

Nykredit
Group



Annual Report 2020

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FOREWORD

Many will look back at 2020 as the year the world changed due to a global pandemic of a scale and intensity that took most people by surprise. 2020 was indeed a challenging year, and like all other Danish businesses Nykredit had to find alternative ways of working.

Despite the significantly changed conditions brought about by the pandemic, Nykredit has steered well through the crisis so far. The financial results presented today exceed our original guidance from February 2020, before the corona crisis outbreak in March. Thus, our annual results are highly satisfactory.

Our highly satisfactory results indicate that Danish homeowners and a large part of the Danish business sector have until now weathered the crisis better than we could have hoped for. They are also a testament to the high flexibility and adaptability demonstrated by Nykredit's capable staff during the year. For this we want to extend our sincere thanks.

Winning the Double 2.0 sets the course

Even through hard and unpredictable times, Nykredit continues to navigate by our strategy, Winning the Double, which was updated in 2019. We have three overarching strategic objectives:

- We want to expand Nykredit's banking position by gaining more full-service customers
- We want to secure Totalkredit's future position as market leader in home financing in Denmark
- We want to be the customer-owned, responsible financial provider for people and businesses all over Denmark.

We are pleased to report that we delivered growth and progress on all three counts in 2020. We welcomed many new customers, and both Nykredit Bank and Totalkredit recorded high lending growth. Assets under management also increased significantly, partly reflecting a successful integration of Sparinvest, of which Nykredit acquired 75% in 2019. Growth in lending and assets under management confirms the progress made towards the first two objectives and shows the strength of Nykredit's underlying business – even in challenging years.

In 2020 Nykredit also made great strides towards the third objective. Being a mutual organisation, we need to look beyond ourselves. Nykredit is both committed and uniquely positioned to help solve the challenges faced by society and to make a difference. In 2020 Nykredit had a strong focus on helping customers through the corona crisis, but we also maintained focus on supporting growth and development across Denmark as well as the green transition, and we also continued our sharp focus on compliance.

We help our customers through the crisis

During the first national lockdown in March and April, many customers were in need of loans and liquidity to weather the crisis. To this end, we launched a number of special corona initiatives to help these customers with responsible advice and support. During those months, Nykredit Bank saw significant growth in lending. We are proud to have had the capacity to expand lending in such uncertain times. Access to the special initiatives was reopened in December when new lockdown measures were introduced. Being able to always keep our loan books open is essential to us – also when the Danish economy is struggling.

If we do not provide funding and liquidity, the crisis will grow even bigger.

We provide loans throughout Denmark

Not only Nykredit Bank increased lending despite the corona crisis. Totalkredit recorded lending growth in all 98 municipalities across the country in 2020. This underlines the very strong collaboration we have with our Totalkredit partners, which provide sound advice to customers all across Denmark. It also underlines another central aspect of our corporate responsibility. We should not only be ready to provide loans *at all times*. We should be ready to provide loans all over Denmark. This way, we can help ensure continued growth in all regions. We are proud to have maintained and expanded our nation-wide lending activities in a difficult year.

We facilitate green choices

The green transition is a defining challenge of our time, and as a financial mutual, we naturally strive to make a difference. We have already significantly reduced our own carbon footprint. Thus, we can now make the greatest difference together with our customers.

Backed by a three-digit million amount from Nykredit's majority shareholder, Forenet Kredit, we want to make it easier and more affordable for our customers to make green choices. This autumn we launched several products to this effect across the Group. Nykredit Bank now offers green home loans (Grønt BoligLån) to finance energy improvements at 0% interest and no up-front fees. We offer green car loans (Grønt Billån) to finance electric cars at 1% interest and no up-front fees. Totalkredit offers a cash contribution of DKK 10,000 to customers who replace their oil-fired boilers with energy-saving heat pumps.

We keep on giving money back to our customers

At Nykredit, we share our success with our customers. In 2020 we paid back more than DKK 1.5 billion to homeowners, businesses and agricultural customers in the form of eg mortgage discounts (KundeKroner and ErhvervsKroner), thanks to our unique customer-owned structure. Based on our highly satisfactory financial performance in 2020 and our strong capital position, it is recommended to the Annual General Meeting that Nykredit distribute ordinary dividend of DKK 2,200 million. Forenet Kredit's share of the dividend will be DKK 1,736 million.

Yours sincerely



Merete Eldrup
Chairman



Michael Rasmussen
Group Chief Executive

NYKREDIT'S BUSINESS MODEL

Key resources

CAPITAL:
CET1 capital ratio: 20.2%

PEOPLE:
3,799

TOTALKREDIT PARTNERS:
50 local and regional banks

Our lending

Private homes

Mortgage lending: DKK 851.3 billion
Bank lending: DKK 10.1 billion

Agriculture

Mortgage lending: DKK 87.9 billion
Bank lending: DKK 2.6 billion



Investments

Assets under administration: DKK 948.7 billion
Assets under management: DKK 371.7 billion

Businesses and real estate

Mortgage lending: DKK 283.2 billion
Bank lending: DKK 58.4 billion
Mortgage lending to public housing: DKK 63.8 billion
Mortgage lending to housing cooperatives: DKK 35.3 billion

Value creation

DEVELOPMENT AND GROWTH THROUGHOUT DENMARK

We provide access to affordable and secure loans to homeowners and businesses all over Denmark.

Total mortgage lending:
DKK 1,321.5 billion
Total bank lending:
DKK 71.1 billion

CUSTOMERS

We help our customers stay on top of their finances and provide them with opportunities and security.

DIVIDEND TO OUR OWNERS

We pay dividend to Forenet Kredit, the consortium of Danish pension companies and Nykredit's other owners.

WE SHARE OUR SUCCESS

Forenet Kredit can make contributions to the Nykredit Group, which Nykredit and Totalkredit can give back to their customers.

KundeKroner discounts from Totalkredit in 2020: DKK 1,166 million
ErhvervsKroner discounts from Nykredit in 2020: DKK 278 million
Contribution to MineMål benefits in 2020: DKK 229 million

FINANCIAL STABILITY

Nykredit is a systemically important financial institution and as such plays a major role in the Danish economy and the housing market.

