core earnings after impairment losses</b>	<b>418</b>	<b>41</b>	<b>1,287</b>	<b>(521)</b>	<b>1,225</b>
Investment portfolio income <sup>1</sup>	-	-	-	2,444	2,444
<b>Profit before cost of capital</b>	<b>418</b>	<b>41</b>	<b>1,287</b>	<b>1,923</b>	<b>3,669</b>
Net interest on hybrid capital	-	-	-	(465)	(465)
<b>Profit before tax</b>	<b>418</b>	<b>41</b>	<b>1,287</b>	<b>1,458</b>	<b>3,205</b>
<b>2011</b>	<b>Retail</b>	<b>Totalkredit Partners</b>	<b>Wholesale</b>	<b>Group Items</b>	<b>Total</b>
<b>Core income from</b>					
- customer activity, gross	4,901	1,369	2,904	15	9,188
- payment for distribution	677	-	(677)	-	-
<b>Total business operations</b>	<b>5,578</b>	<b>1,369</b>	<b>2,227</b>	<b>15</b>	<b>9,188</b>
- value adjustment of derivatives and corporate bonds	(408)	-	(224)	-	(632)
- junior covered bonds	(82)	(94)	(15)	-	(190)
- securities	-	-	-	644	644
<b>Total core income</b>	<b>5,088</b>	<b>1,276</b>	<b>1,988</b>	<b>658</b>	<b>9,010</b>
Transactions between business areas represent	792	(18)	(857)	83	-
Operating costs	3,157	425	797	666	5,045
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	16	492	3	419	930
<b>Core earnings before impairment losses</b>	<b>1,914</b>	<b>359</b>	<b>1,189</b>	<b>(427)</b>	<b>3,034</b>
Impairment losses on loans and advances	1,271	447	(324)	19	1,414
<b>Core earnings after impairment losses</b>	<b>642</b>	<b>(88)</b>	<b>1,513</b>	<b>(446)</b>	<b>1,620</b>
Investment portfolio income <sup>1</sup>	-	-	-	179	179
<b>Profit (loss) before cost of capital</b>	<b>642</b>	<b>(88)</b>	<b>1,513</b>	<b>(267)</b>	<b>1,800</b>
Net interest on hybrid capital	-	-	-	(462)	(462)
<b>Profit (loss) before tax</b>	<b>642</b>	<b>(88)</b>	<b>1,513</b>	<b>(729)</b>	<b>1,338</b>

<sup>1</sup> Investment portfolio income includes profit from investments in associates of DKK 47m against DKK 10m in 2011.

Group segment information is provided by business area and geographical markets as primary and secondary segments, respectively.

**Geographical markets**

Core income from international lending came to DKK 371m in 2012 against DKK 276m in 2011.

The international loan portfolio totalled DKK 56bn at end-2012 against DKK 45bn at end-2011.

## Notes

DKK million

## The Nykredit Realkredit Group

## 4. RESULTS BY BUSINESS AREA (continued)

## Summary balance sheet, year-end

2012	Retail	Totalkredit Partners	Wholesale	Group Items	Total
<b>Assets</b>					
Receivables from credit institutions	-	-	44,189	15,985	60,174
Mortgage loans at fair value	448,539	484,298	173,297	30,719	1,136,853
Other loans and advances at fair value	-	-	35,401	0	35,401
Bank loans at amortised cost	24,191	35	22,184	3,700	50,111
Bonds and equities	20	-	6,424	75,969	82,413
Investments in associates	-	-	-	158	158
Property, plant and equipment as well as intangible assets	105	2,427	11	3,858	6,401
Remaining assets	1,881	-	45,011	15,003	61,894
<b>Total assets</b>	<b>474,736</b>	<b>486,760</b>	<b>326,517</b>	<b>145,392</b>	<b>1,433,405</b>
<b>Liabilities and equity</b>					
Payables to credit institutions	-	-	55,355	12,184	67,539
Deposits and other payables	36,606	-	13,103	4,801	54,509
Issued bonds	547,502	533,739	176,231	(126,058)	1,131,413
Remaining liabilities	923	361	78,707	42,395	122,387
Equity	-	-	-	57,556	57,556
<b>Total liabilities and equity</b>	<b>585,030</b>	<b>534,100</b>	<b>323,397</b>	<b>(9,122)</b>	<b>1,433,405</b>
Off-balance sheet items	4,694	11	7,274	2,040	14,019
Investments in property, plant and equipment as well as intangible assets	-	64	-	241	305
<b>2011</b>					
	Retail	Totalkredit Partners	Wholesale	Group Items	Total
<b>Assets</b>					
Receivables from credit institutions	-	-	49,646	16,612	66,258
Mortgage loans at fair value	443,767	460,546	161,331	18,865	1,084,508
Other loans and advances at fair value	-	-	22,007	-	22,007
Bank loans at amortised cost	29,005	47	24,105	3,559	56,716
Bonds and equities	-	-	14,919	85,875	100,794
Investments in associates	-	-	-	151	151
Property, plant and equipment as well as intangible assets	55	2,891	37	3,922	6,905
Remaining assets	1,807	-	37,834	15,923	55,564
<b>Total assets</b>	<b>474,634</b>	<b>463,484</b>	<b>309,879</b>	<b>144,908</b>	<b>1,392,905</b>
<b>Liabilities and equity</b>					
Payables to credit institutions	-	-	63,093	54,533	117,626
Deposits and other payables	35,013	-	19,255	3,137	57,404
Issued bonds	543,791	514,029	185,535	(195,549)	1,047,806
Remaining liabilities	287	2,532	64,036	47,904	114,759
Equity	-	-	-	55,310	55,310
<b>Total liabilities and equity</b>	<b>579,091</b>	<b>516,561</b>	<b>331,918</b>	<b>(34,665)</b>	<b>1,392,905</b>
Off-balance sheet items	4,609	12	7,019	2,124	13,764
Investments in property, plant and equipment as well as intangible assets	-	77	-	365	442

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>5. INTEREST INCOME</b>			
14,098	13,298	237	183
16,939	14,875	32,100	36,010
3,312	3,741	6,491	5,561
<b>Bonds</b>			
616	742	1,662	1,905
647	696	1,155	1,111
1,579	1,345	1,760	1,997
99	9	(29)	129
217	182	470	369
<b>Derivative financial instruments</b>			
(14)	(89)	(147)	(99)
162	110	30	67
-	-	(30)	(7)
-	-	(7)	-
58	77	79	66
<b>37,712</b>	<b>34,985</b>	<b>43,772</b>	<b>47,293</b>
(616)	(742)	(1,662)	(1,905)
(647)	(696)	(1,155)	(1,111)
(3)	(4)	(51)	(40)
<b>36,446</b>	<b>33,544</b>	<b>40,905</b>	<b>44,237</b>
<b>Of which interest income from genuine purchase and resale transactions entered as:</b>			
62	7	125	105
-	-	283	176
<b>Of total interest income:</b>			
14,090	13,320	2,733	2,800
-	-	88	136
-	-	101	136
-	-	130	123
Interest income accrued on individually impaired bank loans totals DKK 125m (2011: DKK 136m). Nykredit Bank A/S generally does not charge interest on individually impaired loans. Interest income attributable to the impaired part of loans after the first time of impairment is offset against subsequent impairment.			

## Notes

DKK million

Nykredit Realkredit A/S				The Nykredit Realkredit Group	
2011	2012			2012	2011
<b>6. INTEREST EXPENSES</b>					
876	395	Credit institutions and central banks		592	991
-	-	Deposits and other payables		717	947
31,177	28,300	Issued bonds		30,740	34,348
802	807	Subordinated debt		818	846
93	128	Other interest expenses		67	58
<b>32,948</b>	<b>29,630</b>	<b>Total</b>		<b>32,935</b>	<b>37,190</b>
(616)	(742)	Set-off of interest from self-issued SDOs – note 5		(1,662)	(1,905)
(647)	(696)	Set-off of interest from self-issued ROs – note 5		(1,155)	(1,111)
(3)	(4)	Set-off of interest from self-issued other securities and bonds – note 5		(51)	(40)
<b>31,682</b>	<b>28,189</b>	<b>Total</b>		<b>30,067</b>	<b>34,134</b>
<b>Of which interest expenses from genuine sale and repurchase transactions entered as:</b>					
856	379	Credit institutions and central banks		554	948
-	-	Deposits and other payables		171	162
<b>Of total interest expenses:</b>					
924	958	Interest expenses accrued on financial liabilities measured at amortised cost		2,159	2,338
<b>7. DIVIDEND ON EQUITIES</b>					
61	97	Dividend		70	29
-	-	Dividend on equities available for sale		30	36
<b>61</b>	<b>97</b>	<b>Total</b>		<b>100</b>	<b>65</b>
<b>8. FEE AND COMMISSION INCOME</b>					
-	-	Fees relating to financial instruments measured at amortised cost		135	134
11	10	Fees from asset management activities and other fiduciary activities		935	947
886	1,032	Other fees		1,235	822
<b>897</b>	<b>1,042</b>	<b>Total</b>		<b>2,305</b>	<b>1,904</b>
<b>9. FEE AND COMMISSION EXPENSES</b>					
-	-	Fees relating to financial instruments measured at amortised cost		271	238
-	-	Fees from asset management activities and other fiduciary activities		76	194
250	276	Other fees		1,737	1,214
<b>250</b>	<b>276</b>	<b>Total</b>		<b>2,084</b>	<b>1,647</b>

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>10. VALUE ADJUSTMENTS</b>			
<b>Financial assets measured at fair value through profit or loss</b>			
9,566	5,915	11,890	16,630
5,560	4,881	-	-
178	387	2	12
(55)	935	885	(86)
(717)	281	90	285
-	-	8	(21)
120	(65)	(21)	146
(1,822)	(336)	(961)	(2,322)
<b>Financial assets measured at fair value and recognised in "Other comprehensive income"</b>			
-	-	-	(45)
-	-	455	205
<b>Financial liabilities measured at fair value through profit or loss</b>			
(9,669)	(6,921)	(12,895)	(16,736)
(5,560)	(4,881)	-	-
-	-	(0)	(3)
<b>(2,399)</b>	<b>196</b>	<b>(547)</b>	<b>(1,935)</b>
<b>Of which value adjustment relating to fair value hedging for accounting purposes</b>			
-	-	1	(1)
<b>11. STAFF AND ADMINISTRATIVE EXPENSES</b>			
51	52	52	51
2,045	1,800	2,714	2,933
616	659	1,973	1,948
<b>2,711</b>	<b>2,510</b>	<b>4,739</b>	<b>4,931</b>
<b>Remuneration of Board of Directors and Executive Board</b>			
<b>Board of Directors</b>			
3	3	3	3
<b>Executive Board</b>			
35	37	37	35
12	12	12	12
<b>51</b>	<b>52</b>	<b>52</b>	<b>51</b>



## Notes

DKK million

Nykredit Realkredit A/S  
2011      2012

The Nykredit Realkredit Group  
2012      2011

**11. STAFF AND ADMINISTRATIVE EXPENSES (continued)****Terms and conditions applying to the Board of Directors**

The 14 members of the Board of Directors receive fixed remuneration and a refund of any costs relating to board meetings. The remuneration is unchanged relative to end-2011.

**Annual remuneration, end-2012 (DKK)**

	<b>Chairman</b>	<b>Deputy Chairman</b>	<b>Director</b>
Nykredit Realkredit A/S	390,000	315,000	120,000
Nykredit Holding A/S	555,000	370,000	185,000
Foreningen Nykredit	195,000	130,000	75,000

In addition, Allan Kristiansen received remuneration of DKK 60,000 as staff-elected board member of Nykredit Bank A/S.

The chairmen of the Audit Board and the Remuneration Board receive remuneration of DKK 150,000 and DKK 75,000, respectively. Other members of the Audit Board and the Remuneration Board receive remuneration of DKK 100,000 and DKK 50,000, respectively. The members of the Nomination Board do not receive separate remuneration.

No agreements have been made for pension plans, bonus schemes or special termination benefits for members of the Board of Directors elected by the General Meeting.

**Terms and conditions applying to the Executive Board**

Members of the Executive Board receive a fixed salary covering all directorships and executive positions in Foreningen Nykredit and its group enterprises and associates. In addition to their fixed salaries, Executive Board members may opt for a company car in a price range of up to 25% of their gross salaries. The taxable value thereof came to DKK 0.5m in 2012.

Alternatively, Executive Board members may make a suitable car of their own available. This entitles the members to annual compensation of 8% of their gross salaries to cover all car-related costs. DKK 1.5m was paid for this purpose in 2012.

No changes were made to the Executive Board in 2012.

<b>Fixed annual salary, year-end (DKK)</b>	<b>2012</b>	<b>2011</b>
Peter Engberg Jensen	8,390,000	8,230,000
Kim Duus	5,510,000	5,410,000
Søren Holm	5,510,000	5,410,000
Karsten Knudsen	5,510,000	5,410,000
Per Ladegaard	5,510,000	5,410,000
Bente Overgaard	5,510,000	5,410,000

Executive Board members do not have pension plans, but they may resign on attaining the age of 60 and are entitled to pension benefits for up to five years equal to 65% of their gross salaries until attaining the age of 70. Similarly, Nykredit may request a member of the Executive Board to accept retirement in this period. Provisions for these obligations are made on a current basis.

Members of the Executive Board are subject to a mutual term of notice of six months. Upon termination at Nykredit's request before the age of 60, an Executive Board member is entitled to termination benefits equal to 24 months' gross salary.

No bonus or other variable remuneration schemes have been established for the members of the Executive Board.

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>11. STAFF AND ADMINISTRATIVE EXPENSES (continued)</b>			
<b>Staff expenses</b>			
1,678	1,401	2,154	2,423
190	190	268	261
157	188	265	217
20	21	28	32
<b>2,045</b>	<b>1,800</b>	<b>2,714</b>	<b>2,933</b>
24	24	39	39
In addition to the Executive Board, Nykredit has designated the following number of staff whose activities significantly affect Nykredit's risk profile (referred to as risk-takers).			
Details of Nykredit's remuneration policy appear from page 25 of the Management's Review under Remuneration and at nykredit.com.			
Remuneration of risk-takers is included in "Staff expenses" and breaks down into:			
36	38	64	62
9	8	16	19
-	(5)	(8)	-
<b>45</b>	<b>40</b>	<b>72</b>	<b>81</b>
Risk-takers are only covered by defined contribution pension plans.			
Variable remuneration comprises variable remuneration components in the financial year as well as bonus provided for at the end of the financial year. The final bonus is not determined until during the first quarter of the following financial year. The difference between the bonus provided for and the final bonus is recognised in "Adjustment of variable remuneration provided for in previous years".			
<b>Number of staff</b>			
3,143	3,084	4,115	4,139
Average number of staff for the financial year, full-time equivalents			
<b>Fee to auditor appointed by the General Meeting</b>			
7	4	8	11
Deloitte Statsautoriseret Revisionspartnerselskab			
The total fee includes:			
2	2	6	5
0	1	1	0
1	0	0	1
4	1	1	5
<b>7</b>	<b>4</b>	<b>8</b>	<b>11</b>
<b>12. DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES FOR PROPERTY, PLANT AND EQUIPMENT AS WELL AS INTANGIBLE ASSETS</b>			
<b>Intangible assets</b>			
577	629	633	582
- Amortisation			
<b>Property, plant and equipment</b>			
94	100	133	124
- Depreciation			
-	-	-	224
- Impairment losses			
<b>672</b>	<b>730</b>	<b>766</b>	<b>930</b>

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group		
2011	2012	2012	2011	
<b>13. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES</b>				
<b>13 a. Earnings impact</b>				
211	758	Change in individual impairment provisions for loans and advances	1,564	861
92	(157)	Change in collective impairment provisions for loans and advances	(95)	44
216	343	Losses recognised for the year, net	807	552
(26)	(30)	Received on claims previously written off as impairment losses	(55)	(40)
-	-	Provisions for guarantees	(32)	28
<b>493</b>	<b>914</b>	<b>Total impairment losses on loans, advances and guarantees</b>	<b>2,190</b>	<b>1,444</b>
87	147	Value adjustment of assets in temporary possession	210	156
(10)	(5)	Value adjustment of claims previously written off as impairment losses	(9)	(10)
-	-	Losses offset against commission payments to banks	(242)	(177)
<b>570</b>	<b>1,057</b>	<b>Total</b>	<b>2,149</b>	<b>1,414</b>
<b>13 b. Specification of provisions for loan impairment</b>				
967	1,394	Individual impairment provisions	5,673	5,345
815	657	Collective impairment provisions	1,339	1,434
<b>1,781</b>	<b>2,051</b>	<b>Total impairment provisions</b>	<b>7,012</b>	<b>6,778</b>
<b>Impairment provisions have been offset against the following items:</b>				
1,679	1,934	Mortgage loans – note 17	2,721	2,315
102	117	Arrears and outlays – note 17	234	169
-	-	Bank loans and advances – note 18	4,058	4,293
<b>1,781</b>	<b>2,051</b>	<b>Total impairment provisions</b>	<b>7,012</b>	<b>6,778</b>
<b>13 c. Individual impairment provisions</b>				
<b>981</b>	<b>967</b>	<b>Impairment provisions, beginning of year</b>	<b>5,345</b>	<b>6,980</b>
540	934	Impairment provisions for the year	2,323	1,746
(329)	(174)	Impairment provisions reversed	(758)	(885)
(93)	(100)	Value adjustment of repossessed properties	(144)	(105)
(132)	(231)	Impairment provisions recognised as lost	(1,092)	(2,391)
<b>967</b>	<b>1,394</b>	<b>Impairment provisions, year-end</b>	<b>5,673</b>	<b>5,345</b>
<p>Of total individual impairment provisions for bank lending to commercial customers, equal to about DKK 3.0bn, around 28% can be attributed to exposures to customers whose financial circumstances have led to bankruptcy, bankruptcy proceedings or compulsory dissolution.</p> <p>Of total individual impairment provisions for mortgage lending, around 18% or DKK 334m can be attributed to customers who are bankrupt, subject to bankruptcy proceedings or have been compulsory dissolved. Further, around 20% or DKK 379m of total individual impairment provisions for mortgage lending can be attributed to customers in arrears.</p>				

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>13. IMPAIRMENT LOSSES ON LOANS, ADVANCES AND RECEIVABLES (continued)</b>			
<b>13 d. Collective impairment provisions</b>			
722	815	1,434	1,389
92	(157)	(95)	44
<b>815</b>	<b>657</b>	<b>1,339</b>	<b>1,434</b>
<b>13 e. Specification of loans and advances with objective evidence of impairment</b>			
6,225	6,943	15,192	14,695
967	1,394	5,673	5,345
<b>5,258</b>	<b>5,549</b>	<b>9,518</b>	<b>9,350</b>
45,051	41,309	112,737	126,469
815	657	1,339	1,434
<b>44,236</b>	<b>40,652</b>	<b>111,398</b>	<b>125,035</b>
<b>13 f. Impairment losses on repossessed properties</b>			
173	262	358	233
93	100	144	105
139	152	221	209
(3)	(4)	(11)	(4)
(140)	(190)	(264)	(185)
<b>262</b>	<b>320</b>	<b>448</b>	<b>358</b>
Impairment losses on repossessed properties have been offset against "Assets in temporary possession".			
<b>14. PROFIT FROM INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES</b>			
10	47	47	10
764	672	-	-
<b>774</b>	<b>719</b>	<b>47</b>	<b>10</b>

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
	<b>15. TAX</b>		
	<b>15 a. Tax on profit for the year</b>		
	<b>Tax on profit for the year has been calculated as follows:</b>		
(225)	28 Current tax	64	366
12	421 Deferred tax	518	(22)
(72)	33 Adjustment of tax relating to previous years	31	(75)
(59)	(29) Adjustment of deferred tax relating to previous years	(38)	(47)
<b>(345)</b>	<b>454 Total</b>	<b>575</b>	<b>223</b>
	<b>Tax on profit for the year can be specified as follows:</b>		
(21)	712 Calculated 25% tax on profit (loss) before tax	801	334
	<b>Tax effect of:</b>		
(336)	(397) Non-taxable income	(359)	(189)
143	135 Non-deductible expenses and other adjustments	140	200
(132)	4 Adjustment of tax relating to previous years	(7)	(122)
<b>(345)</b>	<b>454 Total</b>	<b>575</b>	<b>223</b>
414.5	15.9 Effective tax rate, %	18.0	16.6
	In 2011 the effective tax rate was influenced by the recognition of income of approximately DKK 133m relating to tax provided for in previous years. Nykredit Realkredit recognised the amount as income after the courts found for Nykredit in a tax case.		
	Adjusted for tax relating to previous years recognised as income, the effective tax rate was 26.6% for the Nykredit Realkredit Group in 2011.		
	<b>15 b. Payroll tax</b>		
	In addition to corporation tax, the Nykredit Realkredit Group paid payroll tax of DKK 265m (2011: DKK 217m). Payroll tax has been included in "Staff expenses", cf note 11.		

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group		
2011	2012		2012	2011
<b>16. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS</b>				
3,000	-	Receivables from central banks	1,746	19,788
31,631	31,526	Receivables from credit institutions	48,930	39,387
<b>34,631</b>	<b>31,526</b>	<b>Total</b>	<b>50,677</b>	<b>59,175</b>
5,877	3,364	Of which genuine purchase and resale transactions	20,633	19,121
<b>Receivables from credit institutions and central banks by time-to-maturity</b>				
3,823	5,264	On demand	35,519	23,454
24,327	17,227	Up to 3 months	14,430	35,132
2,794	5,906	Over 3 months and up to 1 year	700	560
558	-	Over 1 year and up to 5 years	-	-
3,129	3,129	Over 5 years	29	29
<b>34,631</b>	<b>31,526</b>	<b>Total</b>	<b>50,677</b>	<b>59,175</b>
<b>17. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE</b>				
604,292	614,848	Mortgage loans	1,136,445	1,083,991
418	288	Arrears and outlays	408	583
-	-	Other loans and advances	35,401	22,007
18,623	26,305	Loans to Totalkredit serving as collateral in capital centres	-	-
461,846	520,658	Totalkredit mortgage loan funding	-	-
<b>1,085,179</b>	<b>1,162,099</b>	<b>Total</b>	<b>1,172,253</b>	<b>1,106,581</b>
-	-	Of which genuine purchase and resale transactions	35,401	22,007
<b>17 a. Mortgage loans</b>				
<b>575,112</b>	<b>595,273</b>	<b>Balance, beginning of year, nominal value</b>	<b>1,067,606</b>	<b>1,029,636</b>
87,062	86,574	New loans	217,333	156,583
571	618	Indexation	618	571
(320)	1,264	Foreign currency translation adjustment	1,264	(320)
(11,608)	(11,925)	Ordinary principal payments	(16,617)	(15,342)
(55,544)	(71,762)	Prepayments and extraordinary principal payments	(161,408)	(103,522)
<b>595,273</b>	<b>600,042</b>	<b>Balance, year-end, nominal value</b>	<b>1,108,796</b>	<b>1,067,606</b>
(366)	(391)	Loans transferred relating to properties in temporary possession	(611)	(435)
271	262	Loans assumed by the Danish Agency for Governmental Management	262	271
<b>595,177</b>	<b>599,914</b>	<b>Total</b>	<b>1,108,447</b>	<b>1,067,441</b>
<b>10,794</b>	<b>16,869</b>	<b>Adjustment for interest rate risk</b>	<b>30,719</b>	<b>18,865</b>
<b>Adjustment for credit risk</b>				
(865)	(1,277)	Individual impairment provisions	(1,618)	(1,190)
(815)	(657)	Collective impairment provisions	(1,103)	(1,125)
<b>604,292</b>	<b>614,848</b>	<b>Balance, year-end, fair value</b>	<b>1,136,445</b>	<b>1,083,991</b>

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>17. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE (continued)</b>			
For total loans and advances, Nykredit has received mortgages on property and:			
23,581	25,552	33,265	31,673
1,346	945	9,196	9,739
6,333	4,811	16,533	17,634
<b>Mortgage loans at nominal value by property category</b>			
Loans and advances as %, year-end			
29	27	58	58
2	2	3	3
17	16	9	9
12	13	7	7
4	4	2	2
17	19	10	9
16	16	9	9
3	3	2	2
<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
For further specification of mortgage loans by loan type and property category, please refer to page 41 of the Management's Review.			
<b>17 b. Arrears and outlays</b>			
431	371	486	569
89	34	156	184
(102)	(117)	(234)	(169)
<b>418</b>	<b>288</b>	<b>408</b>	<b>583</b>
Mortgage arrears up to and including the September 2012 due date, for which no provisions have been made, amounted to DKK 17m (2011: DKK 19m).			
<b>Mortgage loans, arrears and outlays as well as other loans and advances by time-to-maturity</b>			
2,577	1,929	37,284	24,651
9,617	16,651	16,750	9,637
10,348	15,201	16,197	11,342
582,167	581,355	1,102,021	1,060,951
<b>604,709</b>	<b>615,136</b>	<b>1,172,253</b>	<b>1,106,581</b>
Mortgage loans recognised at fair value, arrears and outlays as well as other loans and advances by time-to-maturity are stated after impairment provisions.			
<b>17 c. Loans to Totalkredit serving as collateral in capital centres</b>			
<b>Loans to Totalkredit serving as collateral in capital centres by time-to-maturity</b>			
-	4,232	-	-
1,738	1,847	-	-
12,748	15,919	-	-
4,137	4,308	-	-
<b>18,623</b>	<b>26,305</b>	<b>-</b>	<b>-</b>

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>17. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE (continued)</b>			
<b>17 d. Totalkredit mortgage loan funding</b>			
432,038	455,052		
<b>Balance, beginning of year, nominal value</b>		-	-
187,927	281,437		
New loans		-	-
(6,934)	(2,791)		
Ordinary principal payments		-	-
(157,979)	(224,590)		
Prepayments and extraordinary principal payments		-	-
<b>455,052</b>	<b>509,107</b>	<b>-</b>	<b>-</b>
<b>Balance, year-end, nominal value</b>			
6,794	11,550		
Adjustment for interest rate risk		-	-
<b>461,846</b>	<b>520,658</b>	<b>-</b>	<b>-</b>
<b>Balance, year-end, fair value</b>			
<b>Totalkredit mortgage loan funding by time-to-maturity</b>			
42,387	49,470		
Up to 3 months		-	-
118,812	117,464		
Over 3 months and up to 1 year		-	-
135,055	173,887		
Over 1 year and up to 5 years		-	-
165,593	179,837		
Over 5 years		-	-
<b>461,846</b>	<b>520,658</b>	<b>-</b>	<b>-</b>
<b>Total</b>			
The Totalkredit mortgage loan funding by time-to-maturity is stated at fair value.			
<b>18. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST</b>			
-	-	53,785	60,070
Bank loans and advances			
47	30	-	-
Totalkredit mortgage loan funding			
-	-	31	47
Mortgage loans			
933	386	390	933
Other loans and advances			
<b>980</b>	<b>416</b>	<b>54,207</b>	<b>61,050</b>
<b>Balance, year-end</b>			
<b>Adjustment for credit risk</b>			
-	-	(3,822)	(3,985)
Individual impairment provisions			
-	-	(236)	(308)
Collective impairment provisions			
<b>980</b>	<b>416</b>	<b>50,149</b>	<b>56,756</b>
<b>Balance after impairment, year-end</b>			
(40)	(38)	(38)	(40)
Set-off of self-issued "Other loans and advances" against "Issued bonds at amortised cost" – note 31			
<b>940</b>	<b>378</b>	<b>50,111</b>	<b>56,716</b>
<b>Total</b>			
The Nykredit Realkredit Group hedges the interest rate risk of fixed-rate bank loans and advances on a current basis using derivatives. This enables the Group to manage its overall interest rate sensitivity taking into consideration the expected interest rate development.			
The fair value measurement of the bank loan portfolio as a result of the use of hedge accounting has been recognised in "Other assets" or "Other liabilities".			
-	-	1,071	1,181
Of total loans and advances, fixed-rate bank loans and advances represent			
-	-	1,127	1,242
The fair value of fixed-rate loans and advances represents			



## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>18. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (continued)</b>			
<b>Loans, advances and other receivables at amortised cost by time-to-maturity</b>			
-	-	17,035	16,384
1	0	6,818	15,146
5	8	7,972	5,969
790	238	8,760	10,860
185	170	9,563	8,398
<b>980</b>	<b>416</b>	<b>50,149</b>	<b>56,756</b>
Loans and advances by time-to-maturity are stated after impairment, but before set-off of self-issued securities.			
<b>18 a. Bank loans and advances</b>			
<b>Non-accrual loans or loans carrying a reduced interest rate</b>			
-	-	815	2,464
-	-	0	2
<b>Bank loans, advances and guarantee debtors by sector and industry</b>			
Loans and advances as %, year-end			
-	-	1	0
<b>Commercial</b>			
-	-	3	3
-	-	11	9
-	-	1	2
-	-	3	2
-	-	4	4
-	-	4	3
-	-	2	2
-	-	8	12
-	-	22	22
-	-	14	13
-	-	<b>71</b>	<b>72</b>
-	-	28	28
-	-	<b>100</b>	<b>100</b>
The sector distribution is based on the official Danish activity codes.			
<b>Finance leases</b>			
Of total loans and advances at amortised cost, finance leases represent			
-	-	2,311	1,834
-	-	1,346	1,411
-	-	(988)	(934)
-	-	<b>2,669</b>	<b>2,311</b>
-	-	34	28
Non-guaranteed residual values on expiry of the leases represent DKK 0			

## Notes

DKK million

Nycredit Realkredit A/S		The Nycredit Realkredit Group	
2011	2012	2012	2011
<b>18. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (continued)</b>			
<b>Finance leases by time-to-maturity</b>			
-	-	218	238
-	- Up to 3 months		
-	- Over 3 months and up to 1 year	472	385
-	- Over 1 year and up to 5 years	1,703	1,470
-	- Over 5 years	276	218
-	- <b>Total</b>	<b>2,669</b>	<b>2,311</b>
Where loans and advances under finance leases are concerned, amortised cost represents the fair value. The leases comprise equipment as well as real property. The leases have been concluded on an arm's length basis. The term of the leases is generally 3 to 6 years, but may be up to 20 years for leased properties.			
<b>Gross investments in finance leases</b>			
<b>Gross investments in finance leases by time-to-maturity</b>			
-	-	766	671
-	- Up to 1 year		
-	- Over 1 year and up to 5 years	1,972	1,731
-	- Over 5 years	299	239
-	- <b>Total</b>	<b>3,037</b>	<b>2,641</b>
-	-	368	330
-	- Non-earned income		
<b>19. BONDS AT FAIR VALUE</b>			
39,683	59,493	137,386	132,855
114,725	93,777	113,726	138,736
58,225	30,601	65,368	76,921
4,414	3,648	8,105	9,768
5,981	4,981	11,361	11,850
<b>223,029</b>	<b>192,501</b>	<b>335,946</b>	<b>370,129</b>
(114,725)	(93,777)	(113,726)	(138,736)
(39,682)	(59,492)	(137,385)	(132,854)
-	(851)	(3,453)	(273)
(1)	(1)	(1)	(1)
-	-	(2,327)	(1,150)
<b>68,621</b>	<b>38,379</b>	<b>79,055</b>	<b>97,115</b>
Of bonds at fair value before set-off of self-issued bonds:			
Drawn bonds			
12,312	13,175	16,774	14,589
As collateral security for the Danish central bank and foreign clearing centres, bonds have been deposited of a total market value of			
6,631	2,314	16,612	25,001
Collateral security was provided on an arm's length basis.			
As the majority – around DKK 78bn – of the Group's bond portfolio is included in the Group's trading activities, the actual maturities of these bonds are expected to be less than 1 year. Of the Group's bond portfolio, bonds of approximately DKK 0.8bn are expected to have a maturity of up to 5 years.			

## Notes

DKK million

Nykredit Realkredit A/S			The Nykredit Realkredit Group	
2011	2012		2012	2011
<b>20. EQUITIES</b>				
3,264	2,982	Equities measured at fair value through profit or loss	1,592	1,615
-	-	Equities available for sale	1,766	2,064
<b>3,264</b>	<b>2,982</b>	<b>Total</b>	<b>3,358</b>	<b>3,679</b>
<b>20 a. Equities measured at fair value through profit or loss</b>				
1,885	1,591	Listed on NASDAQ OMX Copenhagen A/S	266	264
82	98	Listed on other stock exchanges	105	99
1,296	1,293	Unlisted equities carried at fair value	1,222	1,252
<b>3,264</b>	<b>2,982</b>	<b>Total</b>	<b>1,592</b>	<b>1,615</b>
<b>20 b. Equities available for sale</b>				
-	-	<b>Balance, beginning of year</b>	<b>2,064</b>	<b>3,309</b>
-	-	Additions	153	-
-	-	Disposals	(730)	(318)
-	-	Fair value adjustment	279	(927)
-	-	<b>Balance, year-end</b>	<b>1,766</b>	<b>2,064</b>
Equities in Jyske Bank A/S, Sydbank A/S, Spar Nord Bank A/S, Amagerbanken A/S in bankruptcy, Jeudan A/S, DADES A/S and VP Securities A/S have been classified as equities available for sale. Equities available for sale are fair value adjusted against "Other comprehensive income" until a potential sale.				
-	-	Listed on NASDAQ OMX Copenhagen A/S	1,507	1,803
-	-	Unlisted equities measured at fair value	259	261
-	-	<b>Total</b>	<b>1,766</b>	<b>2,064</b>
<b>21. INVESTMENTS IN ASSOCIATES</b>				
156	142	<b>Acquisition cost, beginning of year</b>	<b>143</b>	<b>157</b>
2	0	Additions	0	2
(16)	(10)	Disposals	(10)	(16)
<b>142</b>	<b>132</b>	<b>Acquisition cost, year-end</b>	<b>134</b>	<b>143</b>
(7)	7	<b>Revaluations and impairment losses, beginning of year</b>	<b>8</b>	<b>(6)</b>
10	47	Profit	47	10
(8)	(2)	Dividend	(2)	(8)
12	(29)	Reversal of revaluations and impairment losses	(29)	12
<b>7</b>	<b>23</b>	<b>Revaluations and impairment losses, year-end</b>	<b>24</b>	<b>8</b>
<b>149</b>	<b>155</b>	<b>Balance, year-end</b>	<b>158</b>	<b>151</b>

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>22. INVESTMENTS IN GROUP ENTERPRISES</b>			
25,188	25,188		
-	750	-	-
<b>25,188</b>	<b>25,938</b>	<b>-</b>	<b>-</b>
<b>23. INTANGIBLE ASSETS</b>			
2,741	3,525	-	-
764	672	-	-
21	53	-	-
<b>3,525</b>	<b>4,250</b>	<b>-</b>	<b>-</b>
<b>28,714</b>	<b>30,189</b>	<b>-</b>	<b>-</b>
28,020	29,360	-	-
3,100	3,100	-	-
3,071	4,359	4,668	3,619
<b>6,171</b>	<b>7,459</b>	<b>4,668</b>	<b>3,619</b>
<b>23 a. Goodwill</b>			
2,759	2,759	2,782	2,787
-	-	-	18
-	-	(4)	-
<b>2,759</b>	<b>2,759</b>	<b>2,782</b>	<b>2,787</b>
<b>2,759</b>	<b>2,759</b>	<b>2,782</b>	<b>2,787</b>
<p>Goodwill of DKK 1,907m (2011: DKK 1,907m) relates to the business area Totalkredit Partners.</p> <p>Goodwill of DKK 852m (2011: DKK 852m) relates to the business area Group Items.</p> <p>Goodwill has not been amortised, and an impairment test has provided no evidence of goodwill impairment.</p> <p>The impairment test compared the discounted value of expected future cash flows with the carrying amount.</p>			

## Notes

DKK million

Nykredit Realkredit A/S  
2011 2012The Nykredit Realkredit Group  
2012 2011**23. INTANGIBLE ASSETS (continued)****23 a. Goodwill (continued)****The impairment test of Nykredit Bank A/S is based on the following assumptions:**

Future cash flows are based on the budget for 2013 and projections for the following 13 years. It is assumed that the value at end-2026 will equal the equity value at that time.