FINANCIAL HIGHLIGHTS

DKK million

Nykredit Group	2020	2019	2018	2017	2016
BUSINESS PROFIT AND PROFIT FOR THE YEAR					
Net interest income	9,780	9,344	9,226	9,006	8,747
Net fee income	2,367	2,739	1,951	2,470	2,251
Wealth management income	1,950	1,610	1,361	1,402	1,184
Net interest from capitalisation	(421)	(352)	(356)	(360)	(447)
Net income relating to customer benefits programmes ¹	(203)	(358)	(248)	-	-
Trading, investment portfolio and other income	1,097	1,673	89	1,492	1,676
Income	14,569	14,656	12,023	14,010	13,411
Costs	5,773	5,347	4,890	5,067	5,285
Business profit before impairment charges	8,796	9,308	7,133	8,944	8,126
Impairment charges for loans and advances	2,272	994	380	379	680
Business profit	6,524	8,314	6,753	8,564	7,446
Legacy derivatives	258	(112)	280	1,517	(763)
Badwill, impairment of goodwill and amortisation of customer relationships	(2)	564	-	-	-
Profit before tax	6,780	8,766	7,033	10,081	6,683
Tax	1,116	1,340	1,242	2,025	1,326
Profit for the year	5,664	7,427	5,792	8,056	5,357
Other comprehensive income, value adjustment of strategic equities	0	-	0	(6)	331
Other comprehensive income, remaining items	(26)	22	(7)	1	12
Comprehensive income for the year	5,638	7,449	5,785	8,051	5,700
Interest on Additional Tier 1 capital charged against equity	233	233	233	233	233
Minority interests	21	(1)	-	-	-
SUMMARY BALANCE SHEET					
Assets	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Receivables from credit institutions and central banks	59,361	59,623	29,691	48,031	34,829
Mortgage loans at fair value	1,350,630	1,287,370	1,193,667	1,163,879	1,124,693
Bank loans excluding reverse repurchase lending	71,140	65,466	60,566	55,744	55,003
Bonds and equities	113,776	115,690	99,444	102,125	116,555
Remaining assets	70,852	82,171	64,608	56,967	69,530
Total assets	1,665,759	1,610,319	1,447,976	1,426,746	1,400,611
Liabilities and equity					
Payables to credit institutions and central banks	14,611	13,914	15,692	13,319	21,681
Deposits excluding repo deposits	88,113	85,374	76,918	75,914	65,414
Bonds in issue at fair value	1,366,709	1,336,414	1,196,229	1,179,093	1,152,383
Subordinated debt	10,893	11,004	11,011	10,942	11,078
Remaining liabilities	95,678	79,246	68,243	68,707	79,099
Equity	89,754	84,366	79,883	78,770	70,955
Total liabilities and equity	1,665,759	1,610,319	1,447,976	1,426,746	1,400,611
FINANCIAL RATIOS					
Profit for the year as % of average business capital (ROAC) ²	8.6	12.4	10.2	14.4	10.1
Profit for the year as % of average equity ³	6.6	9.3	7.5	10.9	8.5
Costs as % of income	39.6	36.5	40.7	36.2	39.4
Total provisions for loan impairment and guarantees	9,906	8,033	8,184	7,915	8,341
Impairment charges for the year, %	0.15	0.07	0.03	0.03	0.06
Total capital ratio, %	22.9	22.4	23.5	23.9	21.9
Common Equity Tier 1 capital ratio, %	20.2	19.5	21.0	20.6	18.8
Internal capital adequacy requirement, %	11.0	10.9	10.0	10.2	10.2
Average number of staff, full-time equivalent	3,799	3,515	3,382	3,505	3,648

¹ "Net income relating to customer benefits programmes" is described in detail in "Alternative performance measures".

² "Profit for the year as % of average business capital (ROAC)" shows profit for the period relative to business capital. Profit corresponds to profit for accounting purposes less interest expenses for Additional Tier 1 (AT1) capital plus value adjustment of strategic equities recognised as "Other comprehensive income".

³ For the purpose of return on equity, the AT1 capital raised in 2015 is treated as a financial obligation for accounting purposes, and the dividends for the period thereon for accounting purposes are included as interest expenses on subordinated debt in profit for the year.

NYKREDIT'S STRATEGY

WINNING THE DOUBLE 2.0

Winning the Double has been the Group's strategy since 2014 and was updated and refocused in 2019 under the heading of "Winning the Double 2.0". The strategy builds on the ambition of consolidating the Group's strategic foundation by gaining more full-service customers among homeowners, private banking, business and agricultural customers and by strengthening the Totalkredit alliance. We also have a clear ambition of being the customer-owned, responsible financial provider for people and businesses all over Denmark.

We have three overarching strategic objectives:

1. to expand our banking market position by gaining more full-service customers
2. to secure our future position as market leader in home financing
3. to be the customer-owned, responsible financial provider for people and businesses all over Denmark.

To achieve all three objectives, we are increasingly expanding our joint development activities with our Totalkredit partners. We are committed to strengthening our close alliance with the Totalkredit partner banks, which make up a unique and strong distribution network with extensive local knowledge all across Denmark. The currently increasing pressure on the costs and general business model of the financial sector creates an even stronger argument for leveraging the scaling benefits of joining forces in areas such as development, infrastructure and process optimisation to the advantage of customers as well as banks. Nykredit's Shared Valuation unit, the Group's acquisition of Sparinvest in 2019 and most recently the insurance partnership with Codan should be viewed in the light of a desire to maintain close collaboration and joint development.

Forenet Kredit, Nykredit's majority owner, wants the dividend it receives from the Nykredit Group to benefit our customers. In 2020 this resulted in, for instance, KundeKroner discounts to all customers with a Totalkredit mortgage loan and ErhvervsKroner discounts to all business customers with a Nykredit mortgage loan. In actual numbers, Nykredit gave DKK 1.5 billion back to customers of Nykredit and Totalkredit in 2020. In the autumn of 2020 Forenet Kredit moreover decided to make a contribution of DKK 200 million for green initiatives in the Nykredit Group. As a result, Nykredit has once again enhanced our value propositions to personal as well as business customers by introducing a number of new, green products, which make green choices even more attractive to customers. In addition to the new green products, there has been a Group-wide focus on the green agenda in the development of Nykredit's value propositions to our customers. Yet again, Nykredit's mutual ownership structure proves its strength and worth – to the Nykredit Group and to our customers.