Furthermore, the following assumptions apply to the impairment test of Nykredit Bank:

	2012	2011
Purchased goodwill	852	852
Required rate of return before tax, %	10	10
Annual business growth in the subsequent year, %	(3.5)	3.5
Average annual business growth over the next 13 years, %	2.2	4.6

**The impairment test of Totalkredit A/S is based on the following assumptions:**

Future cash flows are based on the budget for 2013 and projections for the following 13 years. It is assumed that the value at end-2026 will equal the equity value at that time.

Furthermore, the following assumptions apply to the impairment test of Totalkredit:

	2012	2011
Purchased goodwill	1,907	1,907
Required rate of return before tax, %	7,5	7,5
Annual business growth in the subsequent year, %	3,5	4,2
Average annual business growth from over the next 13 years, %	3,5	3,0

The required rate of return for Totalkredit A/S is lower than that for Nykredit of 10% before tax. This is due to Totalkredit's set-off agreement with the partner banks. The set-off agreement reduces Totalkredit's credit risk as the loan-arranging banks primarily bear the credit risk.

**23 b. Fixed-term rights**

4,372	4,448	<b>Acquisition cost, beginning of year</b>	4,526	4,448
77	58	Additions	64	78
-	-	Disposals	(11)	-
<b>4,448</b>	<b>4,506</b>	<b>Acquisition cost, year-end</b>	<b>4,579</b>	<b>4,526</b>
2,974	3,465	<b>Amortisation and impairment losses, beginning of year</b>	3,509	3,013
491	521	Amortisation for the year	523	496
-	-	Reversed amortisation	(1)	-
<b>3,465</b>	<b>3,986</b>	<b>Amortisation and impairment losses, year-end</b>	<b>4,030</b>	<b>3,509</b>
<b>983</b>	<b>521</b>	<b>Balance, year-end</b>	<b>549</b>	<b>1.017</b>
2	1	Fixed-term rights are amortised over 9 years. Residual amortisation period at 31 December (avg number of years)	1	2

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>23. INTANGIBLE ASSETS (continued)</b>			
<b>23 c. Software</b>			
458	548	548	458
90	269	269	90
<b>548</b>	<b>817</b>	<b>817</b>	<b>548</b>
<b>Amortisation and impairment losses, beginning of year</b>			
359	436	436	359
78	100	100	78
<b>436</b>	<b>537</b>	<b>537</b>	<b>436</b>
<b>Balance, year-end</b>			
112	280	280	112
Software is amortised over 3-5 years.			
1	3	3	1
Residual amortisation period at 31 December (avg number of years)			
<b>23 d. Development projects in progress</b>			
152	200	200	152
139	88	88	139
(90)	(269)	(269)	(90)
<b>200</b>	<b>20</b>	<b>20</b>	<b>200</b>
<b>Balance, year-end</b>			
200	20	20	200
<b>23 e. Customer relationships</b>			
130	130	130	130
-	-	-	-
<b>130</b>	<b>130</b>	<b>130</b>	<b>130</b>
<b>Amortisation and impairment losses, beginning of year</b>			
39	47	47	39
8	8	8	8
<b>47</b>	<b>56</b>	<b>56</b>	<b>47</b>
<b>Balance, year-end</b>			
83	74	74	83
Customer relationships are amortised over 13 years.			
10	9	9	10
Residual amortisation period at 31 December (avg number of years)			

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>24. LAND AND BUILDINGS</b>			
-	-	652	753
20	18	1,667	1,598
<b>20</b>	<b>18</b>	<b>2,319</b>	<b>2,351</b>
<b>24 a. Investment properties</b>			
-	-	753	845
-	-	5	1
-	-	(115)	(68)
-	-	8	(25)
-	-	<b>652</b>	<b>753</b>
-	-	623	719
-	-	57	67
-	-	27	21
-	-	1	1
The valuation was carried out by an internal valuer based on the return method. In 2012 the required rate of return ranged between 5% and 9% for commercial property and between 4% and 5% for residential property depending on the nature, location and state of repair of the property.			
-	-	623	719
<b>Rental income under non-cancellable operating leases</b>			
-	-	31	32
-	-	31	44
-	-	2	6
-	-	<b>64</b>	<b>82</b>

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
	<b>24. LAND AND BUILDINGS (continued)</b>		
	<b>24 b. Owner-occupied properties</b>		
<b>20</b>	<b>19 Acquisition cost, beginning of year</b>	<b>2,181</b>	<b>1,340</b>
-	- Transferred from property, plant and equipment under construction	-	817
0	0 Additions, including improvements	21	26
(1)	(1) Disposals	(1)	(1)
<b>19</b>	<b>18 Acquisition cost, year-end</b>	<b>2,201</b>	<b>2,181</b>
<b>5</b>	<b>3 Revaluations, beginning of year</b>	<b>304</b>	<b>279</b>
-	- Additions for the year recognised in "Other comprehensive income"	71	38
-	- Disposals for the year recognised in "Other comprehensive income"	-	(11)
(2)	- Reversal of revaluations	(2)	(2)
<b>3</b>	<b>3 Revaluations, year-end</b>	<b>373</b>	<b>304</b>
<b>2</b>	<b>2 Depreciation and impairment losses, beginning of year</b>	<b>887</b>	<b>329</b>
-	- Transferred from property, plant and equipment under construction	-	539
0	0 Depreciation for the year	19	18
-	- Impairment losses for the year	-	1
(0)	(0) Reversal of depreciation and impairment losses	(0)	(0)
<b>2</b>	<b>2 Depreciation and impairment losses, year-end</b>	<b>906</b>	<b>887</b>
<b>20</b>	<b>18 Balance, year-end</b>	<b>1,667</b>	<b>1,598</b>
5	5 Owner-occupied properties are depreciated over a period of 20-50 years. Residual depreciation period at 31 December (avg number of years)	17	17
	The latest revaluation of owner-occupied properties was made at end-2012.		
	The valuations were carried out by an internal valuer based on the return method. In 2012 the required rate of return ranged between 5.0% and 7.5% depending on the nature, location and state of repair of the owner-occupied property.		
17	16 If no revaluations had been made, the carrying amount of owner-occupied properties would have been:	1,294	1,294
	<b>24 c. Plant under construction</b>		
-	- Acquisition cost, beginning of year	-	<b>743</b>
-	- Additions	-	74
-	- Disposals	-	(817)
-	- Acquisition cost, year-end	-	-
-	- Impairment losses, beginning of year	-	<b>316</b>
-	- Impairment losses for the year	-	223
-	- Impairment losses transferred to owner-occupied properties	-	(539)
-	- Impairment losses, year-end	-	-
-	- Balance, year-end	-	-







## Notes

DKK million

The Nykredit Realkredit Group

**27. OTHER ASSETS (continued)****27 b. Defined benefit plans (continued)**

<b>Actuarial calculation assumptions</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Expected return on plan assets, %	4.2%	4.6%	3.9%	6.0%	6.0%
Discount rate, %	2.8%	3.5%	3.9%	5.0%	4.8%
Wage rate, %	2.0%	2.0%	2.3%	2.0%	2.0%

The expected return on plan assets is based on long-term return expectations for low-risk bonds.

**Net asset changes and experience adjustments**

The Nykredit Realkredit Group's pension obligations for this year and the preceding four years are as follows:

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Plan liabilities	(588)	(657)	(643)	(558)	(530)
Plan assets	792	780	757	700	652
<b>Net assets</b>	<b>204</b>	<b>123</b>	<b>115</b>	<b>142</b>	<b>122</b>
Experience adjustments to plan liabilities	43	(36)	(110)	(54)	(7)
Experience adjustments to plan assets	35	27	69	21	(61)

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>28. PAYABLES TO CREDIT INSTITUTIONS AND CENTRAL BANKS</b>			
86,065	48,597	Payables to credit institutions	67,293 109,481
3,000	-	Payables to central banks	246 8,144
<b>89,065</b>	<b>48,597</b>	<b>Total</b>	<b>67,539 117,626</b>
82,632	44,009	Of which genuine sale and repurchase transactions	56,993 96,263
<b>Payables to credit institutions and central banks by time-to-maturity</b>			
2,283	1,111	On demand	3,833 9,132
86,782	46,786	Up to 3 months	59,037 106,765
-	700	Over 3 months and up to 1 year	3,808 499
-	-	Over 1 year and up to 5 years	746 1,227
-	-	Over 5 years	115 4
<b>89,065</b>	<b>48,597</b>	<b>Total</b>	<b>67,539 117,626</b>
<b>29. DEPOSITS AND OTHER PAYABLES</b>			
-	-	On demand	37,994 30,343
-	-	At notice	5,851 5,498
-	-	Time deposits	10,639 18,709
-	-	Special deposits	26 2,854
-	-	<b>Total</b>	<b>54,509 57,404</b>
<b>Deposits and other payables by time-to-maturity</b>			
-	-	On demand	35,366 30,464
-	-	Up to 3 months	7,682 15,369
-	-	Over 3 months and up to 1 year	5,613 5,640
-	-	Over 1 year and up to 5 years	4,138 4,220
-	-	Over 5 years	1,711 1,712
-	-	<b>Total</b>	<b>54,509 57,404</b>
<b>30. ISSUED BONDS AT FAIR VALUE</b>			
383,423	330,648	ROs	389,323 461,842
800,522	924,598	SDOs	924,598 800,522
31,441	44,460	Junior covered bonds	44,460 31,441
<b>1,215,387</b>	<b>1,299,706</b>	<b>Total</b>	<b>1,358,381 1,293,805</b>
(154,407)	(154,121)	Self-issued bonds transferred from "Bonds at fair value" – note 19	(254,563) (271,863)
<b>1,060,979</b>	<b>1,145,585</b>	<b>Total</b>	<b>1,103,818 1,021,942</b>
<p>Changes in the fair values of ROs and SDOs attributable to the Nykredit Group's own credit risk can be determined relative to changes in option-adjusted yield spreads (OAS) against government bonds or relative to changes in yield spreads against equivalent mortgage bonds from other Danish lenders.</p> <p>Determined relative to other Danish mortgage lenders, the fair value has not been subject to changes attributable to the Nykredit Group's own credit risk in 2012 or since the issue, as there are no measurable price differences between bonds with identical properties issued by different lenders.</p>			

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group		
2011	2012	2012	2011	
<b>30. ISSUED BONDS AT FAIR VALUE (continued)</b>				
<p>The yield spread between government bonds and ROs/SDOs tightened in 2012 causing a rise in the fair value of issued bonds of approx DKK 9bn attributable to the Nykredit Group's own credit risk. Since 2008 spread widenings between government bonds and ROs/SDOs have resulted in a fair value decline of approx DKK 18bn attributable to the Nykredit Group's own credit risk. Equity and results have, however, not been affected by the changes in fair value, as the value of mortgage loans has changed accordingly.</p> <p>The determination allows for both maturity and nominal holding, but is to some extent based on estimates.</p>				
<b>30 a. ROs</b>				
375,075	318,609	ROs at nominal value	374,974	452,202
8,348	12,040	Fair value adjustment	14,349	9,640
<b>383,423</b>	<b>330,648</b>	<b>ROs at fair value</b>	<b>389,323</b>	<b>461,842</b>
(114,725)	(93,777)	Self-issued ROs transferred from "Bonds at fair value" – note 19	(113,726)	(138,736)
<b>268,698</b>	<b>236,871</b>	<b>Total</b>	<b>275,598</b>	<b>323,106</b>
1	583	Of which pre-issuance	583	1
44,574	35,295	ROs drawn for redemption at next creditor payment date	37,564	46,982
<b>30 b. SDOs</b>				
791,152	908,165	SDOs at nominal value	908,165	791,152
9,370	16,432	Fair value adjustment	16,432	9,370
<b>800,522</b>	<b>924,598</b>	<b>SDOs at fair value</b>	<b>924,598</b>	<b>800,522</b>
(39,682)	(59,492)	Self-issued SDOs transferred from "Bonds at fair value" – note 19	(137,385)	(132,854)
<b>760,840</b>	<b>865,106</b>	<b>Total</b>	<b>787,212</b>	<b>667,668</b>
497	1,932	Of which pre-issuance	1,932	497
118,443	125,522	SDOs drawn for redemption at next creditor payment date	125,522	118,443
<b>30 c. Junior covered bonds</b>				
31,354	43,320	Junior covered bonds at nominal value	43,320	31,354
87	1,140	Fair value adjustment	1,140	87
<b>31,441</b>	<b>44,460</b>	<b>Junior covered bonds at fair value</b>	<b>44,460</b>	<b>31,441</b>
-	(851)	Self-issued junior covered bonds transferred from "Bonds at fair value" – note 19	(3,453)	(273)
<b>31,441</b>	<b>43,609</b>	<b>Total</b>	<b>41,008</b>	<b>31,168</b>
-	-	Junior covered bonds drawn for redemption at next creditor payment date	-	-
<b>Issued bonds at fair value by time-to-maturity</b>				
164,533	164,419	Up to 3 months	166,830	167,039
245,718	325,569	Over 3 months and up to 1 year	327,141	247,355
403,572	436,945	Over 1 year and up to 5 years	462,629	433,004
401,564	372,774	Over 5 years	401,781	446,408
<b>1,215,387</b>	<b>1,299,706</b>	<b>Total</b>	<b>1,358,381</b>	<b>1,293,805</b>
<p>Issued bonds by time-to-maturity are stated at fair value before set-off against self-issued bonds.</p>				

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>31. ISSUED BONDS AT AMORTISED COST</b>			
-	-	29,740	26,789
61	61	61	61
135	120	120	164
40	40	40	40
<b>237</b>	<b>221</b>	<b>29,961</b>	<b>27,055</b>
<b>Issued bonds at amortised cost by time-to-maturity</b>			
-	-	(2,327)	(1,150)
(1)	(1)	(1)	(1)
(40)	(38)	(38)	(40)
<b>195</b>	<b>182</b>	<b>27,595</b>	<b>25,864</b>
<b>Issued bonds at amortised cost by time-to-maturity</b>			
0	0	12,037	13,051
-	71	4,514	2,896
176	150	11,100	9,850
61	-	2,310	1,258
<b>237</b>	<b>221</b>	<b>29,961</b>	<b>27,055</b>
Issued bonds by time-to-maturity are stated at amortised cost before set-off against self-issued bonds.			
<b>31 a. Corporate bonds</b>			
<b>Issues</b>			
-	-	20,882	14,545
-	-	8,817	11,900
-	-	41	344
-	-	<b>29,740</b>	<b>26,789</b>
* Listed on NASDAQ OMX Copenhagen A/S or on the Luxembourg Stock Exchange.			
No value adjustments relate to changes in own credit risk.			
<b>32. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE</b>			
-	-	17,718	15,864
4,421	2,025	16,839	15,044
<b>4,421</b>	<b>2,025</b>	<b>34,557</b>	<b>30,908</b>
-	-	17,718	15,864
<b>Other non-derivative financial liabilities at fair value by time-to-maturity</b>			
4,421	2,025	34,557	30,908
<b>4,421</b>	<b>2,025</b>	<b>34,557</b>	<b>30,908</b>

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>33. OTHER LIABILITIES</b>			
18,459	14,804	21,477	23,113
5,825	6,244	48,939	40,967
2,591	399	361	2,532
2,296	2,125	4,321	4,569
<b>29,172</b>	<b>23,570</b>	<b>75,099</b>	<b>71,180</b>
<b>33 a. Netting</b>			
-	-	48,940	40,967
-	-	(1)	-
-	-	<b>48,939</b>	<b>40,967</b>
In 2012 the netting of market values was exclusively attributable to clearing of derivatives through a central clearing house (CCP clearing). The activities were initiated at year-end.			
<b>34. PROVISIONS FOR DEFERRED TAX</b>			
<b>Deferred tax</b>			
123	170	214	126
(12)	(421)	(518)	22
59	29	38	47
-	-	(15)	20
<b>170</b>	<b>(223)</b>	<b>(281)</b>	<b>214</b>
<b>Deferred tax is recognised in the balance sheets as follows:</b>			
662	171	184	741
(492)	(393)	(465)	(526)
<b>170</b>	<b>(223)</b>	<b>(281)</b>	<b>214</b>
<b>Deferred tax relates to:</b>			
4	4	(48)	(34)
5	0	0	5
23	16	16	23
(311)	(224)	(227)	(312)
(13)	3	(34)	(26)
(2)	(5)	(11)	(5)
-	-	(53)	24
541	100	179	616
86	44	46	87
(163)	(160)	(160)	(163)
-	-	11	-
<b>170</b>	<b>(223)</b>	<b>(281)</b>	<b>214</b>
<b>Deferred tax assets not recognised in the balance sheet:</b>			
0	0	130	134
<b>0</b>	<b>0</b>	<b>130</b>	<b>134</b>
The asset has not been recognised, as the Group is examining whether it will crystallise. The asset is not likely to crystallise in the near future.			