Strategic development in 2020

Over the past year, our business and strategy have been dominated by the outbreak of covid-19, which struck the world economy suddenly and unexpectedly in early 2020. The ensuing health and economic crisis entailed an abrupt shift in focus, and like everyone else, the Nykredit Group had to refocus and address the sudden changes brought about then and now by covid-19. Against this backdrop, we revisited and tested Winning the Double 2.0 and its strategic basis to ensure that Nykredit remained on the right strategic path in light of the changes anticipated as a result of covid-19. The strategy proved resilient and still right for Nykredit – also in times marked by covid-19.

Despite a new macroeconomic outlook and general uncertainty resulting from covid-19, the Nykredit Group's underlying business developed positively and satisfactorily in 2020. The Group held a strong position at year-end, with the Group's image advancing in a sector whose overall image is generally challenged and with increasing customer and staff satisfaction, which has led to customer growth and growth in mortgage as well as bank lending since end-2019. On balance, the Nykredit Group holds a strong platform for additional growth in 2021.

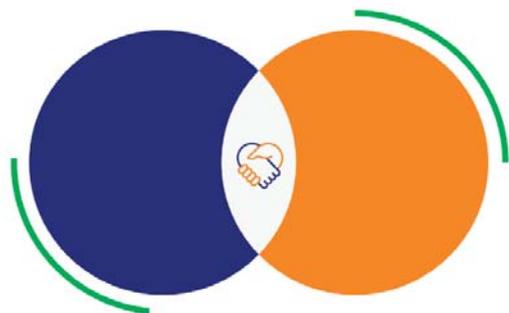
A distinctive element of Winning the Double 2.0 was the new non-life insurance partnership agreement concluded by Nykredit in 2020. From May 2021 Nykredit will be able to offer our banking customers leading insurance products under the new partnership with Codan, the insurer which owns Privatsikring. This is a clear example of how we want to expand and strengthen collaboration with our Totalkredit partners. Many of our Totalkredit partners already have good business relationships with Privatsikring today. The new agreement will benefit our customers, our partner banks as well as Codan and Nykredit and illustrates the strength of Nykredit and the Totalkredit partners joining forces.

Focus on full-service customers

The Group's ambition to expand Nykredit's position in banking resulted in customer growth and higher satisfaction and loyalty among our personal customers in 2020.

As part of our effort to expand our banking position, we implemented and planned a number of strategic initiatives over the year. For example, we have improved the servicing of and focus on the Group's business owner customers, agricultural customers as well as corporate and institutional clients.

The Group's focus on compliance and conduct management became even more integrated into our business development in 2020. Over the past year a digitised onboarding process has been developed, considerably easing the onboarding of new personal customers, and at the same time ensuring compliance with customer documentation requirements etc. Nykredit also improved the onboarding of business customers, where a new partnership with the company Dinero, a supplier of digital solutions to SMEs, has paved the way for developing a strong, easily accessible onboarding platform that will make it easy for SMEs to open a business banking account.



Business development has furthermore been dominated by the development of digital solutions for the Group's personal and business customers. Improvements have been made to Nykredit's advisory platform, aimed at enhancing the customer experience by providing a more modern and intuitive system to support and supplement our personal advisory services. We have launched new and improved online and mobile banking services to our personal and business customers and have partnered with the company Subaio to offer subscription management to our personal customers, who now have a better overview of their current subscriptions and the option to cancel subscriptions they no longer want. Over the past year, we have also further developed Young Money, a digital saving-up and pocket money universe for children aged 7-17.

In 2020 the integration of Sparinvest and LR Realkredit was a major focus area. The acquisition of Sparinvest in August 2019 consolidated Nykredit's already strong position in the Danish market for wealth and asset management services. Over the past year the integration of Sparinvest has been a key focus area, and a number of important milestones in this process have been reached. The acquisition of Sparinvest underlines the Group's strategic ambitions in the wealth management area and is yet another strategic initiative to strengthen and expand the alliance with the Totalkredit partner banks. In 2020 Wealth Management's assets under management fluctuated due to the market reactions to covid-19. Nevertheless, once again, our expertise in this area was recognised with national and international awards, and Danes named Nykredit the best private banking provider in Denmark for the fourth consecutive year in a survey conducted by Prospera, a market research company. At end-2020 Nykredit moreover concluded an investment management agreement with Alm. Brand on investment of the greater part of the Alm. Brand Group's capital. The agreement reconfirms Nykredit's strong position in the Danish asset management market.

Expanding the Totalkredit alliance

In 2020 we further expanded and consolidated our alliance with our Totalkredit partner banks, as also underlined by our new non-life insurance partnership. Partner satisfaction continued to rise from an already high level in 2019 and reached an all-time high. At the same time Totalkredit continued to record significant lending growth and a growing market position, accounting for 46.6% of total mortgage lending to personal customers in Denmark at end-2020. Over the past year, also the network of banks distributing Totalkredit's business mortgages has been expanded, and growth in lending has been satisfactory.

In 2019 the Danish Consumer Council ranked Totalkredit's mortgage loans the most attractive and gave them their recommendation. In 2020 the Council further recommended Totalkredit's supplementary loans and holiday home loans, which shows the strength of being a mutual company, as it makes for attractive and competitive products.

On the product side, we focused especially on the development of a new fixed-rate loan, FastRente+, with a 30-year interest-only option. The product was announced in November 2020 and will be offered to personal customers and housing cooperatives from the beginning of 2021.

Over the past year, it has been a key priority to further digitise the Totalkredit alliance, building on our joint new IT platform for mortgage lending. This is a joint IT development program between Totalkredit, the partner banks and a number of Danish IT providers with the aim of driving process efficiencies through stronger digital solutions. In 2020 the partner banks started using the new platform for loan remortgaging, and it got a very positive response from the banks.