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>35. CURRENT TAX ASSETS AND LIABILITIES</b>			
<b>Current tax assets</b>			
-	<b>344</b>	<b>344</b>	<b>188</b>
(129)	- Transferred to/from tax liabilities	(71)	(317)
225	(28) Current tax for the year	127	18
175	(141) Corporation tax paid for the year, net	50	164
72	(33) Adjustment relating to previous years	(34)	86
-	- Current tax for the year recognised in "Other comprehensive income"	(63)	206
<b>344</b>	<b>141</b>	<b>353</b>	<b>344</b>
<b>Current tax liabilities</b>			
<b>129</b>	- <b>Current tax liabilities, beginning of year</b>	<b>201</b>	<b>160</b>
(129)	- Transferred to/from tax assets	(71)	(317)
-	- Current tax for the year	192	384
-	- Corporation tax paid for the year, net	(302)	(36)
-	- Adjustment relating to previous years	(3)	11
-	- <b>Current tax liabilities, year-end</b>	<b>17</b>	<b>201</b>
<b>36. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS</b>			
<b>322</b>	<b>351</b>	<b>356</b>	<b>326</b>
(30)	0 Utilised for the year	0	(30)
64	13 Provision for the year	14	65
15	36 Adjustment for the year as a result of changes to the discount rate and discount period	36	15
(19)	(239) Reversal of unutilised amounts	(239)	(19)
<b>351</b>	<b>161</b>	<b>167</b>	<b>356</b>
<b>37. REPAYABLE RESERVES IN PRE-1972 SERIES</b>			
<b>100</b>	<b>94</b>	<b>94</b>	<b>100</b>
(12)	(9) Utilised for the year	(9)	(12)
6	2 Adjustment for the year as a result of changes to the discount rate and discount period	2	6
<b>94</b>	<b>87</b>	<b>87</b>	<b>94</b>
Repayable reserves in pre-1972 series stem from loan agreements under which the borrowers on full or partial repayment of their outstanding amounts are paid their share of the series reserve fund in compliance with the terms of the series concerned. This obligation will be gradually reduced up until 2033 as the borrowers repay their loans.			
<b>38. PROVISIONS FOR LOSSES UNDER GUARANTEES</b>			
-	- <b>Balance, beginning of year</b>	<b>114</b>	<b>745</b>
-	- Disposals for the year	(68)	(659)
-	- Provisions for the year	36	92
-	- Reversal of unutilised amounts	(0)	(64)
-	- <b>Balance, year-end</b>	<b>82</b>	<b>114</b>



## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
		<b>39. OTHER PROVISIONS</b>	
27	30	<b>Balance, beginning of year</b>	<b>149</b> <b>129</b>
(3)	(13)	Utilised for the year	(13)      (73)
8	9	Provisions for the year	15      95
0	(0)	Adjustment for the year as a result of changes to the discount rate and discount period	(0)      0
(2)	(0)	Reversal of unutilised amounts	(1)      (2)
<b>30</b>	<b>26</b>	<b>Balance, year-end</b>	<b>150</b> <b>149</b>
		<b>40. SUBORDINATED DEBT</b>	
		Subordinated debt consists of financial liabilities in the form of hybrid capital which, in case of voluntary or compulsory liquidation, will not be repaid until the claims of ordinary creditors have been met.	
		Subordinated debt is included in the capital base in accordance with the Danish Executive Order on capital base determination.	
		<b>Hybrid capital</b>	
-	-	Nom DKK 100m. The loan is perpetual and carries an interest rate of 1.7% pa above 3M Cibor	100      100
-	-	Nom DKK 150m. The loan is perpetual and carries a fixed interest rate of 6.3% pa	150      150
3,989	3,971	Nom EUR 500m. The loan is perpetual, but may be redeemed at par (100) from 22 September 2014. The loan carries a fixed interest rate of 4.9% pa up to 22 September 2014, after which date it will carry a floating interest rate	3,971      3,989
6,975	7,064	Nom EUR 900m. The loan is perpetual, but may be redeemed at par (100) from 1 April 2015. The loan carries a fixed interest rate of 9.0% pa up to 1 April 2015, after which date the interest rate will be fixed every 5 years	7,064      6,975
<b>10,965</b>	<b>11,035</b>	<b>Total hybrid capital</b>	<b>11,285</b> <b>11,215</b>
-	-	Portfolio of self-issued bonds	(5)      (11)
<b>10,965</b>	<b>11,035</b>	<b>Total subordinated debt</b>	<b>11,281</b> <b>11,204</b>
10,965	10,445	Subordinated debt that may be included in the capital base	10,695      11,204
-	-	Extraordinary principal payments and redemption of subordinated debt in the financial period	-      594
		<b>Hedge accounting</b>	
		The exposure to fair value changes in the price of the bonds as a result of changes in market rates is hedged. The Nykredit Realkredit Group has countered this risk by entering into the following interest rate swaps:	
		A 10-year interest rate swap with a notional principal of EUR 500m (nominal).	
		Two 5-year interest rate swaps each with a notional principal of EUR 450m (nominal).	
278	245	Market value of interest rate swap of EUR 500m (nominal)	245      278
336	385	Market value of interest rate swap of EUR 900m (nominal)	385      336
3,478	3,721	Market value of hybrid capital of EUR 500m (nominal)	3,721      3,478
7,081	7,320	Market value of hybrid capital of EUR 900m (nominal)	7,320      7,081

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>41. OFF-BALANCE SHEET ITEMS</b>			
Guarantees and warranties provided, irrevocable credit commitments and similar obligations not recognised in the balance sheets are presented below.			
-	-	4,806	5,375
1,981	1,620	9,213	8,389
<b>1,981</b>	<b>1,620</b>	<b>14,019</b>	<b>13,764</b>
<b>41 a. Contingent liabilities</b>			
-	-	1,739	2,094
-	-	596	501
-	-	2,471	2,780
-	-	<b>4,806</b>	<b>5,375</b>
"Other contingent liabilities" chiefly comprises purchase price and payment guarantees.			
<b>Contingent liabilities by time-to-maturity</b>			
-	-	2,230	3,081
-	-	2,052	1,919
-	-	525	376
-	-	<b>4,806</b>	<b>5,375</b>
Time-to-maturity is partly based on estimates as not all guarantees have a fixed expiry date and as the expiry date may also depend on registration etc.			

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>41. OFF-BALANCE SHEET ITEMS (continued)</b>			
<b>41 b. Other commitments</b>			
23	10	7,338	6,517
1,958	1,610	1,875	1,873
<b>1,981</b>	<b>1,620</b>	<b>9,213</b>	<b>8,389</b>
<p>"Other liabilities" under "Other commitments" comprises obligations to and charges in favour of securities depositories, investment commitments to private equity funds and non-callable lease payments relating to properties leased under operating leases.</p> <p>The following non-cancellable lease payments are recognised in "Other liabilities":</p>			
200	191	99	103
655	466	263	304
260	249	224	224
<b>1,116</b>	<b>906</b>	<b>586</b>	<b>632</b>
<b>Other contingent liabilities</b>			
<p>Owing to the size and business scope of the Nykredit Realkredit Group, the Group is continuously involved in legal proceedings and litigation. The cases are subject to ongoing review, and necessary provisions are made based on an assessment of the risk of loss. Pending cases are not expected to have a significant effect on the Nykredit Realkredit Group's financial position.</p> <p>Nykredit Bank A/S participates in the mandatory Danish deposit guarantee scheme, the Danish Guarantee Fund for Depositors and Investors. Participating banks must pay a fixed annual amount of 2.5% of the covered net deposits. Payment to the Fund's bank department is mandatory until the assets of the scheme exceed 1% of the covered net deposits. The bank department bears any direct losses on the winding-up of Danish banks, cf Bank Rescue Packages III and IV, to the extent the loss is attributable to the covered net deposits.</p> <p>Any losses arising from the final winding-up are covered by the Fund through its winding-up and restructuring department. Nykredit Bank's share of the expense will amount to about 3%.</p> <p>Nykredit Realkredit A/S has issued a letter of comfort stating that Nykredit Realkredit A/S will contribute capital to Nykredit Bank A/S to ensure that Nykredit Bank A/S's Tier 1 capital calculated according to the Basel II rules does not fall below 12-13%. However, Nykredit Realkredit A/S will not contribute capital to Nykredit Bank A/S if that will bring Nykredit Realkredit A/S's total capital ratio below the statutory capital requirement plus 0.5% or the internal capital adequacy requirement (ICAAP) plus 0.5%.</p> <p>The Company is jointly taxed in Denmark with Foreningen Nykredit as the administration company. Pursuant to the Danish Corporation Tax Act, the Company is liable for any obligations to withhold tax at source on interest, royalties and dividends of the jointly taxed companies as of 1 July 2012.</p> <p>Nykredit Realkredit A/S is liable for the obligations of the pension fund in run-off Nykredits Afviklingspensionskasse (CVR no 24 25 62 19).</p>			

# Notes

## 41. OFF-BALANCE SHEET ITEMS (continued)

### Tax

The Danish tax authorities (SKAT) have proposed that Nykredit Bank's taxable income declared for 2008 be changed.

The proposal is based on a review of eight exposures granted by Forstædernes Bank and subsequently assumed by the Nykredit Realkredit Group in connection with the acquisition of Forstædernes Bank. In 2010 Forstædernes Bank was merged with Nykredit Bank. As a result of the financial crisis and the property market trends, Forstædernes Bank recorded considerable impairment losses on these exposures in 2008 and 2009 for accounting as well as tax purposes.

SKAT's review for the accounting year 2008 has not been completed yet. However, in SKAT's opinion the loans were not granted on standard business terms and failed to comply with business procedures and instructions. For this reason, SKAT finds that there was no basis for deducting the impairment losses from the taxable income.

The tax effect for the accounting year 2008 could amount to up to DKK 300m, but as the review has not been completed yet, the amount is provisional. SKAT has not yet taken a position on possible changes to the financial year 2009, but the amount is estimated to correspond to the 2008 level.

Nykredit Bank's management disagrees with the argumentation presented by SKAT and is of the opinion that the loans were granted on standard business terms, in accordance with Forstædernes Bank's policies and business procedures. The loans were moreover granted up to five years prior to the financial crisis, at which time the adverse effects of the property market development were unforeseeable.

Should SKAT uphold that a tax deduction cannot be obtained, Nykredit Bank will appeal against SKAT's decision. In Nykredit Bank's opinion, the probability that the courts will find for SKAT in case of legal action is negligible as the loans were originally granted on standard business terms. A judgement recently delivered by the Danish Supreme Court (no SKM2012.353 of 1 June 2012) sustains Nykredit Bank's view. On this basis, the tax charge has not been adjusted.

## 42. RELATED PARTY TRANSACTIONS AND BALANCES

Foreningen Nykredit, the Parent Company Nykredit Holding A/S, group enterprises and associates of Nykredit Realkredit as stated in Group structure as well as Nykredit Realkredit A/S's Board of Directors, Executive Board and related parties thereof are regarded as related parties.

No unusual related party transactions occurred in 2012.

The companies have entered into various agreements as a natural part of the Group's day-to-day operations. The agreements typically involve finance, guarantees, sales commission, tasks relating to IT support and IT development projects, payroll and staff administration as well as other administrative tasks. Intercompany trading in goods and services took place on an arm's length or cost reimbursement basis.

Significant related party transactions prevailing/entered into in 2012 include:

### Agreements between Nykredit Realkredit A/S and Totalkredit A/S

Nykredit Realkredit A/S has granted a loan to Totalkredit A/S serving as collateral in Totalkredit's capital centres. At 31 December 2012, the loan amounted to DKK 26.3bn.

Agreement on the distribution of mortgage loans to personal customers via Totalkredit A/S (this agreement was concluded on the same terms as apply to other partners, including commission payments).

Nykredit Realkredit A/S has granted loans of DKK 3,100m to Totalkredit A/S in the form of subordinated debt.

Nykredit Realkredit A/S has subscribed for further share capital in Totalkredit A/S.

### Agreements between Nykredit Holding A/S and Nykredit Bank A/S

Nykredit Holding A/S has issued a loss guarantee for the part of Nykredit Bank A/S's impairment losses and provisions (earnings impact for the year) that exceeds 2% of Nykredit Bank A/S's loans, advances and guarantees subject to a maximum of DKK 2bn for the term of the guarantee.

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>42. RELATED PARTY TRANSACTIONS AND BALANCES (continued)</b>			
<b>42 a. Transactions with subsidiaries</b>			
<b>Income statement</b>			
14,086	13,161	-	-
1,751	1,433	-	-
411	504	-	-
169	194	-	-
5,540	5,060	-	-
1	-	-	-
(652)	(602)	-	-
<b>Asset items</b>			
21,860	21,162	-	-
19,871	27,476	-	-
461,846	520,658	-	-
47	30	-	-
2,178	2,054	-	-
9,207	7,711	-	-
<b>Liability items</b>			
3,036	2,140	-	-
116,117	100,161	-	-
3,171	2,625	-	-
<b>42 b. Transactions with parent companies</b>			
<b>Income statement</b>			
-	-	0	1
<b>Liability items</b>			
-	-	214	121
18	-	17	26
<b>42 c. Transactions with joint ventures</b>			
<b>Income statement</b>			
382	371	382	394
<b>Asset items</b>			
6	4	4	6

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>42. RELATED PARTY TRANSACTIONS AND BALANCES (continued)</b>			
<b>42 d. Transactions with associates</b>			
<b>Income statement</b>			
-	-	0	0
-	-	0	0
<b>Liability items</b>			
-	-	18	11
<b>42 e. Transactions with the Board of Directors and Executive Board</b>			
<b>Interest expenses of the members of:</b>			
0	0	0	0
1	1	1	2
2	1	2	2
<b>Loans, charges or guarantees granted to the members of:</b>			
18	20	24	21
49	42	53	57
47	52	61	57
<b>Deposits from the members of:</b>			
-	-	4	5
-	-	7	4
-	-	15	22
<p>Related party facilities have been granted on standard business terms. Rates applying to ordinary loans range between 1.95% and 9.25% (2011: 3.4%-10.0%), while deposits carry interest ranging between 0.0% and 1.0% (2011: 0.25%-1.0%).</p> <p>Facilities granted to the Executive Board, the Board of Directors or related parties thereof have not given rise to impairment provisions or impairment losses.</p>			

# Notes

## 43. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

### Measurement principles for financial instruments

Financial instruments are measured at fair value or amortised cost in the balance sheets. The table overleaf shows the fair values of all instruments compared with the carrying amounts at which the instruments are recognised in the balance sheets.

The fair value is the amount at which a financial asset may be traded, or the amount at which a financial liability may be settled, between independent and willing parties.

The majority of the Group's fair value assets and liabilities are recognised based on publicly listed prices or market terms on active markets at the balance sheet date. If the market for a financial asset or liability is illiquid, or if there are no publicly recognised prices, Nykredit determines the fair value using generally accepted measurement techniques. These techniques include corresponding recent transactions between independent parties, reference to other corresponding instruments and an analysis of discounted cash flows as well as option and other models based on observable market data.

Measurement techniques are generally applied to OTC derivatives and unlisted assets and liabilities.

Unlisted equities are measured at fair value using the IPEV (International Private Equity & Venture Capital Valuation Guidelines) measurement guidelines for the fair value of unlisted equities, according to which the fair value is estimated as the price of an asset traded between independent parties.

In connection with the determination of the fair value of the financial instruments measured at amortised cost in the financial statements, the following methods and significant assumptions have been applied:

- The interest rate risk of certain financial instruments recognised at amortised cost has been hedged by means of derivatives, cf note 48. These financial instruments have been measured at fair value in the financial statements, cf the provisions on hedge accounting of interest rate risk.
- The carrying amounts of loans, advances and receivables as well as other financial liabilities due within 12 months are also regarded as their fair values.
- For loans, advances and receivables as well as other financial liabilities measured at amortised cost, carrying a variable interest rate and entered into on standard credit terms, the carrying amounts are estimated to correspond to the fair values.
- The fair value of fixed-rate loans measured at amortised cost is determined based on generally accepted measurement methods. The credit risk on fixed-rate loans and advances is assessed in relation to the measurement of other loans, advances and receivables.
- The fair value of deposits and other payables without a fixed term is assumed to be the value payable at the balance sheet date.

The table overleaf also shows the value which has not been recognised in the income statement for the financial year due to differences between financial instruments measured at amortised cost or fair value and the (unrealised) value adjustment of "Financial assets available for sale" recognised in "Other comprehensive income".

## Notes

DKK million

## The Nykredit Realkredit Group

43. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)						
2012	IAS 39 category	Carrying amount	Fair value	Balance	Fair value calculated on the basis of	
					method 1	method 2
<b>Assets</b>						
Cash balance and demand deposits with central banks	a)	9,497	9,497	-	9,497	-
Receivables at call from central banks	a)	1,746	1,746	-	1,746	-
Receivables from credit institutions	a+c)	48,930	48,927	(3)	48,902	25
Loans, advances and other receivables at fair value	b)	1,172,254	1,172,254	-	1,172,254	-
Loans, advances and other receivables at amortised cost	a)	50,111	50,200	89	35	50,164
Bonds at fair value	c)	79,055	79,055	-	78,410	644
Equities measured at fair value through profit or loss	c)	1,592	1,592	-	396	1,196
Equities available for sale	d)	1,766	1,766	-	1,507	259
Interest and commission receivable	a)	11,763	11,763	-	-	11,763
Derivative financial instruments	c)	46,832	46,832	-	46,181	651
Other assets	a)	1,145	1,145	-	-	1,145
<b>Total</b>		<b>1,424,692</b>	<b>1,424,778</b>	<b>86</b>	<b>1,358,929</b>	<b>65,849</b>
<b>Liabilities and equity</b>						
Payables to credit institutions	e)	67,293	67,276	17	67,276	-
Payables to central banks	e)	246	246	-	246	-
Deposits and other payables	e)	54,509	54,445	64	-	54,445
Issued bonds at fair value	b)	1,103,818	1,103,818	-	1,091,333	12,485
Issued bonds at amortised cost	e)	27,595	27,964	(369)	27,842	122
Other non-derivative financial liabilities at fair value	c)	34,557	34,557	-	34,557	-
Interest and commission payable	e)	21,477	21,477	-	-	21,477
Derivative financial instruments	c)	48,939	48,939	-	48,773	166
Other payables	e)	4,686	4,686	-	-	4,686
Subordinated debt	e)	11,281	11,920	(639)	11,670	250
<b>Total</b>		<b>1,374,402</b>	<b>1,375,330</b>	<b>(928)</b>	<b>1,281,697</b>	<b>93,632</b>
Transfer from assets				86		
<b>Total balance</b>				<b>(842)</b>		
Unrealised gains and losses recognised in "Other comprehensive income":						
Equities available for sale				236		
<b>Balances not recognised in the income statement</b>				<b>(606)</b>		
<b>Measurement methods</b>						
Method 1: Generally accepted measurement methods based on market data						
Method 2: Other generally accepted measurement methods						
<b>IAS 39 category</b>						
a) Loans, advances and receivables						
b) Assets/liabilities classified at fair value on initial recognition (the fair value option)						
c) Financial assets/liabilities held for trading						
d) Financial assets available for sale						
e) Other financial liabilities						



## Notes

DKK million

The Nykredit Realkredit Group

43. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)						
2011	IAS 39 category	Carrying amount	Fair value	Balance	Fair value calculated on the basis of	
					method 1	method 2
<b>Assets</b>						
Cash balance and demand deposits with central banks	a)	7,084	7,084	-	7,084	-
Receivables at call from central banks	a)	19,788	19,788	-	19,788	-
Receivables from credit institutions	a+c)	39,387	39,372	(15)	39,358	14
Loans, advances and other receivables at fair value	b)	1,106,581	1,106,581	-	1,106,581	-
Loans, advances and other receivables at amortised cost	a)	56,716	56,797	81	47	56,750
Bonds at fair value	c)	97,115	97,115	-	96,237	878
Equities measured at fair value through profit or loss	c)	1,615	1,615	-	355	1,260
Equities available for sale	d)	2,064	2,064	-	1,803	261
Interest and commission receivable	a)	13,086	13,086	-	-	13,086
Derivative financial instruments	c)	39,752	39,752	-	38,111	1,641
Other assets	a)	891	891	-	-	891
<b>Total</b>		<b>1,384,078</b>	<b>1,384,144</b>	<b>66</b>	<b>1,309,364</b>	<b>74,780</b>
<b>Liabilities and equity</b>						
Payables to credit institutions	e)	109,481	109,476	6	109,476	-
Payables to central banks	e)	8,144	8,144	-	8,144	-
Deposits and other payables	e)	57,404	57,483	(78)	-	57,483
Issued bonds at fair value	b)	1,021,942	1,021,942	-	1,021,942	-
Issued bonds at amortised cost	e)	25,864	26,049	(186)	25,914	135
Other non-derivative financial liabilities at fair value	c)	30,908	30,908	-	30,908	-
Interest and commission payable	e)	23,113	23,113	-	-	23,113
Derivative financial instruments	c)	40,967	40,967	-	40,834	133
Other payables	e)	7,105	7,105	-	-	7,105
Subordinated debt	e)	11,204	11,412	(208)	11,162	250
<b>Total</b>		<b>1,336,132</b>	<b>1,336,598</b>	<b>(466)</b>	<b>1,248,380</b>	<b>88,219</b>
Transfer from assets				66		
<b>Total balance</b>				<b>(401)</b>		
Unrealised gains and losses recognised in "Other comprehensive income":						
Equities available for sale				(682)		
<b>Balances not recognised in the income statement</b>				<b>(1,083)</b>		
<b>Measurement methods</b>						
Method 1: Generally accepted measurement methods based on market data						
Method 2: Other generally accepted measurement methods						
<b>IAS 39 category</b>						
a) Loans, advances and receivables						
b) Assets/liabilities classified at fair value on initial recognition (the fair value option)						
c) Financial assets/liabilities held for trading						
d) Financial assets available for sale						
e) Other financial liabilities						

## Notes

DKK million

The Nykredit Realkredit Group

## 44. FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

Financial instruments at fair value by measurement category (the IFRS hierarchy)

2012	Listed prices	Observable inputs	Unobservable inputs	Total fair value
<b>Financial instruments in the form of assets:</b>				
<b>Recognised as trading book:</b>				
- receivables from credit institutions and central banks <sup>1</sup>	-	20,633	-	20,633
- other loans and advances	-	35,401	-	35,401
- bonds at fair value	70,722	7,688	644	79,055
- equities measured at fair value through profit or loss	396	-	1,196	1,592
- positive fair value of derivative financial instruments	744	45,437	651	46,832
<b>Recognised through the fair value option:</b>				
- mortgage loans, arrears and outlays	1,136,445	408	-	1,136,853
<b>Recognised as available for sale:</b>				
- equities available for sale	1,507	-	259	1,766
<b>Total</b>	<b>1,209,814</b>	<b>109,567</b>	<b>2,751</b>	<b>1,322,133</b>
<b>Financial instruments in the form of liabilities:</b>				
<b>Recognised as trading book:</b>				
- payables to credit institutions and central banks <sup>1</sup>	-	56,993	-	56,993
- other non-derivative financial liabilities at fair value	16,839	17,718	-	34,557
- negative fair value of derivative financial instruments	758	48,015	166	48,939
<b>Recognised through the fair value option:</b>				
- issued bonds at fair value	1,091,333	12,485	-	1,103,818
<b>Total</b>	<b>1,108,930</b>	<b>135,211</b>	<b>166</b>	<b>1,244,307</b>
<b>Financial instruments measured on the basis of unobservable inputs:</b>				
<b>Fair value, beginning of year, financial assets</b>			<b>4,040</b>	
Capital gains and losses recognised in the income statement			(62)	
Capital gains and losses recognised in "Other comprehensive income"			(2)	
Purchases for the year			322	
Sales and redemptions for the year			(543)	
Transferred to Listed prices and Observable inputs			(1,029)	
Transferred from Listed prices and Observable inputs			25	
<b>Fair value, year-end, financial assets</b>			<b>2,751</b>	
<b>Fair value, beginning of year, financial liabilities</b>			<b>133</b>	
Capital gains and losses recognised in the income statement			25	
Purchases for the year			12	
Sales and redemptions for the year			(4)	
<b>Fair value, year-end, financial liabilities</b>			<b>166</b>	

<sup>1</sup> "Receivables from credit institutions and central banks" and "Payables to credit institutions and central banks" consist of genuine sale and repurchase transactions as well as genuine purchase and resale transactions recognised at fair value, cf note 46.

In 2012 no significant reclassifications were made between the categories Listed prices and Observable inputs.

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DKK million

The Nykredit Realkredit Group

## 44. FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS (continued)

Financial instruments at fair value by measurement category (the IFRS hierarchy)

2011	Listed prices	Observable inputs	Unobservable inputs	Total fair value
<b>Financial instruments in the form of assets:</b>				
<b>Recognised as trading book:</b>				
- receivables from credit institutions and central banks <sup>1</sup>	-	19,121	-	19,121
- other loans and advances	-	22,007	-	22,007
- bonds at fair value	88,121	8,116	878	97,115
- equities measured at fair value through profit or loss	355	-	1,260	1,615
- positive fair value of derivative financial instruments	378	37,733	1,641	39,752
<b>Recognised through the fair value option:</b>				
- mortgage loans, arrears and outlays	1,083,991	583	-	1,084,574
<b>Recognised as available for sale:</b>				
- equities available for sale	1,803	-	261	2,064
<b>Total</b>	<b>1,174,648</b>	<b>87,561</b>	<b>4,040</b>	<b>1,266,249</b>
<b>Financial instruments in the form of liabilities:</b>				
<b>Recognised as trading book:</b>				
- payables to credit institutions and central banks <sup>1</sup>	-	96,263	-	96,263
- other non-derivative financial liabilities at fair value	15,036	15,872	-	30,908
- negative fair value of derivative financial instruments	1,227	39,607	133	40,967
<b>Recognised through the fair value option:</b>				
- issued bonds at fair value	1,021,942	-	-	1,021,942
<b>Total</b>	<b>1,038,205</b>	<b>151,741</b>	<b>133</b>	<b>1,190,080</b>
<b>Financial instruments measured on the basis of unobservable inputs:</b>				
<b>Fair value, beginning of year, financial assets</b>			<b>3,243</b>	
Capital gains and losses recognised in the income statement			(613)	
Capital gains and losses recognised in "Other comprehensive income"			(8)	
Purchases for the year			68	
Sales and redemptions for the year			(173)	
Transferred from Listed prices and Observable inputs			1,523	
<b>Fair value, year-end, financial assets</b>			<b>4,040</b>	
<b>Fair value, beginning of year, financial liabilities</b>			<b>231</b>	
Capital gains and losses recognised in the income statement			(81)	
Sales and redemptions for the year			(17)	
<b>Fair value, year-end, financial liabilities</b>			<b>133</b>	

<sup>1</sup> "Receivables from credit institutions and central banks" and "Payables to credit institutions and central banks" consist of genuine sale and repurchase transactions as well as genuine purchase and resale transactions recognised at fair value, cf note 46.

In 2011 no significant reclassifications were made between the categories Listed prices and Observable inputs.

# Notes

The Nykredit Realkredit Group

## 44. FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS (continued)

### Listed prices

The Group's assets and liabilities at fair value are to the widest extent possible recognised at listed prices or prices quoted in an active market or authorised market place.

### Observable inputs

When an instrument is not traded in an active market, measurement is based on observable inputs and the use of generally accepted calculation methods as well as valuation and estimation techniques such as discounted cash flows and option models.

Observable inputs are typically yield curves, volatilities and market prices of similar instruments which are usually obtained through ordinary providers such as Reuters, Bloomberg and market makers. If the fair value is based on transactions in similar instruments, measurement is exclusively based on transactions at arm's length. Reverse lending and repo deposits as well as unlisted derivatives generally belong in this category.

Measurement techniques are generally applied to measure derivatives and unlisted assets and liabilities.

In some cases, the markets, eg the bond market, have become inactive and illiquid. When assessing market transactions, it may therefore be difficult to conclude whether the transactions were executed at arm's length or were forced sales. If measurement is based on recent transactions, the transaction price is compared with a price based on relevant yield curves and discount techniques.

### Unobservable inputs

When it is not possible to measure financial instruments at fair value through active market prices or observable inputs, measurement is made on the basis of internal assumptions and extrapolation. Where possible and appropriate, measurement is based on actual transactions adjusted for differences in eg the liquidity, credit spreads and maturities of the instruments. The Group's unlisted equities are generally classified under this heading although measurement is based on the IPEV measurement guidelines.

Measurement, notably of instruments classified as unobservable inputs, is subject to some uncertainty. Of total assets and liabilities, DKK 2,751m (2011: DKK 4,040m) and DKK 166m (2011: DKK 133m), respectively, can be ascribed to this category.

## Notes

DKK million

The Nykredit Realkredit Group

45. DERIVATIVE FINANCIAL INSTRUMENTS								
By time-to-maturity	Net market value				Gross market value		Net market value	Nominal value
	Up to 3 months	3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Positive market value	Negative market value		
<b>2012</b>								
<b>Foreign exchange contracts</b>								
Forwards/futures, purchased	(81)	(8)	(7)	-	112	208	(96)	43,099
Forwards/futures, sold	43	3	-	-	134	88	46	26,097
Swaps	(487)	(326)	338	95	1,354	1,734	(380)	41,829
Options, purchased	1	4	-	-	5	-	5	12,598
Options, written	(1)	(4)	-	-	-	5	(5)	4,196
<b>Interest rate contracts</b>								
Forwards/futures, purchased	86	0	(3)	-	92	9	83	101,837
Forwards/futures, sold	(114)	0	3	-	17	128	(111)	164,306
Forward rate agreements, purchased	(71)	(128)	(88)	-	1	288	(287)	318,017
Forward rate agreements, sold	82	160	87	-	330	1	329	315,284
Swaps	42	(101)	(1,261)	616	43,013	43,717	(704)	1,301,807
Options, purchased	-	-	666	1,031	1,738	41	1,697	63,115
Options, written	-	(416)	(1,212)	(1,044)	0	2,672	(2,672)	60,096
<b>Equity contracts</b>								
Forwards/futures, purchased	(0)	-	-	-	0	0	(0)	4
Forwards/futures, sold	(2)	-	-	-	0	3	(2)	64
Options, purchased	1	-	-	-	1	0	1	1
Options, written	-	(2)	-	-	-	2	(2)	1
<b>Credit contracts</b>								
Credit default swaps, purchased	-	-	2	0	2	-	2	560
Credit default swaps, sold	-	-	(3)	0	0	3	(3)	448
<b>Unsettled spot transactions</b>								
	(7)	-	-	-	33	40	(7)	95,471
<b>Total</b>	<b>(509)</b>	<b>(817)</b>	<b>(1,479)</b>	<b>699</b>	<b>46,832</b>	<b>48,939</b>	<b>(2,106)</b>	<b>2,548,829</b>

## Notes

DKK million

The Nykredit Realkredit Group

45. DERIVATIVE FINANCIAL INSTRUMENTS (continued)								
By time-to-maturity	Net market value				Gross market value		Net market value	Nominal value
	Up to 3 months	3 months and up to 1 year	Over 1 year and up to 5 years	Over 5 years	Positive market value	Negative market value		
<b>2011</b>								
<b>Foreign exchange contracts</b>								
Forwards/futures, purchased	260	77	7	-	457	113	343	37,159
Forwards/futures, sold	(301)	(41)	(6)	-	201	548	(348)	42,352
Swaps	(24)	186	(506)	354	1,462	1,451	11	47,748
Options, purchased	2	16	-	-	18	0	18	5,304
Options, written	(2)	(16)	-	-	0	18	(18)	5,244
<b>Interest rate contracts</b>								
Forwards/futures, purchased	(189)	7	0	-	186	368	(182)	116,914
Forwards/futures, sold	(12)	(100)	-	-	306	418	(112)	171,739
Forward rate agreements, purchased	(21)	(11)	(1)	0	6	38	(33)	88,066
Forward rate agreements, sold	9	8	(1)	(2)	21	8	14	89,273
Swaps	17	(42)	(1,196)	1,265	35,314	35,269	44	1,010,734
Options, purchased	-	-	343	1,363	1,713	7	1,706	57,513
Options, written	-	-	(1,291)	(1,392)	0	2,683	(2,683)	66,290
<b>Equity contracts</b>								
Forwards/futures, sold	2	(2)	-	-	2	2	0	0
Options, purchased	-	0	-	-	0	-	0	22
Options, sold	-	(2)	-	-	-	2	(2)	73
<b>Credit contracts</b>								
Credit default swaps, purchased	-	-	15	-	18	3	15	1,041
Credit default swaps, sold	-	(19)	-	-	-	19	(19)	1,428
<b>Unsettled spot transactions</b>								
	28	-	-	-	47	20	28	21,210
<b>Total</b>	<b>(230)</b>	<b>63</b>	<b>(2,636)</b>	<b>1,589</b>	<b>39,752</b>	<b>40,967</b>	<b>(1,214)</b>	<b>1,762,109</b>

## Notes

DKK million

Nykredit Realkredit A/S			The Nykredit Realkredit Group	
2011	2012		2012	2011
		<b>46. GENUINE SALE AND REPURCHASE TRANSACTIONS AND GENUINE PURCHASE AND RESALE TRANSACTIONS</b>		
		The Nykredit Realkredit Group applies genuine purchase and resale transactions and genuine sale and repurchase transactions in the day-to-day business operations. All transactions were entered into using bonds as the underlying asset.		
		<b>Of the asset items below, genuine purchase and resale transactions represent:</b>		
5,877	3,364	Receivables from credit institutions and central banks	20,633	19,121
-	-	Loans, advances and other receivables at fair value, gross	36,862	22,351
-	-	Set-off against "Other non-derivative financial liabilities at fair value"	(1,461)	(344)
-	-	<b>Loans, advances and other receivables at fair value, net</b>	<b>35,401</b>	<b>22,007</b>
		<b>Of the liability items below, genuine sale and repurchase transactions represent:</b>		
82,632	44,009	Payables to credit institutions and central banks	56,993	96,263
-	-	Other non-derivative financial liabilities at fair value, gross	19,179	16,208
-	-	Set-off against "Loans, advances and receivables at fair value"	(1,461)	(344)
-	-	<b>Other non-derivative financial liabilities at fair value, net</b>	<b>17,718</b>	<b>15,864</b>
		<b>Assets sold as part of genuine sale and repurchase transactions:</b>		
82,632	43,859	Bonds at fair value	76,219	112,051

## Notes

DKK million

The Nykredit Realkredit Group  
2012 2011**47. RISK MANAGEMENT**

The Nykredit Realkredit Group's risk and policies are described in the Management's Review under "Group risk management". The information below is a supplement to the Management's Review.

**Credit risk**

The Group's maximum credit exposure comprises selected balance sheet items and off-balance sheet items.

**Total credit exposure****On-balance sheet items**

Demand deposits with central banks	9,380	6,969
Receivables from credit institutions and central banks	50,677	59,175
Loans, advances and other receivables at fair value	1,172,253	1,106,581
Loans, advances and other receivables at amortised cost	50,111	56,716
Bonds at fair value	79,055	97,115
Equities	3,358	3,679
Other assets	59,741	53,735

**Off-balance sheet items**

Contingent liabilities	4,806	5,375
Irrevocable credit commitments	7,338	6,517

<b>Total</b>	<b>1,436,719</b>	<b>1,395,862</b>
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**Concentration risk**

Pursuant to the Danish Financial Business Act, an exposure with any one customer or group of mutually connected customers may not, after subtracting highly secure claims, exceed 25% of the capital base. The Nykredit Realkredit Group had no exposures in 2012 or 2011 which exceeded this limit.

**Collateral security received**

The Nykredit Realkredit Group reduces the risk relating to individual transactions through loss guarantees and receiving physical assets as security. Mortgage debt outstanding relative to estimated property values appears from page 32 of the Management's Review. In the table below, bank lending is broken down by unsecured lending and lending secured in part or in full by way of legal charge or other collateral security.