Totalkredit also took over the digital company formerly known as Bolighed in June 2020, which continues under a new name (Mit hjem). By further developing some of the existing digital features of Bolighed and expanding the digital housing universe, we want to deliver customised digital tools to customers to strengthen and support the ongoing dialogue between Totalkredit's partner banks and customers about their home finances.



 | The Danish Consumer Council recommends loans by Totalkredit

Corporate responsibility

Based on our strategic objectives as defined in Winning the Double 2.0, corporate responsibility and sustainability have in 2020 been embedded deeper into the organisation, integrated in the Group's core business strategies and translated into concrete initiatives and products to the benefit of society and our customers.

The strategy depicted in the chart overleaf was maintained in 2020, but two areas stood out: Lending throughout the country during the coronavirus-induced economic crisis and the climate challenge.

The covid-19 crisis has dealt hard blows to the Danish economy, triggering severe uncertainty and economic hardship for many businesses and large groups of society. We have made a pledge to society to be active and support development and growth throughout Denmark – at all times. We immediately acted on this pledge when Denmark was locked down, launching a host of initiatives designed to support the economy, continue lending activities throughout Denmark and provide our customers with the advice and financial support they needed to overcome the crisis.

For example, Nykredit launched a number of initiatives to help Danish families and businesses in financial distress due to covid-19. As a mutual company, it is important to Nykredit that we make every effort to help our customers with their financial challenges during the covid-19 crisis. Therefore, we offered our customers overdraft facilities at 0% interest and no up-front fees and granted up to six months' payment holiday on a variety of business as well as personal loans. In response to the covid-19 crisis, Nykredit has granted loan commitments totalling DKK 5.0 billion to our customers, 95% of which consists of loan and credit limit increases. With respect to our suppliers, we expedited payments of more than DKK 50 million to help them solve their liquidity needs. At the same time, we focused on supporting the recovery of the Danish economy. To that end, in June, we offered our customers no-fee overdrafts available immediately of an amount equal to

their frozen holiday pay. In September, we launched a suite of green products in support of the Danish government's green recovery packages to make it more affordable for our customers to make energy improvements and buy electric and plugin hybrid cars. Shortly before the lockdown in December 2020, the Nykredit Group relaunched its corona support initiatives from spring, including holiday pay credits.

In light of the gravity of the situation, we wanted to make absolutely sure that the correct decisions were reached in all covid-19-related cases. We therefore introduced the principle that all cases must undergo a four-eye review process. A rejection of a covid-19-related request is therefore subject to review by an adviser and their team lead. Nykredit also established a complaints board to which customers may address complaints if they remain dissatisfied with the decision.

At the same time, we increased lending despite the corona crisis. Being Denmark's largest lender and mortgage provider, an essential part of our corporate responsibility is to ensure access to affordable, secure financing in all parts of Denmark. We are therefore proud that Totalkredit recorded lending growth in all 98 municipalities across the country in 2020.

The climate continues to be a fundamental, global societal challenge, and in 2020 Nykredit's efforts were devoted to providing solutions in areas where we can make the biggest difference. Being a financial mutual and Denmark's largest lender with extensive investment business, we can and must contribute to achieving society's ambitious climate objectives. We must reduce emissions from our portfolio to help meet the Danish government's 2030 target as well as the Paris Agreement's long-term goal of keeping temperature increases below 2°C.

Nykredit's most significant contribution to the green transition is our sustainability partnerships with customers where we provide financing and advice that allow more people to contribute to a greener Denmark through their homes, cars, businesses and investments.

For personal customers



Credit facilities: 0% interest and no up-front fees



Overdrafts: No commission



Payment holidays: On bank, housing and consumer loans for up to six months



Holiday pay credit facilities: Temporary interest- and fee-free

For businesses



Payroll finance: Bridge financing of wage compensation (75%) and loans to cover the remaining 25%



Credit facilities: No up-front fees



Payment holidays: On bank loans and leases



Bridge financing of Danish VAT: Interest- and fee-free bridge loan of up to DKK 5 million

Specifically, the Nykredit Group has decided that the advisory services, products and solutions we offer must make it easier and more affordable for our customers to make green choices. And thanks to a green contribution of DKK 200 million from our owners, Forenet Kredit, earmarked for green initiatives in Nykredit and Totalkredit, we had a unique opportunity in 2020 to support our customers in terms of the green transition.