Bank lending	2012				2011			
	Public	Personal	Commercial	Total	Public	Personal	Commercial	Total
Unsecured lending	307	13,777	18,535	32,619	347	12,537	15,301	28,185
Lending secured by way of legal charge or other collateral security:								
Fully secured	75	3,077	4,048	7,200	44	3,360	11,175	14,579
Partially secured	124	5,001	8,841	13,966	56	4,968	12,282	17,306
<b>Total lending before impairment provisions</b>	<b>506</b>	<b>21,855</b>	<b>31,424</b>	<b>53,785</b>	<b>447</b>	<b>20,865</b>	<b>38,758</b>	<b>60,070</b>

The establishment of lines for trading in financial products often requires a contractual basis giving the Group access to netting. The contractual basis is typically based on current market standards such as ISDA or GMRA agreements.

**The Supervisory Diamond for banks**

The Danish FSA has defined five benchmarks – the so-called Supervisory Diamond – that indicate when a bank is operating at an elevated risk. At 31 December 2012, Nykredit Bank operated below the limit values of the Danish FSA. Further, Nykredit Bank was either better or on a level with the other group 1 banks at 30 June 2012 when the Danish FSA published the latest comparative bank figures.

Supervisory Diamond benchmarks	Limit values	Nykredit Bank
Lending growth	< 20%	9.6%
Large exposures	< 125%	0.0%
Property exposure	< 25%	14.6%
Funding ratio	< 1.00	0.6
Excess liquidity cover	> 50%	183.1%



## Notes

DKK million

The Nykredit Realkredit Group

## 47. RISK MANAGEMENT (continued)

## Mortgage lending by property and rating category

The rating illustrates the customer's ability to pay, but not the probability of loss. Significant security is usually provided for mortgage loans, which reduces or minimises the risk of loss – regardless of customer ratings.

2012	Private residential	Private rental	Industry and trades	Office and retail	Agricultural property	Non-profit housing	Other	Total
<b>Rating category</b>								
10	48,779	1,148	2,457	5,737	2,798	2,688	619	64,226
9	78,560	7,479	6,653	14,038	5,708	7,367	2,642	122,444
8	169,029	27,048	7,333	25,322	9,304	28,833	6,026	272,895
7	142,104	29,622	2,316	29,294	15,953	18,276	5,033	242,597
6	108,152	19,812	1,530	12,132	17,995	4,713	2,121	166,454
5	46,342	8,668	846	4,799	13,171	436	379	74,641
4	34,452	5,891	910	4,052	19,073	134	222	64,734
3	14,419	2,676	414	5,171	3,813	57	111	26,661
2	17,234	4,903	360	2,225	2,697	194	168	27,781
1	14,937	996	89	637	866	16	38	17,580
0	4,158	2,081	130	1,023	2,830	138	44	10,404
Exposures in default	4,692	5,453	539	3,674	3,481	386	152	18,377
<b>Total</b>	<b>682,859</b>	<b>115,777</b>	<b>23,578</b>	<b>108,103</b>	<b>97,688</b>	<b>63,237</b>	<b>17,554</b>	<b>1,108,796</b>
<b>2011</b>								
<b>Rating category</b>								
10	39,815	1,137	1,516	4,411	4,141	488	479	51,986
9	63,763	5,075	2,369	12,342	9,417	2,334	2,659	97,957
8	125,303	22,812	11,446	15,478	18,978	25,435	7,267	226,718
7	174,831	28,340	3,021	25,443	20,103	19,504	2,786	274,027
6	116,964	13,639	1,629	12,930	15,276	5,065	1,517	167,020
5	50,038	10,367	2,011	7,037	7,448	3,957	704	81,563
4	31,792	6,790	688	5,406	12,078	2,641	438	59,833
3	13,859	4,300	569	6,528	2,143	1,291	262	28,954
2	19,443	6,535	530	3,512	3,221	892	210	34,342
1	14,749	1,050	126	1,495	1,204	456	29	19,110
0	4,921	2,032	79	1,787	881	88	23	9,811
Exposures in default	5,287	5,876	506	1,978	2,360	152	125	16,284
<b>Total</b>	<b>660,765</b>	<b>107,953</b>	<b>24,489</b>	<b>98,346</b>	<b>97,251</b>	<b>62,302</b>	<b>16,499</b>	<b>1,067,606</b>

Group mortgage lending is stated in nominal terms and is disclosed by rating category that reflects the rating of individual customers defined as the probability of default. The rating categories range from 0 to 10, 10 being the highest rating.

The category Exposures in default includes loans and advances provided for individually and loans and advances to customers with an elevated risk of future default, but not necessarily a high risk of future losses, as the loss risk also depends on any security provided for a loan. Nykredit's rating categories are described in detail in the report Risk and Capital Management 2012, available at [nykredit.com/reports](http://nykredit.com/reports).

## Notes

DKK million

The Nykredit Realkredit Group

## 47. RISK MANAGEMENT (continued)

## Bank lending by sector and rating category

2012	Manufact., building, and construction	Credit and finance	Property management and trade etc	Transport, trade and hotels	Other trade and public	Personal	Total
<b>Rating category</b>							
10	1,049	376	193	330	880	2,890	5,718
9	210	399	759	562	561	1,803	4,294
8	1,790	1,603	2,634	810	2,186	1,445	10,468
7	1,355	273	2,625	658	1,137	1,300	7,348
6	613	360	1,191	117	712	956	3,949
5	375	137	1,082	206	698	1,277	3,775
4	307	97	576	79	524	1,472	3,055
3	384	2,280	432	101	661	814	4,672
2	80	124	171	102	243	876	1,596
1	27	14	215	47	82	274	659
0	13	22	196	18	70	146	465
Exposures in default	618	1,778	2,120	735	910	1,509	7,670
<b>Total</b>	<b>6,821</b>	<b>7,463</b>	<b>12,194</b>	<b>3,765</b>	<b>8,664</b>	<b>14,762</b>	<b>53,669</b>

## Bank lending by sector and rating category

2011	Manufact., building, and construction	Credit and finance	Property management and trade etc	Transport, trade and hotels	Other trade and public	Personal	Total
<b>Rating category</b>							
10	63	263	211	311	633	2,631	4,113
9	1,496	1,920	727	400	1,206	1,871	7,621
8	2,138	779	2,806	895	1,758	1,981	10,355
7	1,201	1,062	3,542	388	1,070	1,658	8,920
6	342	281	984	287	762	1,259	3,914
5	360	135	747	136	428	1,361	3,167
4	377	138	602	115	615	1,465	3,311
3	341	373	286	234	507	590	2,331
2	339	3,207	1,131	116	555	1,287	6,636
1	118	87	280	69	165	371	1,092
0	123	219	138	13	154	290	937
Exposures in default	634	1,445	2,176	806	1,026	1,369	7,456
<b>Total</b>	<b>7,533</b>	<b>9,911</b>	<b>13,630</b>	<b>3,770</b>	<b>8,877</b>	<b>16,134</b>	<b>59,855</b>

The rating categories include Nykredit Bank A/S's loans, advances and receivables at amortised cost determined before impairments.

The category Exposures in default includes loans and advances provided for individually and loans and advances to customers with an elevated risk of future default, but not necessarily a high risk of future losses, as the loss risk also depends on any security provided for a loan. Nykredit's rating categories are described in detail in the report Risk and Capital Management 2012, available at [nykredit.com/reports](http://nykredit.com/reports).

## Notes

DKK million

The Nykredit Realkredit Group

**48. HEDGE ACCOUNTING**

The interest rate risk relating to fixed-rate assets and liabilities has been hedged on a current basis.

The hedge comprises the following:

	Nominal value/ amortised value	Carrying amount	Fair value adjustment for accounting purposes
<b>2012</b>			
<b>Assets</b>			
Loans and advances	1,071	1,127	56
<b>Liabilities</b>			
Subordinated debt	10,405	11,035	(630)
Issued bonds	6,557	6,778	(222)
<b>Derivative financial instruments</b>			
Interest rate swaps, fixed-rate bank loans and advances	493	56	(56)
Interest rate swaps, subordinated debt	10,445	630	630
Interest rate swaps, issued bonds	6,557	222	222
<b>Total</b>	<b>35,527</b>	<b>19,848</b>	<b>(1)</b>
Gain/loss for the year on hedging instruments		147	
Gain/loss for the year on hedged items		(146)	
<b>Net gain/loss</b>		<b>1</b>	
<b>2011</b>			
<b>Assets</b>			
Loans and advances	1,181	1,242	61
<b>Liabilities</b>			
Subordinated debt	10,351	10,965	(614)
Issued bonds	4,290	4,387	(97)
<b>Derivative financial instruments</b>			
Interest rate swaps, fixed-rate bank loans and advances	883	62	(62)
Interest rate swaps, subordinated debt	10,408	614	614
Interest rate swaps, issued bonds	4,290	97	97
<b>Total</b>	<b>31,403</b>	<b>17,366</b>	<b>(1)</b>
Gain/loss for the year on hedging instruments		169	
Gain/loss for the year on hedged items		(170)	
<b>Net gain/loss</b>		<b>(1)</b>	

## Notes

DKK million

Nykredit Realkredit A/S		The Nykredit Realkredit Group	
2011	2012	2012	2011
<b>49. CURRENCY EXPOSURE</b>			
<b>By main currency (net)</b>			
(4)	0	USD	(2) 8
4	(5)	GBP	(5) 4
(264)	(44)	SEK	(47) (266)
73	54	NOK	57 72
3	3	CHF	0 (2)
-	-	CAD	1 (0)
(2)	(2)	JPY	(2) (2)
(280)	299	EUR	294 (188)
3	(1)	Other	7 6
<b>(467)</b>	<b>305</b>	<b>Total</b>	<b>303 (368)</b>
551	356	<b>Exchange Rate Indicator 1</b>	359 458
		Exchange Rate Indicator 1 is determined as the sum of the highest numerical value of assets (long-term position) or net payables. Indicator 1 shows the overall foreign exchange risk.	
9	1	<b>Exchange Rate Indicator 2</b>	1 9
		Exchange Rate Indicator 2 is based on a statistical method where historical data have been compiled by the Danish authorities. Indicator 2 reflects the overall loss risk.	

# Notes

## 50. OTHER INFORMATION

### IFRS DISCLOSURE REQUIREMENTS (REFERENCE TO MANAGEMENT'S REVIEW)

#### Information on risk

The nature and scope of group risk are described in "Group risk management", which includes credit risk, market risk and operational risk. Reference is made to pages 29-38.

The Group's liquidity risk is described in "Funding". Reference is made to pages 50-51.

For qualitative information on group policies and risk management procedures, reference is made to "Group risk management" under "Group characteristics" and "Credit risk" as well as to "Organisation, management and corporate responsibility" under "Organisation and delegation of responsibilities", pages 28-29 and 23-25.

For a description of the Group's risk measurement methods, reference is made to "Group risk management" under "Credit risk" and "Market risk", pages 29-30 and 35-37.

#### Other information

For information on subsequent events, reference is made to the Management's Review under "Events occurred after the end of the financial year", page 11.

### PROFIT (LOSS) AND EQUITY RESTATED TO FSA REQUIREMENTS

The Nykredit Realkredit Group's financial statements are prepared pursuant to the International Financial Reporting Standards as adopted by the EU. The Group's accounting policies comply with the provisions of the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. However, under the Executive Order financial assets are not classifiable as "available for sale" with fair value adjustment against "Other comprehensive income". In the Nykredit Realkredit Group's FSA reporting, "Equities available for sale" have been classified as equities measured at fair value through profit or loss.

The difference has no impact on "Equity", only on "Profit (loss)" and "Other comprehensive income", cf below:

	Profit (loss)		Other comprehensive income		Equity	
	2012	2011	2012	2011	2012	2011
Group reporting pursuant to the IFRS	2,629	1,115	(184)	(833)	57,556	55,310
Value adjustment of equities available for sale	(237)	(854)	237	854	-	-
<b>Group reporting subject to FSA requirements</b>	<b>2,392</b>	<b>261</b>	<b>53</b>	<b>21</b>	<b>57,556</b>	<b>55,310</b>

"Value adjustment of equities available for sale" comprises fair value adjustment, realised value adjustments and unrealised capital losses reclassified to the income statement as well as the tax effect of the fair value adjustment.

# Notes

## 51. FINANCIAL RATIOS, DEFINITIONS

### Financial ratios applied in note 52

Profit (loss) for the year/period as % of average equity pa<sup>1</sup>

Core earnings before impairment losses as % of average equity pa<sup>1</sup>

Core earnings after impairment losses as % of average equity pa<sup>1</sup>

Provisions for loan impairment and guarantees

Impairment losses for the year/period, %

Average number of full-time staff

### Financial ratios applied in note 53<sup>2</sup>

Return on equity before tax

Return on equity after tax

Income:cost ratio

Foreign exchange position, %

Loans and advances:equity (loan gearing)

Growth in loans and advances for the year, %

Total impairment provisions, %

Impairment losses for the year, %

### Financial ratios concerning capital adequacy and capital requirement

Total capital ratio, %

Tier 1 capital ratio, %

<sup>1</sup> Full-year equivalent based on quarterly financial ratios.

<sup>2</sup> Financial ratios are based on the Danish FSA's definitions and guidelines.

### Definitions

Profit (loss) for the year/period divided by average equity.

Core earnings before impairment losses divided by average equity.

Core earnings after impairment losses divided by average equity.

Total individual and collective impairment provisions as well as provisions for guarantees at year-end.

Impairment losses on loans and advances and provisions for guarantees for the year/period divided by total loans and advances at fair value, loans and advances at amortised cost, guarantees and total provisions for loan impairment and guarantees at the end of the year/period.

The average number of full-time staff determined on the basis of the Danish ATP method.

### Definitions

The sum of profit (loss) before tax, profit (loss) from discontinued insurance operations and value adjustment of strategic equities before tax divided by average equity.

The sum of profit (loss) after tax and value adjustment of strategic equities after tax divided by average equity.

Total income less profit (loss) from discontinued insurance operations plus value adjustment of strategic equities before tax divided by total costs less tax.

Exchange Rate Indicator 1 at year-end divided by Tier 1 capital less statutory deductions at year-end.

The sum of loans and advances at fair value and loans and advances at amortised cost divided by equity at year-end.

Loans and advances at nominal value at year-end divided by loans and advances at nominal value at the beginning of the year.

Total provisions for loan impairment and guarantees at year-end divided by the sum of loans and advances at fair value, loans and advances at amortised cost, guarantees and total provisions for loan impairment and guarantees at year-end.

Provisions for loan impairment and guarantees for the year divided by the sum of loans and advances at fair value, loans and advances at amortised cost, guarantees and total provisions for loan impairment and guarantees at year-end.

### Definitions

Capital base after statutory deductions divided by risk-weighted assets.

Tier 1 capital after statutory deductions divided by risk-weighted assets.

## Notes

DKK million

The Nykredit Realkredit Group	FY 2012	FY 2011	Q4/ 2012	Q3/ 2012	Q2/ 2012	Q1/ 2012	Q4/ 2011
<b>52. FIVE-QUARTER FINANCIAL HIGHLIGHTS<sup>1</sup></b>							
<b>Core income from</b>							
Business operations	8,697	8,366	1,986	2,233	2,255	2,223	2,098
Securities	212	644	21	26	76	89	159
<b>Total</b>	<b>8,909</b>	<b>9,010</b>	<b>2,007</b>	<b>2,259</b>	<b>2,331</b>	<b>2,311</b>	<b>2,257</b>
Operating costs, depreciation and amortisation	5,535	5,976	1,432	1,389	1,448	1,265	1,700
<b>Core earnings before impairment losses</b>	<b>3,374</b>	<b>3,034</b>	<b>575</b>	<b>870</b>	<b>883</b>	<b>1,047</b>	<b>558</b>
Impairment losses on loans and advances	2,149	1,414	616	542	497	494	516
<b>Core earnings after impairment losses</b>	<b>1,225</b>	<b>1,620</b>	<b>(41)</b>	<b>328</b>	<b>386</b>	<b>553</b>	<b>41</b>
Investment portfolio income	2,444	179	155	756	183	1,350	126
<b>Profit before cost of capital</b>	<b>3,669</b>	<b>1,800</b>	<b>114</b>	<b>1,084</b>	<b>569</b>	<b>1,903</b>	<b>167</b>
Net interest on hybrid capital	(465)	(462)	(117)	(117)	(116)	(115)	(115)
<b>Profit (loss) before tax</b>	<b>3,205</b>	<b>1,338</b>	<b>(3)</b>	<b>967</b>	<b>453</b>	<b>1,788</b>	<b>52</b>
Tax	575	223	(106)	144	95	442	48
<b>Profit for the year/period</b>	<b>2,629</b>	<b>1,115</b>	<b>103</b>	<b>823</b>	<b>357</b>	<b>1,346</b>	<b>4</b>
<b>Other comprehensive income</b>							
Value adjustment of strategic equities	236	(682)	(48)	148	(78)	213	(82)
Other adjustment of strategic equities	(473)	(171)	(122)	(286)	-	(65)	-
Fair value adjustment of owner-occupied properties	53	21	53	-	-	-	21
<b>Total other comprehensive income</b>	<b>(184)</b>	<b>(833)</b>	<b>(116)</b>	<b>(137)</b>	<b>(78)</b>	<b>148</b>	<b>(62)</b>
<b>Comprehensive income for the year/period</b>	<b>2,445</b>	<b>282</b>	<b>(13)</b>	<b>685</b>	<b>279</b>	<b>1,494</b>	<b>(57)</b>
<b>SUMMARY BALANCE SHEET, END OF PERIOD</b>							
	31.12.2012	31.12.2011	31.12.2012	30.09.2012	30.06.2012	31.03.2012	31.12.2011
<b>Assets</b>							
Cash balance and receivables from credit institutions and central banks	60,174	66,258	60,174	50,620	61,440	63,900	66,258
Mortgage loans at fair value	1,136,445	1,083,991	1,136,445	1,128,680	1,120,214	1,097,992	1,083,991
Bank loans – excluding reverse transactions	49,728	55,776	49,728	53,980	55,203	55,935	55,776
Bonds and equities	82,413	100,794	82,413	92,371	95,773	94,919	100,794
Remaining assets	104,645	86,086	104,645	109,936	101,002	94,790	86,086
<b>Total assets</b>	<b>1,433,405</b>	<b>1,392,905</b>	<b>1,433,405</b>	<b>1,435,587</b>	<b>1,433,632</b>	<b>1,407,537</b>	<b>1,392,905</b>
<b>Liabilities and equity</b>							
Payables to credit institutions and central banks	67,539	117,626	67,539	80,506	100,888	108,335	117,626
Deposits and other payables	54,509	57,404	54,509	53,498	55,281	56,673	57,404
Issued bonds at fair value	1,103,818	1,021,942	1,103,818	1,082,066	1,066,902	1,041,153	1,021,942
Subordinated debt	11,281	11,204	11,281	11,322	11,254	11,246	11,204
Remaining liabilities	138,701	129,419	138,701	150,625	142,423	133,526	129,419
Equity	57,556	55,310	57,556	57,569	56,884	56,604	55,310
<b>Total liabilities and equity</b>	<b>1,433,405</b>	<b>1,392,905</b>	<b>1,433,405</b>	<b>1,435,587</b>	<b>1,433,632</b>	<b>1,407,537</b>	<b>1,392,905</b>
<b>FINANCIAL RATIOS</b>							
Profit for the year/period as % of average equity pa	4.7	2.0	0.7	5.7	2.5	9.6	0.0
Core earnings before impairment losses as % of average equity pa	6.0	5.5	4.0	6.1	6.2	7.5	4.0
Core earnings after impairment losses as % of average equity pa	2.2	2.9	(0.3)	2.3	2.7	4.0	0.3
Total provisions for loan impairment and guarantees	7,094	6,892	7,094	7,262	7,111	7,040	6,892
Impairment losses for the year/period, %	0.17	0.12	0.05	0.04	0.04	0.04	0.04
Total capital ratio, %	19.1	17.1	19.1	18.6	17.5	17.2	17.1
Tier 1 capital ratio, %	19.1	17.1	19.1	18.6	17.5	17.2	17.1
Average number of full-time staff	4,115	4,139	4,115	4,118	4,124	4,125	4,139
<sup>1</sup> Quarterly financial highlights have not been audited.							