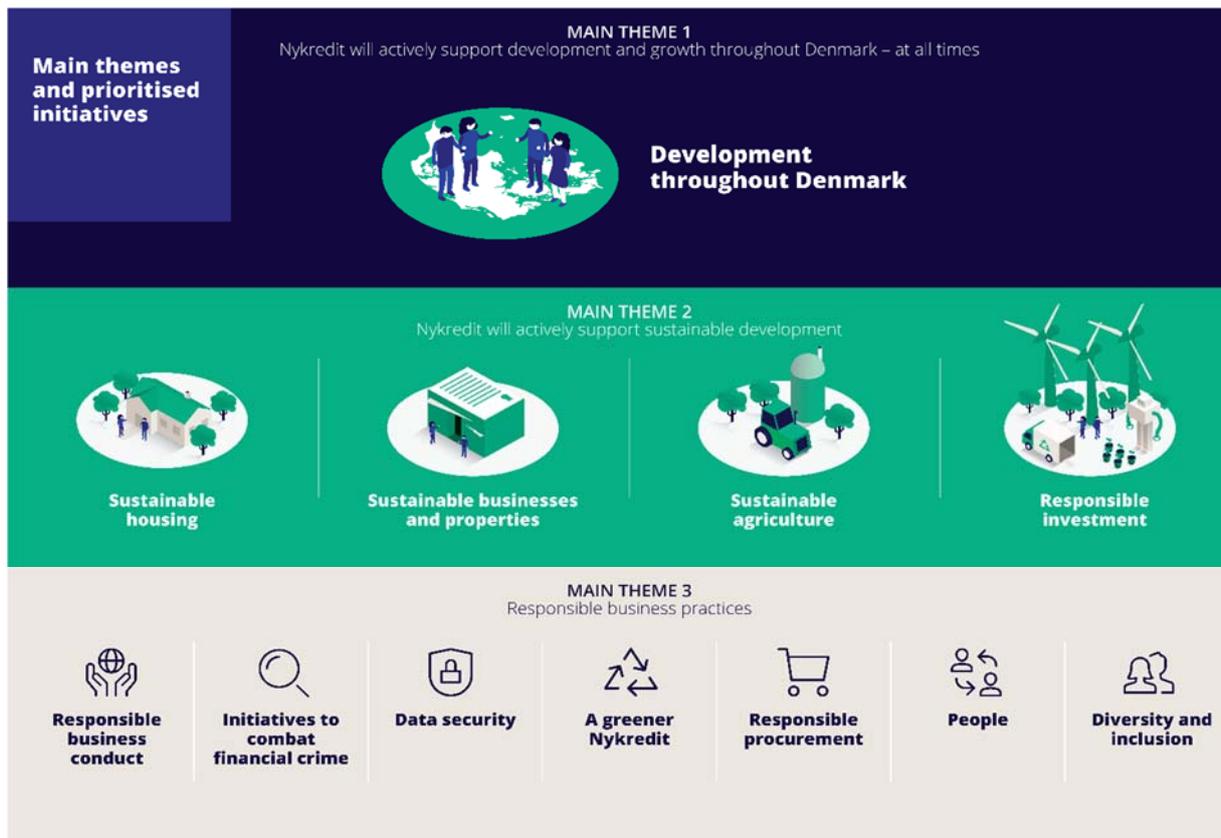
The first of such initiatives have been targeted at homeowners and making it easier and more affordable for them to energy renovate their homes, thereby contributing to the green transition of the housing stock, which, according to the Danish Council on Climate Change, is key if Denmark is to reach its climate goals. Also, an initiative has been launched to lower the financing costs of electric cars and plugin hybrid cars. Totalkredit is offering 3,000 customers to pay DKK 10,000 of their cost of replacing oil-fired boilers with heat pumps. Nykredit is offering its customers financing of energy improvements through green home loans free of up-front fees and at 0% or 1% interest depending on the term of the loan.

The Nykredit Group collaborates closely with the agricultural sector on its green transition, and in 2020, our green machinery finance proposition gave agricultural customers the opportunity to integrate green farming technologies at 0% interest and no up-front fees. Also, together with Forenet Kredit and Østifterne, Nykredit launched a forest foundation, offering more farmers the opportunity of planting forest to absorb CO2 from the atmosphere.

Last but not least, Nykredit is offering the business sector financing of climate-friendly newbuilds as well as green solutions and other initiatives aimed at reducing greenhouse gas emissions. We use the opportunities afforded by the Danish mortgage lending system to finance more green assets, including solar panel parks, and we have expanded our Green Bond Framework and can now fund bank loans as well as mortgage loans for energy renovation of buildings, renewable energy and electricity networks etc using green bonds. Finally, we offer businesses advice on how to take a more systematic approach to sustainability with a view to increasing their positive impact, while at the same time achieving improved ESG ratings so their efforts will be recognised by the market.

On the investment front, the Danish investment industry, led by Nykredit, in 2020 set a goal to reduce the carbon footprint of Danes' private investments by 75% relative to the current carbon footprint of the MSCI World Index by 2030. This goal determines the course of our efforts to strengthen Nykredit's stewardship with respect to the climate challenge and offer Danes investment solutions that support their increasing demand for green investments.

Climate change also exposes Nykredit's business activities and our customers to new risks. These risks are integrated into our risk management, credit assessments and investment processes in different ways. In 2020 we addressed climate-related risks in more detail in our valuation and risk management policies and initiated the task of analysing and determining ESG risks on our lending to various industries and sectors. According to a new requirement in our credit policy, business customers will now also be subject to an assessment of ESG



factors relevant to their business. This requirement applies to all industries and aims to ensure that Nykredit considers all sustainability-related opportunities and risks as well as strengths and weaknesses of the individual customer.

Based on Finance Denmark's manual on carbon emissions, Nykredit determined the carbon footprint of its mortgage lending and investments for the first time in 2020. This provides transparency about the climate impact of the activities Nykredit funds and invests in and can be used to monitor our carbon footprint over time and ensure that our efforts are targeted at the areas with the greatest environmental impact.

In terms of responsible business practices, one of Nykredit's key tasks is to ensure that advice, products and services are responsible in a societal context and in the context of the individual customer's financial position. In 2020 we intensified our commitment to integrating responsible business practices throughout our organisation and promoting a culture where we openly air, discuss and act on dilemmas; in other words our conduct management commitment. We also strengthened our risk management practices for continuously identifying, assessing and acting on the Group's conduct risks. We launched a broad range of initiatives aimed at heightening all staff members' awareness of responsible business conduct and training members of management and staff to identify, discuss and respond to irresponsible business conduct.

Another key element of our responsibility is to prevent and counter misuse of the Nykredit Group for financial crime. In 2019 we increased staffing, strengthened the organisation, improved customer due diligence procedures and optimised transaction monitoring systems. As part of our process of reviewing our customer base to ensure alignment with our business model and risk appetite, we continuously terminate relationships with customers who refuse to comply with our customer due diligence procedures or fall outside the Group's defined risk appetite.

We are constantly seeking to create a strong and coherent data protection framework throughout the Group, safeguarding personal data and maintaining a high IT security level. We have strengthened IT security, for example by installing advanced security software, launching awareness campaigns and optimising the processes for handling security incidents. We are aware that data protection, IT security and efforts to combat financial crime depend largely on the staff. In 2020, 98.2% of Nykredit's staff completed and passed e-learning courses and tests on anti-money laundering, anti-terrorism and anti-corruption, and 98.1% and 99.5% completed and passed certification and e-learning courses on data protection and IT security. Numbers are lower than 100% because of leave, illness, change of jobs etc.

We are continually working to improve our documentation in relation to important ESG issues. This information is also useful for ESG ratings where Nykredit's ESG performance is assessed by external rating agencies. Our investors use ESG ratings to make investment decisions.