## Notes

DKK million

Nykredit Realkredit A/S

	2012	2011	2010	2009	2008
<b>53. FIVE-YEAR FINANCIAL HIGHLIGHTS</b>					
<b>SUMMARY INCOME STATEMENT</b>					
Net interest income	5,355	4,764	5,332	5,512	3,730
Net fee income	863	708	745	681	669
<b>Net interest and fee income</b>	<b>6,218</b>	<b>5,472</b>	<b>6,077</b>	<b>6,193</b>	<b>4,399</b>
Value adjustments	196	(2,399)	(333)	2,508	(5,353)
Other operating income	11	26	92	87	78
Staff and administrative expenses	2,510	2,711	2,642	2,619	2,576
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	730	672	649	592	528
Other operating expenses	0	3	2	0	4
Impairment losses on loans, advances and receivables	1,057	570	712	1,216	344
Profit (loss) from investments in associates and group enterprises	719	774	2,708	(2,630)	414
<b>Profit (loss) before tax</b>	<b>2,846</b>	<b>(83)</b>	<b>4,538</b>	<b>1,731</b>	<b>(3,913)</b>
Tax	454	(345)	461	851	(371)
<b>Profit (loss) for the year</b>	<b>2,392</b>	<b>261</b>	<b>4,076</b>	<b>880</b>	<b>(3,542)</b>
<b>SUMMARY BALANCE SHEET, YEAR-END</b>					
	2011	2010	2009	2008	2007
<b>Assets</b>					
Cash balance and receivables from credit institutions and central banks	33,991	39,170	45,904	37,992	58,089
Mortgage loans at fair value	614,848	604,292	575,278	550,598	505,115
Totalkredit mortgage loan funding	520,658	461,846	433,531	399,307	315,229
Bonds and equities	41,361	71,885	63,369	55,094	68,563
Remaining assets	78,361	73,880	62,301	58,451	47,013
<b>Total assets</b>	<b>1,289,219</b>	<b>1,251,073</b>	<b>1,180,384</b>	<b>1,101,443</b>	<b>994,008</b>
<b>Liabilities and equity</b>					
Payables to credit institutions and central banks	48,597	89,065	79,456	97,339	100,911
Issued bonds	1,145,585	1,060,979	1,002,524	907,439	790,326
Subordinated debt	11,035	10,965	10,805	14,203	7,584
Remaining liabilities	26,446	34,754	32,278	31,220	44,810
Equity	57,556	55,310	55,320	51,241	50,377
<b>Total liabilities and equity</b>	<b>1,289,219</b>	<b>1,251,073</b>	<b>1,180,384</b>	<b>1,101,443</b>	<b>994,008</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
Other commitments	1,620	1,981	1,273	1,468	1,577
<b>FINANCIAL RATIOS<sup>1</sup></b>					
Total capital ratio, %	16.4	15.4	17.1	17.7	15.7
Tier 1 capital ratio, %	16.4	15.4	17.1	17.0	14.8
Return on equity before tax	5.0	(0.2)	8.5	3.4	(7.5)
Return on equity after tax	4.2	0.5	7.7	1.7	(6.8)
Income:cost ratio	1.66	0.98	2.13	1.39	(0.13)
Foreign exchange position, %	0.6	0.9	0.6	1.8	0.7
Loans and advances:equity (loan gearing)	10.7	11.0	10.4	10.8	10.0
Growth in loans and advances for the year, %	0.7	3.5	3.8	7.3	6.2
Total impairment provisions, %	0.33	0.29	0.29	0.25	0.08
Impairment losses for the year, %	0.17	0.09	0.12	0.22	0.07

<sup>1</sup> Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 51.



## Notes

DKK million

## The Nykredit Realkredit Group

	2012	2011	2010	2009	2008
<b>53. FIVE-YEAR FINANCIAL HIGHLIGHTS (continued)</b>					
<b>SUMMARY INCOME STATEMENT</b>					
Net interest income	10,838	10,103	11,210	11,122	7,741
Net fee income	321	322	606	593	268
<b>Net interest and fee income</b>	<b>11,159</b>	<b>10,425</b>	<b>11,816</b>	<b>11,715</b>	<b>8,009</b>
Value adjustments	(547)	(1,935)	(559)	2,186	(2,850)
Other operating income	230	226	209	165	154
Staff and administrative expenses	4,739	4,931	4,837	4,857	4,164
Depreciation, amortisation and impairment losses for property, plant and equipment as well as intangible assets	766	930	811	744	729
Other operating expenses	30	114	382	551	126
Impairment losses on loans, advances and receivables	2,149	1,414	2,382	7,919	1,443
Profit (loss) from investments in associates	47	10	36	(141)	124
<b>Profit (loss) before tax</b>	<b>3,205</b>	<b>1,338</b>	<b>3,090</b>	<b>(145)</b>	<b>(1,025)</b>
Tax	575	223	786	(29)	(223)
Profit from discontinued insurance operations	-	-	1,511	245	108
<b>Profit (loss) for the year</b>	<b>2,629</b>	<b>1,115</b>	<b>3,816</b>	<b>129</b>	<b>(695)</b>
Profit (loss) for the year excludes value adjustment and reclassification of strategic equities against equity totalling	(237)	(854)	261	751	(2,847)
<b>SUMMARY BALANCE SHEET, YEAR-END</b>					
<b>Assets</b>					
Cash balance and receivables from credit institutions and central banks	60,174	66,258	58,657	62,909	73,388
Mortgage loans at fair value	1,136,445	1,083,991	1,030,478	981,227	895,463
Bank loans – excluding reverse transactions	49,728	55,776	58,833	60,908	72,733
Bonds and equities	82,413	100,794	99,144	86,620	103,434
Remaining assets	104,645	86,086	64,029	55,520	73,037
<b>Total assets</b>	<b>1,433,405</b>	<b>1,392,905</b>	<b>1,311,140</b>	<b>1,247,185</b>	<b>1,218,055</b>
<b>Liabilities and equity</b>					
Payables to credit institutions and central banks	67,539	117,626	95,879	119,313	162,549
Deposits and other payables	54,509	57,404	55,467	64,483	61,177
Issued bonds at fair value	1,103,818	1,021,942	974,319	889,899	836,081
Subordinated debt	11,281	11,204	11,618	15,372	8,979
Remaining liabilities	138,701	129,419	118,537	106,877	98,892
Equity	57,556	55,310	55,320	51,241	50,377
<b>Total liabilities and equity</b>	<b>1,433,405</b>	<b>1,392,905</b>	<b>1,311,140</b>	<b>1,247,185</b>	<b>1,218,055</b>
<b>OFF-BALANCE SHEET ITEMS</b>					
Contingent liabilities	4,806	5,375	6,192	8,336	8,905
Other commitments	9,213	8,389	8,342	10,852	10,497
<b>FINANCIAL RATIOS<sup>1</sup></b>					
Total capital ratio, %	19.1	17.1	18.5	17.8	14.7
Tier 1 capital ratio, %	19.1	17.1	18.5	16.7	13.5
Return on equity before tax	5.4	0.5	9.3	1.7	(7.2)
Return on equity after tax	4.2	0.5	7.7	1.7	(6.8)
Income:cost ratio	1.39	1.03	1.41	1.04	0.40
Foreign exchange position, %	0.6	0.8	0.9	3.6	0.8
Loans and advances:equity (loan gearing)	21.2	21.0	19.9	20.6	19.7
Growth in loans and advances for the year, %	4.2	4.0	4.1	4.3	13.4
Total impairment provisions, %	0.57	0.59	0.81	0.97	0.33
Impairment losses for the year, %	0.17	0.12	0.21	0.74	0.14

<sup>1</sup> Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 51.

## Notes

DKK million

## The Nykredit Realkredit Group

54. GROUP STRUCTURE	Ownership interest as % at 31.12.2012	Revenue 2012*	Profit for 2012	Assets at 31.12.2012	Liabilities at 31.12.2012	Equity at 31.12.2012	Nykredit's share of profit for 2012	Nykredit's share of equity value at 31.12.2012	Profit (loss) for 2011	Equity at 31.12.2011
<b>Name and registered office</b>										
<b>The Nykredit Realkredit Group</b>										
Nykredit Realkredit A/S, Copenhagen a)										
<b>Consolidated subsidiaries</b>										
Totalkredit A/S, Taastrup, a)	100	1,596	522	562,020	546,930	15,090	522	15,090	562	13,818
Nykredit Bank A/S, Copenhagen, b)	100	2,471	69	209,316	195,046	14,271	68	14,270	433	14,202
Nykredit Pantebrevsinvestering A/S, Copenhagen, c)	100	0	0	12	0	12	0	12	0	12
Nykredit Portefølje Administration A/S, Copenhagen, h)	100	201	65	278	19	259	65	259	40	194
Nykredit Leasing A/S, Gladsaxe, f)	100	107	16	3,089	2,929	160	16	160	(4)	144
FB Ejendomme A/S, Copenhagen, e)	100	0	0	5	1	4	0	4	0	4
Nykredit Mægler A/S, Århus, d)	100	107	23	174	33	141	23	141	5	118
Nykredit Ejendomme A/S, Copenhagen, e)	100	118	49	1,677	1,209	469	49	469	(195)	367
Ejendomsselskabet Kalvebod A/S, Copenhagen, i)	100	1	9	218	0	218	9	218	(41)	209
Kalvebod Ejendomme I A/S, Copenhagen, e)	100	30	3	421	363	58	3	58	(34)	55
Kalvebod Ejendomme II A/S, Copenhagen, e)	100	27	6	300	239	61	6	61	(8)	55
Nykredit Adm. V A/S, Copenhagen, g)	100	0	0	1	0	1	0	1	0	1

The group structure only includes significant subsidiaries. Financial information is provided in such order as the companies are recognised in the Consolidated Financial Statements.

\* For companies preparing financial statements in accordance with the Danish Financial Business Act, revenue is defined as: Net interest and fee income, value adjustments and other operating income.

- a) Mortgage bank
- b) Bank
- c) Mortgage trading company
- d) Estate agency business
- e) Property company
- f) Leasing business
- g) No activity
- h) Investment management company
- i) Holding company, no independent activities

Nykredit Realkredit A/S is wholly owned by and consolidated with Nykredit Holding A/S, which is consolidated with Foreningen Nykredit.

The financial statements of Foreningen Nykredit and Nykredit Holding A/S (both in Danish) are available from:

Nykredit Realkredit A/S  
Kalvebod Brygge 1-3  
DK-1780 Copenhagen V

## Notes

DKK million

## The Nykredit Realkredit Group

54. GROUP STRUCTURE (continued)	Ownership interest as % at 31.12.2012	Revenue 2012	Profit (loss) for 2012	Assets at 31.12.2012	Liabilities at 31.12.2012	Equity at 31.12.2012	Nykredit's share of profit (loss) for 2012	Nykredit's share of equity value at 31.12.2012	Profit (loss) for 2011	Equity at 31.12.2011
<b>Name and registered office</b>										
<b>Associates*</b>										
Boligsiden A/S, Copenhagen, a)	23	14	0	13	1	12	0	3	0	11
Core Property Management A/S, Copenhagen, c)	20	19	7	27	5	22	2	4	5	30
E-nettet Holding A/S, Copenhagen, b)	20	83	8	144	83	61	2	8	(2)	56
Erhvervsinvest K/S, Copenhagen, c)	22	159	158	186	0	185	36	36	1	183
JN Data A/S, Silkeborg, b)	50	1,358	6	758	565	193	3	97	4	188
JSNA A/S, Horsens, c)	33	0	(0)	4	0	4	(0)	2	0	4
Scandinavian Private Equity Partners A/S, Copenhagen, d)	46	9	6	21	3	18	4	8	1	8

\* Recognised on the basis of the latest annual report or interim reports as at 30 September if annual reports are not available.

- a) Property company
- b) IT business
- c) Investment company
- d) Consultancy

## Notes

DKK million

## The Nykredit Realkredit Group

## 54. GROUP STRUCTURE (continued)

Name and registered office	Ownership interest as % at 31.12.2012	Profit (loss) for the year	Equity at 31.12.2012
<b>Other enterprises in which the Group holds at least 10% of the share capital</b>			
Bisca Holding A/S, Vedbæk*	25	72	83
Cross Atlantic Partners KS IV, Copenhagen*	17	54	74
Cross Atlantic Partners KS V, Copenhagen*	13	7	102
ED Equity Holding B.V., Amsterdam*	30	(0)	7
Ejendomsselskabet Nordtyskland I A/S, Copenhagen*	10	5	57
Ejendomsselskabet Nordtyskland III A/S, Copenhagen*	29	12	141
Ejendomsselskabet Nordtyskland IV A/S, Copenhagen*	48	9	107
EQT III No 3 LP, Guernsey*	16	25	353
Erhvervsinvest II K/S, Copenhagen*	11	31	409
Erhvervsinvest Management A/S, Copenhagen*	10	3	19
Jeudan A/S, Copenhagen*	17	(251)	4,016
Kelsen Holding A/S, Nørre Snede*	11	51	298
VP Securities A/S, Copenhagen*	13	60	143

\* According to the latest published annual reports.

Nykredit Realkredit A/S holds more than 20% of the shares in the companies Bisca Holding A/S, ED Equity Holding B.V, Ejendomsselskabet Nordtyskland III A/S and Ejendomsselskabet Nordtyskland IV A/S, but exercises neither control nor significant influence in the companies. Nykredit Realkredit A/S has no representatives on the boards of directors or the executive boards and therefore has no influence on the financial or operational conditions of the companies. Consequently, for accounting purposes the shareholdings are treated as an equity investment included in the trading book.

# SERIES FINANCIAL STATEMENTS

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Pursuant to the Danish Financial Supervisory Authority's Executive Order no 872 of 20 November 1995 on series financial statements in mortgage banks, mortgage banks are required to prepare separate series financial statements for series with series reserve funds, cf section 25(1) of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act.

The Series Financial Statements have been prepared on the basis of the Annual Report of Nykredit Realkredit A/S for 2012.

The distribution of profit for 2012 adopted by Nykredit Realkredit A/S's Board of Directors (cf the Annual Report, pages 52-53) has been in-

cluded in the Series Financial Statements. The series' calculated share of profit for the year of Nykredit Realkredit A/S determined in accordance with the Executive Order has been taken to the general reserves of Nykredit Realkredit A/S.

The Series Financial Statements have been printed at association level, cf section 30(3) of the Executive Order.

Complete Series Financial Statements may be obtained from Nykredit Realkredit A/S.

## Series Financial Statements for 2012 of Nykredit Realkredit A/S

DKK million

## Summary at the level of the Association and Nykredit Realkredit In General

	1	2	3	4	5	6	7	8
	KØK	FSK	LCR	HUM	BHY	KØH	ØHYP	SKRF
<b>Income statement</b>								
Income from lending	1.7	0.6	0.1	0.1	0.5	0.0	0.0	0.1
Interest, net	1.8	0.4	0.3	0.8	0.2	0.0	0.1	0.2
Administrative expenses	(1.8)	(0.3)	(0.3)	(0.8)	(0.2)	0.0	(0.1)	(0.2)
Impairment losses on loans and advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(0.4)	(0.2)	0.0	0.0	(0.1)	0.0	0.0	0.0
<b>Profit</b>	<b>1.3</b>	<b>0.5</b>	<b>0.1</b>	<b>0.1</b>	<b>0.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>
<b>Balance sheet</b>								
<b>Assets</b>								
Mortgage loans	422.5	215.0	25.2	21.8	68.7	0.0	0.7	17.9
Remaining assets	206.3	24.3	11.7	23.9	34.5	0.1	1.6	8.5
<b>Total assets</b>	<b>628.8</b>	<b>239.3</b>	<b>36.9</b>	<b>45.7</b>	<b>103.2</b>	<b>0.1</b>	<b>2.3</b>	<b>26.4</b>
<b>Liabilities and equity</b>								
Issued bonds	558.5	218.1	29.2	25.1	92.7	0.0	1.0	21.0
Remaining liabilities	32.0	12.2	1.9	2.3	5.3	0.0	0.1	1.3
Equity	38.3	9.0	5.8	18.3	5.2	0.1	1.2	4.1
<b>Total liabilities and equity</b>	<b>628.8</b>	<b>239.3</b>	<b>36.9</b>	<b>45.7</b>	<b>103.2</b>	<b>0.1</b>	<b>2.3</b>	<b>26.4</b>
<b>Movements in capital, net</b>	<b>(3.1)</b>	<b>1.3</b>	<b>(0.3)</b>	<b>(0.3)</b>	<b>0.0</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.8)</b>
						<b>14</b>		
	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>	<b>TOTAL</b>		
	<b>VESØ</b>	<b>HUSM</b>	<b>LHYP</b>	<b>KHYP</b>	<b>JLKR</b>	<b>(1-13)</b>		
<b>Income statement</b>								
Income from lending	0.0	0.3	0.2	0.2	0.1	3.9		
Interest, net	0.5	0.3	0.2	0.2	0.2	5.2		
Administrative expenses	(0.5)	(0.4)	(0.2)	(0.2)	(0.2)	(5.2)		
Impairment losses on loans and advances	0.0	0.0	0.0	0.0	0.0	0.0		
Tax	0.0	(0.1)	0.0	0.0	0.0	(0.8)		
<b>Profit</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>3.1</b>		
<b>Balance sheet</b>								
<b>Assets</b>								
Mortgage loans	21.2	16.0	16.2	11.3	19.6	856.1		
Remaining assets	12.3	13.9	12.5	7.9	11.0	368.5		
<b>Total assets</b>	<b>33.5</b>	<b>29.9</b>	<b>28.7</b>	<b>19.2</b>	<b>30.6</b>	<b>1,224.6</b>		
<b>Liabilities and equity</b>								
Issued bonds	25.3	18.0	18.4	13.5	24.5	1,045.3		
Remaining liabilities	1.7	1.5	1.5	1.0	1.6	62.4		
Equity	6.5	10.4	8.8	4.7	4.5	116.9		
<b>Total liabilities and equity</b>	<b>33.5</b>	<b>29.9</b>	<b>28.7</b>	<b>19.2</b>	<b>30.6</b>	<b>1,224.6</b>		
<b>Movements in capital, net</b>	<b>(0.7)</b>	<b>(0.3)</b>	<b>(0.4)</b>	<b>(0.7)</b>	<b>(1.3)</b>			

## Series Financial Statements for 2012 of Nykredit Realkredit A/S

DKK million

## Summary at the level of the Association and Nykredit Realkredit In General

	15 FK	16 JK	17 NYK	18 TOTAL (15-17)	19 INST	20 TOTAL (14,18,19)
<b>Income statement</b>						
Income from lending	0.2	0.4	3,800.5	3,801.1	0.2	3,805.2
Interest, net	0.0	0.1	2,306.0	2,306.1	343.3	2,654.6
Administrative expenses	0.0	(0.1)	(2,221.1)	(2,221.2)	(330.6)	(2,557.0)
Impairment losses on loans and advances	0.1	0.0	(1,090.5)	(1,090.4)	33.7	(1,056.7)
Tax	(0.1)	(0.1)	(698.9)	(699.1)	246.0	(453.9)
<b>Profit</b>	<b>0.2</b>	<b>0.3</b>	<b>2,096.0</b>	<b>2,096.5</b>	<b>292.6</b>	<b>2,392.2</b>
<b>Balance sheet</b>						
<b>Assets</b>						
Mortgage loans	20.9	24.5	615,977.4	616,022.8	0.9	616,879.8
Remaining assets	10.0	13.6	813,962.5	813,986.1	14,208.7	828,563.3
<b>Total assets</b>	<b>30.9</b>	<b>38.1</b>	<b>1,429,939.9</b>	<b>1,430,008.9</b>	<b>14,209.6</b>	<b>1,445,443.1</b>
<b>Liabilities and equity</b>						
Issued bonds	28.5	35.1	1,313,121.2	1,313,184.8	1.2	1,314,231.3
Remaining liabilities	1.6	2.0	72,778.9	72,782.5	723.3	73,568.2
Equity	0.8	1.0	44,039.8	44,041.6	13,485.1	57,643.6
<b>Total liabilities and equity</b>	<b>30.9</b>	<b>38.1</b>	<b>1,429,939.9</b>	<b>1,430,008.9</b>	<b>14,209.6</b>	<b>1,445,443.1</b>
<b>Movements in capital, net</b>	<b>0.1</b>	<b>(0.1)</b>	<b>(3,667.4)</b>		<b>5,913.4</b>	

1 Københavns Kreditforening	9 Den vest- og sønderjydske Kreditforening	<b>14 Total (1-13) Associations before 1972</b>
2 Fyens Stifts Kreditforening	10 Jydsk Husmandskreditforening	15 Forenede Kreditforeninger
3 Landkreditkassen	11 Landhypotekforeningen for Danmark	16 Jyllands Kreditforening
4 Østifternes Husmandskreditforening	12 Købstadshypotekforeningen	17 Nykredit (incl Capital Centres C, D, E, G, H and I)
5 Byernes Hypotekforening	13 Jydsk Landkreditforening	<b>18 Total (15-17) Associations after 1972</b>
6 Københavns Hypotekforening		19 Nykredit Realkredit In General
7 Østifternes Hypotekforening		<b>20 Total (14, 18, 19) Nykredit Realkredit A/S</b>
8 Sønderjyllands Kreditforening		

## Notes

2012

## 1. Assets, Series Financial Statements

Assets, Annual Report	1,289,219.1
Assets, Series Financial Statements	1,445,443.1
<b>Difference</b>	<b>(156,224.0)</b>

Specified as follows:

Set-off of self-issued ROs, self-issued SDOs, self-issued junior covered bonds and self-issued other securities	(154,159.9)
Set-off of interest receivable from self-issued bonds	(2,064.1)
<b>Total</b>	<b>(156,224.0)</b>

## 2. Equity, Series Financial Statements

According to the Series Financial Statements, equity may be reconciled to the Financial Statements of Nykredit Realkredit A/S as follows:

Equity, Financial Statements	57,556.4
Provisions for repayable reserves in pre-1972 series	87.2
<b>Equity, Series Financial Statements</b>	<b>57,643.6</b>

# OTHER INFORMATION

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## FINANCIAL CALENDAR FOR 2013 – THE COMPANIES OF THE NYKREDIT GROUP

### **7 February**

Annual reports for 2012 and a preliminary announcement of the financial statements of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.

### **12 March**

General Meeting of Nykredit Bank A/S at Nykredit, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.

### **19 March**

General Meeting of Totalkredit A/S, Helgeshøj Allé 53, DK-2630 Tåstrup.

### **20 March**

General Meeting of Nykredit Realkredit A/S at Nykredit, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.

### **17 May**

Q1 interim reports of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.

### **20 August**

H1 interim reports of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.

### **8 November**

Q1-Q3 interim reports of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.



**NYKREDIT'S MANAGEMENT**

The Board of Directors and the Executive Board form the Nykredit Group Management.

**BOARD OF DIRECTORS**

The Board of Directors meets monthly, except in July, and holds a strategy and theme seminar once a year.

The members of Nykredit's Board of Directors are elected for a term of one year. The latest election took place on 21 March 2012. Re-election is not subject to any restrictions.

Below, an account is given of the individual Director's position, age, years of service on the Board and executive positions in other Danish and foreign companies as well as major organisational responsibilities.

All members of the Board of Directors are also Directors of the Parent Company Nykredit Holding A/S.

**Steen E. Christensen**

Attorney

Date of birth: 2 April 1947  
Joined the Board on 1 May 2000

Partner of Plesner Advokatfirma

Chairman of:  
Foreningen Nykredit  
A/S Motortramp  
Aktieselskabet Dampskibsselskabet  
Oriens Fond  
Aktieselskabet Det Dansk-Franske Dampskibsselskabs Understøttelsesfond af 1950\*  
Bornholmstrafikken Holding A/S  
Charlottenlund & Nedergaard Godser A/S\*  
Danske Færger A/S\*  
Det Arnstedtske Familiefond  
Ejendomsselskabet Amaliegade 49 A/S  
Persolit Holding A/S  
Rosendal og Margrethelund Godser A/S

Director of:  
Danish Nitrogen Import A/S  
Ny-Nitrogen A/S  
Persolit Entreprenørfirma A/S  
Skovselskabet Skov-Sam Holding ApS and  
Skovselskabet Skov-Sam II ApS and subsidiaries

Chief Executive Officer of:  
Advokatanpartsselskabet Steen E. Christensen

Legal Secretary of Foreningen Danske  
Godser og Herregårde (Godsejerforeningen)

**Hans Bang-Hansen**

Farmer

Date of birth: 15 August 1955  
Joined the Board on 1 May 2001

Chairman of:  
Håstrupgård ApS

Director of:  
Foreningen Nykredit  
Akademiet (BGI Akademiet)  
Bjerre Gymnastik- & Idrætsefterskole  
Horsens Folkeblads Fond

Municipal posts:  
First Deputy Mayor, Municipality of Horsens  
Chairman of the Technical and Environmental  
Committee, Municipality of Horsens  
Director of Midttrafik

Chairman and Managing Director of Arnen  
Holding ApS  
Chairman and Managing Director of LNT  
Invest ApS  
Chairman and Managing Director of  
Håstrupgård Ejendomme ApS

**Steffen Kragh**

Chief Executive Officer

Date of birth: 6 April 1964  
Joined the Board on 1 April 2006

Managing Director of:  
Egmont Fonden  
Egmont International Holding A/S  
Ejendomsselskabet Gothersgade 55 ApS  
Ejendomsselskabet Vognmagergade 11 ApS

Chairman of:  
Egmont Administration A/S  
Egmont Finansiering A/S\*  
Egmont Holding A/S  
Lindhardt og Ringhof Forlag A/S  
AE-TV Holding A/S\*  
Cappelen Damm Holding AS  
Nordisk Film A/S  
Egmont AS  
Egmont Holding AS  
Egmont Holding Limited\*

Director of:  
Foreningen Nykredit  
Egmont UK Ltd  
Egmont Book Publishing Ltd.

Chief Executive Officer of:  
NKB Invest 103 ApS

**Kristian Bengaard\*\*\***

Senior Consultant

Date of birth: 16 August 1958  
Joined the Board on 1 March 1999

Director of:  
Foreningen Nykredit

Member of the Executive Council of  
Finansforbundet

**Michael Demsitz**  
Managing Director

Date of birth: 1 February 1955  
Joined the Board on 1 April 2004

Managing Director of Boligkontoret  
Danmark

Director of:  
Foreningen Nykredit  
Almen Bolignet  
Boligselskabernes Landsforening

**Merete Eldrup**

Managing Director

Date of birth: 4 August 1963  
Joined the Board on 24 March 2010

Managing Director of TV2/DANMARK A/S

Chairman of:  
TV 2 BIB A/S  
TV 2 DTT A/S  
TV 2 Networks A/S  
TV 2 News A/S  
TV 2 Radio A/S  
TV 2 World A/S\*\*

Deputy Chairman of:  
Gyldendal A/S

Director of:  
Foreningen Nykredit

**Marlene Holm\*\*\***

Political Secretary

Date of birth: 2 December 1964  
 Joined the Board on 21 March 2012  
 Director of:  
 Foreningen Nykredit

**Allan Kristiansen\*\*\***

Chief Relationship Manager

Date of birth: 6 March 1958  
 Joined the Board on 1 May 2000

Director of:  
 Nykredit Bank A/S

**Anders C. Obel**

Chief Executive Officer

Date of birth: 19 October 1960  
 Joined the Board on 25 March 2009

Chief Executive Officer of C.W. Obel A/S

Chairman of:  
 Aktieselskabet Amaliegade 10  
 C. W. Obel Ejendomme A/S  
 C. W. Obel Projekt A/S  
 Ejendomsselskabet Stigsborgvej A/S  
 Obel-LFI Ejendomme A/S  
 SGD-Bera A/S  
 Semco Maritime A/S

Deputy Chairman of:  
 Danfoss-Semco A/S

Director of:  
 Foreningen Nykredit  
 BlackCarbon A/S  
 Dansk selskab for Virksomhedsledelse (VL-Grupperne)  
 Erhvervsinvest Management A/S  
 Fonden Det Obelske Jubilæumskollegium  
 Fritz Hansen A/S  
 Skandinavisk Holding A/S  
 Scandinavian Tobacco Group A/S  
 Skandinavisk Holding II A/S  
 Slowmoney A/S  
 Thomas Harttung A/S  
 Woodmancott Fonden

Chief Executive Officer of:  
 NKB Invest 108 ApS

**Erling Bech Poulsen**

Farmer

Date of birth: 14 June 1955  
 Joined the Board on 25 March 2009

Chairman of:  
 Foreningen Østifterne F.m.b.A.

Director of:  
 Agrovakia A/S  
 Axzon A/S  
 Kølhede Invest A/S  
 Polen Invest A/S  
 Vandborg Karosserifabrik A/S

Managing Director of:  
 Kølhede Holding ApS  
 Kølhede Invest A/S  
 Majbrit Poulsen Holding ApS  
 Malene Poulsen Holding ApS  
 Morten Poulsen Holding ApS

**Lars Peter Skaarup\*\*\***

Personal Adviser

Date of birth: 16 March 1959  
 Joined the Board on 21 March 2012

Director of:  
 Foreningen Nykredit  
 Oliefyrmændene A/S

**Nina Smith**

Professor

Date of birth: 17 October 1955  
 Joined the Board on 1 October 2004

Professor at Institut for Økonomi,  
 Aarhus Universitet

Chairman of:  
 KORA (Det nationale Institut for Kommuners  
 og Regioners Analyse og Forsikring)\*  
 Niras Gruppen A/S\*\*

Deputy Chairman of:  
 Foreningen Nykredit  
 Favrskov Gymnasium

Director of:  
 Niras Fonden\*\*  
 Villum Fonden  
 Århus Festuge

**Jens Erik Udsen**

Managing Director

Date of birth: 1 November 1946  
 Joined the Board on 1 May 1998

Managing Director of Nesdu A/S

Director of:  
 Foreningen Nykredit  
 Jeudan A/S  
 Nesdu A/S  
 SBS byfornyelse s.m.b.a.  
 Fonden "Renholdningsselskabet af 1898"\*

**Leif Vinther\*\*\***

Chairman of Staff Association

Date of birth: 18 April 1959  
 Joined the Board on 1 May 2000

Director of:  
 Foreningen Nykredit

**EXECUTIVE BOARD**

Below, an account is given of the individual Executive Board member's position, age, years of service on the Board and other executive positions, including in other companies as permitted by the Board of Directors pursuant to section 80 of the Danish Financial Business Act.

**Peter Engberg Jensen**

Group Chief Executive

Date of birth: 6 April 1953  
Joined the Group Executive Board on 1 March 1997

Managing Director of:  
Nykredit Holding A/S  
Foreningen Nykredit

Chairman of:  
Nykredit Administration V A/S  
Fonden Business LF\*  
Realkreditrådet

President of the European Mortgage Federation\*\*

**Kim Duus**

Group Managing Director

Date of birth: 8 December 1956  
Joined the Group Executive Board on 15 May 2009

Managing Director of Nykredit Holding A/S

Director of:  
Nykredit Bank A/S  
Totalkredit A/S  
Nykredit Portefølje Administration A/S

**Søren Holm**

Group Managing Director

Date of birth: 15 November 1956  
Joined the Group Executive Board on 1 March 2006

Managing Director of Nykredit Holding A/S

Chairman of:  
Totalkredit A/S

Director of:  
Nykredit Administration V A/S  
Nykredit Bank A/S  
Nykredit Mægler A/S  
JN Data A/S

Ejendomsselskabet Kalvebod A/S  
Realkreditrådet

**Karsten Knudsen**

Group Managing Director

Date of birth: 21 June 1953  
Joined the Group Executive Board on 1 June 2005

Managing Director of Nykredit Holding A/S

Chairman of:  
Nykredit Bank A/S  
Ejendomsselskabet Kalvebod A/S

Director of:  
Dampskibsselskabet "Norden" A/S

**Per Ladegaard**

Group Managing Director

Date of birth: 17 March 1953  
Joined the Group Executive Board on 1 May 1998

Managing Director of Nykredit Holding A/S

Chairman of:  
Nykredit Mægler A/S  
e-nettet Holding A/S  
e-nettet A/S  
JN Data A/S

Director of:  
Nykredit Bank A/S  
Bankernes EDB Central  
Gigtforeningen\*  
IT-Universitetet i København (ITU)

Owner of Bræmkærgård

**Bente Overgaard**

Group Managing Director

Date of birth: 21 June 1964  
Joined the Group Executive Board on 1 March 2008

Managing Director of Nykredit Holding A/S

Chairman of:  
Nykredits Afviklingspensionskasse  
Nykredit Ejendomme A/S

Deputy Chairman of:  
CfL Center for Ledelse\*\*

Director of:  
Nykredit Bank A/S  
Nykredit Mægler A/S  
Finansektorens Arbejdsgiverforening (FA)  
Finansektorens Uddannelsescenter  
Københavns Energi A/S\*

Member of the Committee of  
Representatives of:  
Ejendomsforeningen Danmark

\* Joined in 2012

\*\* Resigned in 2012

\*\*\* Staff-elected member

*This document is an English translation of the original Danish text. In the event of discrepancies between the original Danish text and the English translation, the Danish text shall prevail.*