In November 2020 MSCI, one of the leading ESG rating agencies, raised Nykredit's ESG rating to "A". Similarly, in December 2020, CDP (formerly Carbon Disclosure Project), which assesses the environmental impact of businesses, upgraded Nykredit's rating by one notch, from B to A-.

For additional information on Nykredit's corporate responsibility performance, please refer to our Corporate Responsibility Report 2020 at nykredit.com/samfundsansvar. The report includes our:

1. Communication on Progress to the UN Global Compact, which Nykredit signed in 2008.
2. Report on the UN Principles for Responsible Banking launched and signed by us in 2019.
3. Report on corporate responsibility, cf section 135b of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.
4. Report on the gender composition of management, cf section 135a of the Danish Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

Information on corporate governance is available at nykredit.com/corporategovernance.

FINANCIAL REVIEW

DKK million

Nykredit Group	2020	2019	Q4/ 2020	Q3/ 2020	Q2/ 2020	Q1/ 2020	Q4/ 2019
BUSINESS PROFIT AND PROFIT FOR THE PERIOD							
Net interest income	9,780	9,344	2,500	2,448	2,438	2,394	2,415
Net fee income	2,367	2,739	613	618	594	542	731
Wealth management income	1,950	1,610	504	459	485	502	494
Net interest from capitalisation	(421)	(352)	(114)	(109)	(93)	(105)	(90)
Net income relating to customer benefits programmes ¹	(203)	(358)	(49)	(57)	(52)	(45)	(236)
Trading, investment portfolio and other income	1,097	1,673	866	420	1,205	(1,394)	509
Income	14,569	14,656	4,319	3,779	4,576	1,894	3,824
Costs	5,773	5,347	1,479	1,454	1,421	1,420	1,537
Business profit before impairment charges	8,796	9,308	2,841	2,325	3,156	474	2,287
Impairment charges for loans and advances	2,272	994	286	230	443	1,312	329
Business profit (loss)	6,524	8,314	2,554	2,095	2,713	(838)	1,958
Legacy derivatives	258	(112)	206	154	318	(421)	485
Badwill, impairment of goodwill and amortisation of customer relationships	(2)	564	0	0	(2)	0	564
Profit (loss) before tax	6,780	8,766	2,760	2,250	3,029	(1,259)	3,007
Tax	1,116	1,340	474	437	581	(377)	426
Profit (loss) for the period	5,664	7,427	2,286	1,812	2,448	(882)	2,581
Other comprehensive income, remaining items	(26)	22	1	8	(20)	(15)	23
Comprehensive income (loss) for the period	5,638	7,449	2,286	1,820	2,428	(897)	2,604
Interest on Additional Tier 1 capital charged against equity	233	233	59	57	59	58	59
Minority interests	21	(1)	(1)	8	7	7	(3)

¹ "Net income relating to customer benefits programmes" is described in detail in "Alternative performance measures".

PERFORMANCE HIGHLIGHTS IN 2020

Nykredit delivered a highly satisfactory profit before tax for 2020 of DKK 6,780 million (2019: DKK 8,766 million). Business profit was DKK 6,524 million (2019: DKK 8,314 million). Results were positively impacted by the underlying core business, which was only slightly adversely affected by the covid-19 pandemic. Nykredit thus saw growth in customers, a high activity level and lending growth in 2020. In contrast, the Group's results were negatively affected by increased loan impairment charges prompted by covid-19.

The guidance for business profit and profit for 2020 has been adjusted four times over the year. We last raised our guidance for business profit and profit before tax for 2020 on 20 January 2021 to about DKK 6.5 billion and about DKK 6.8 billion, which replaces the previous guidance of a business profit of DKK 6.1-6.3 billion and a profit before tax for 2020 of DKK 6.2-6.4 billion. We have delivered on our most recent guidance as well as our original guidance, which must be considered highly satisfactory in a year where the world was struck by the covid-19 pandemic.

2020 was a satisfactory year for Nykredit, with growth in customers and business volumes throughout the Group. Bank lending grew by DKK 5.7 billion to DKK 71.1 billion at end-2020 (end-2019: DKK 65.5 billion), equal to an increase of 9%, and the alliance between Totalkredit and its partner banks resulted in increased mortgage lending totalling nominally DKK 1,321 billion at year-end (end-2019: DKK 1,263 billion), corresponding to a 5% rise. About 870,000 homeowners now have Totalkredit loans.

Income

Total income was DKK 14,569 million in 2020 (2019: DKK 14,656 million).

Net interest income went up by a satisfactory DKK 436 million to DKK 9,780 million (2019: DKK 9,344 million) driven by growth in bank and mortgage lending. Conversely, interest margins were under pressure, as more and more customers opt for fixed-rate repayment loans. In addition, negative deposit rates for personal customers also affected net interest income positively.

Net fee income decreased to DKK 2,367 million in 2020 (2019: DKK 2,739 million), primarily owing to the exceptionally high remortgaging activity last year.

Wealth management income rose to DKK 1,950 million in 2020 (2019: DKK 1,610 million). The rise can mainly be ascribed to Sparinvest, which was included for the full year 2020 as opposed to only the last four months of 2019.

Net interest from capitalisation, which includes interest on subordinated debt, was a negative DKK 421 million (2019: a negative DKK 352 million).



Business profit 2020

DKK 6,524 million

Business profit

Profit 2020

DKK 6,780 million

Profit before tax for the year

Income 2020

DKK 14,569 million

Income



ROAC

8.6%

Profit for the year as %
of average business capital

Return on equity

6.6%

Profit for the year as %
of average equity

Cost:income ratio

39.6%

Costs as % of income

Net income relating to the customer benefits programmes KundeKroner, ErhvervsKroner and MineMål was a negative DKK 203 million in 2020 (2019: a negative DKK 358 million). The amount includes contributions received from Forenet Kredit.

Trading, investment portfolio and other income, including value adjustment of swaps etc, dropped to DKK 1,097 million (2019: DKK 1,673 million). This was strongly impacted by covid-19, and the decline was mainly attributable to large investment portfolio losses in Q1, part of which, however, were regained in subsequent quarters. At the same time, the investment portfolio developed very positively in 2019 with considerable gains on the portfolio of, for example, Danish bank equities.

Costs

Costs totalled DKK 5,773 million in 2020 (2019: DKK 5,347 million). The Group still maintains a strong focus on building organisational efficiency, while investing significant resources in compliance. In addition, the increase was related to new staff from Sparinvest, LR Realkredit and Shared Valuation etc in 2020 relative to 2019.

The average headcount was 3,799 (2019: 3,515).

Impairment charges for loans and advances

Impairment charges for loans and advances totalled DKK 2,272 million in 2020 (2019: DKK 994 million). The favourable economic trends in early Q1, before the covid-19 outbreak, are still reflected in low write-offs and low individual impairment provisions for homeowners and businesses alike. Individual and model-based impairment provisions totalled DKK 286 million in Q4.

	DKK million			
Nykredit Group	Q4/ 2020	Q3/ 2020	Q2/ 2020	Q1/ 2020
Impairment charges for loans and advances				
Individual impairment provisions (stage 3)	170	(17)	(40)	152
Model-based impairment provisions (stages 1, 2 and 3)	116	247	483	1,160
- of the above attributable to covid-19	277	233	374	1,175
Impairment charges for loans and advances	286	230	443	1,312

Nykredit's macroeconomic forecasts in connection with loan impairments related to covid-19 have been incorporated into the impairment models and in the model-based impairment provisions.

Impairment charges for loans and advances were significantly impacted by the lingering uncertainty about the duration and severity of the covid-19 pandemic. Q1 saw the largest negative impact, but covid-19 also left its mark on the following quarters. In 2020 DKK 2,059 million was provided for losses anticipated as a consequence of covid-19. Such provisions are based on stress tests and portfolio calculations. Write-offs prompted by the covid-19 pandemic remained low due to the financial strength and liquidity of our customers as well as the effect of government relief packages and expanded access to credit in the financial sector. But the risk of higher losses will remain significant if the pandemic continues to stretch on, adversely impacting the economy and the labour supply domestically and globally. For further information about the impacts of covid-19 on impairment charges for loans and advances and Nykredit's loan portfolio, please refer to "Credit risk" on page 34 of this report as well as our Fact Book Q4 2020, which is available at nykredit.com.

Other items

Legacy derivatives, which are not included in business profit, were DKK 258 million (2019: a negative DKK 112 million). Legacy derivatives are derivatives Nykredit no longer offers to customers, comprising a portfolio with a total market value of DKK 7.4 billion (end-2019: DKK 6.6 billion). The portfolio was written down to DKK 5.6 billion at end-2020 (end-2019: DKK 4.5 billion).

Tax

Tax calculated on profit for the year was DKK 1,116 million (2019: DKK 1,340 million).

Balance sheet

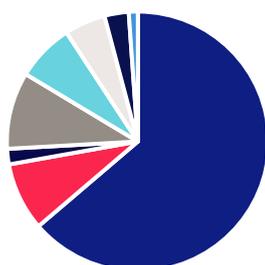
Nominal mortgage lending was DKK 1,321 billion at end-2020 (end-2019: DKK 1,263 billion), up DKK 59 billion on end-2019.

The strong alliance between Totalkredit and its partner banks continues to drive growth in Totalkredit's mortgage lending, which amounted to DKK 798 billion at nominal value at end-2020 (end-2019: DKK 740 billion). This represents an 8% increase on end-2019. About 870,000 homeowners now have Totalkredit loans.

Nykredit Group

Mortgage lending in 2020 by property type

%/DKK billion



- Owner-occupied dwellings
- Industry and trades
- Agricultural property
- Housing cooperatives
- Private rental
- Office and retail
- Public housing
- Other

The Group's market share of total Danish mortgage lending (inclusive of LR Realkredit) was 43.6% at end-2020 (end-2019: 42.8%).

Nykredit's loan portfolio continued to develop positively, and Nykredit Bank's lending increased by DKK 5.7 billion to DKK 71.1 billion at end-2020 (end-2019: DKK 65.5 billion). Bank lending (including secured homeowner loans transferred to Totalkredit) rose to DKK 77.8 billion (end-2019: DKK 72.3 billion). At 31 December 2020 secured homeowner loans transferred to Totalkredit amounted to DKK 6.7 billion (end-2019: DKK 6.8 billion).

Guarantees provided by Nykredit amounted to DKK 9.1 billion at end-2020 (end-2019: DKK 6.6 billion).

Deposits excluding repo deposits totalled DKK 88.1 billion (end-2019: DKK 85.4 billion). Nykredit Bank's deposits exceeded lending by DKK 17.1 billion at end-2020 (end-2019: DKK 20.1 billion).

Equity

The Nykredit Group's equity stood at DKK 89.8 billion at end-2020 (end-2019: DKK 84.4 billion). Based on profit for the year, it is recommended to the Annual General Meeting that Nykredit distribute dividend of DKK 2.2 billion. This decision builds on an overall assessment of Nykredit's position as well as dialogue with the Danish Financial Supervisory Authority (FSA). In its overall assessment of Nykredit's position, Group Management has attached particular importance to the raised guidance for profit before tax, which exceeds our original guid-

ance. Other factors underlying the decision are that even after distributing dividend of 40% of profit after tax, Nykredit will still hold a strong capital position with a Common Equity Tier 1 capital ratio of 20.2% and that Nykredit has taken loan impairment charges for 2020 of DKK 2.3 billion, of which DKK 2.1 billion has been provided for future losses related to the covid-19 crisis.

RESULTS FOR Q4/2020 RELATIVE TO Q3/2020

Profit before tax was DKK 2,760 million in Q4/2020 (Q3: DKK 2,250 million).

Income totalled DKK 4,319 million in Q4 (Q3: DKK 3,779 million). The continued growth in bank lending as well as mortgage lending contributed to a rise in net interest and net fee income. The quarter was also positively affected by financial market trends, which had a positive impact on value adjustments of swaps, funding income and investment portfolio income.

Costs rose to DKK 1,479 million in Q4/2020 (Q3: DKK 1,454 million).

Impairment charges for loans and advances totalled DKK 286 million (Q3: DKK 230 million) and were still adversely impacted by the uncertainty about the duration and severity of the covid-19 pandemic, but positively impacted by rising property prices and customers' high credit quality.

Legacy derivatives resulted in a positive value adjustment of DKK 206 million (Q3: DKK 154 million).

RESULTS RELATIVE TO OUTLOOK

Our guidance for business profit and profit before tax for 2020 presented in the Annual Report for 2019 was between DKK 6.25 billion and DKK 6.75 billion, but it has been adjusted four times over the year. On 20 January 2021 our guidance for business profit and profit before tax for 2020 was last raised to about DKK 6.5 billion and about DKK 6.8 billion, respectively, replacing our previous guidance of a business profit of DKK 6.1-6.3 billion and a profit before tax of DKK 6.2-6.4 billion. Nykredit ended the year with a better-than-expected business profit for 2020 of DKK 6.5 billion.

Business profit and profit before tax for 2020 exceeded our initial guidance as a consequence of high lending growth. Results were adversely impacted by the covid-19 pandemic's effect on trading, investment portfolio and other income. Q1 saw large investment portfolio losses, most of which, however, were regained in subsequent quarters but did not meet our expectations. Moreover, impairment charges for loans and advances increased significantly due to covid-19.

OUTLOOK AND GUIDANCE FOR 2021

Nykredit expects a business profit and profit before tax of DKK 6.0-6.5 billion for 2021.

Our overall guidance for business profit and profit before tax for 2021 reflects that:

- Nykredit expects a decrease in total income driven by reduced net fee income from subdued mortgage lending and a decline in investment portfolio income in 2021. By contrast, we expect rising net interest income and wealth management income from increasing business volumes from customers.
- Costs are expected to rise, primarily due to increasing investments in digitisation and compliance and higher costs for the Danish Resolution Fund scheme.
- Impairment charges for loans and advances are expected to be lower than in 2020, which was affected by provisions for loan impairment related to covid-19. A more normalised level of impairments is expected for 2021.

The most important uncertainty factors affecting our 2021 guidance are the covid-19 impacts on investment portfolio income due to Nykredit's portfolio of bank equities and on legacy derivatives as well as impairment charges for loans and advances.

SPECIAL ACCOUNTING CIRCUMSTANCES

Presentation of negative interest income

The presentation of interest income and interest expenses has been adjusted, as negative interest is no longer offset. Reference is made to note 7 in the Financial Statements. Comparative figures have been restated.

OTHER

Insurance partnership with Codan

On 27 October 2020 Nykredit announced a new insurance partnership with the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, Spar Nord and Codan. The partnership entails an improved suite of products to be launched to Nykredit's customers in the spring of 2021. Codan is a strong business partner with deep experience and understanding of the insurance market.

In consequence, Nykredit will end its partnership with Gjensidige Forsikring.

The new partnership reinforces the alliance with the Totalcredit partner banks and is one of many examples of our delivery of Nykredit's Winning the Double 2.0 strategy.

Redemption of Additional Tier 1 capital

In September 2020 Nykredit Realkredit A/S was authorised by the Danish FSA to redeem capital notes in the form of AT1 capital of EUR 500 million (DKK 3.8 billion). The notes were redeemed on 26 October 2020.

Totalcredit has taken over selected functions of Bolighed

As at end-June, Totalcredit A/S took over part of the digital platform Bolighed and continues its services under a new name (Mit hjem). The majority of the staff have transferred to Totalcredit, and Christian Jaspers, Managing Director of Bolighed, will join the management team of Totalcredit.

KundeKroner and ErhvervsKroner discount programmes

Backed by Forenet Kredit, Nykredit has decided that the KundeKroner discount programme for homeowners and the ErhvervsKroner discount programme for business customers will be extended on the current terms up to and including 2021. In the current situation, it is important to us that our customers feel assured that they can rely on the KundeKroner and ErhvervsKroner discount programmes as a unique strength of our mutual ownership structure.

Nykredit's majority shareholder, Forenet Kredit, endorses the Group's customer programmes and has announced that any withholding of dividend in 2020 will not affect the association's financial backing for the Group's customer programmes.

Sale of shares in VP Securities

On 23 April 2020 Danmarks Nationalbank together with Nykredit and three other major shareholders announced an agreement to sell their shares in VP Securities to Euronext. Nykredit held 12.7% of the shares in VP Securities. The agreement was approved by the Danish FSA in July 2020, and the transaction was completed at the beginning of Q3/2020, which led to a minor profit in Q3.

Changes to the Boards of Directors

Nykredit Chairman Steffen Kragh, having served 14 years on the Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S and from March 2016 as Chairman, notified the Boards of Directors that he planned to withdraw from the Boards of Directors as from the Annual General Meeting on 26 March 2020. At the Annual General Meeting, former Nordea Banking Executive Jørgen Høholt was elected as new member of the Boards of Directors. Subsequently the Boards of Directors elected current Deputy Chairman Merete Eldrup as new Chairman of Nykredit A/S and Nykredit Realkredit A/S and Nina Smith as continuing Deputy Chairman.

Kristina Andersen Skiøld and Ann-Mari Lundbæk Lauritsen both joined the Boards of Directors as staff-elected members. They replace Leif Vinther and Marlene Holm, who both left the Boards of Directors.

Helge Leiro Baastad, Group CEO of Gjensidige Forsikring, decided to leave the Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S effective from 27 October 2020.

UNCERTAINTY AS TO RECOGNITION AND MEASUREMENT

Measurement of certain assets and liabilities is based on accounting estimates made by Group Management.

The areas in which assumptions and estimates significant to the Financial Statements have been made include provisions for loan and receivable impairment as well as valuation of unlisted financial instruments, including swaps, see note 1, accounting policies, to which reference is made.

For 2020 significant volatility in fixed income markets due to covid-19 has led to and increased complexity in determining the market value of interest rate swaps in particular. After Q1, market conditions normalised somewhat.

The covid-19 pandemic has resulted in increased impairments partly based on negative expectations for the economic outlook following the uncertainty about the effect on the domestic and global economies. The Group has still not seen a material rise in write-offs, but the pandemic is expected to have a significant effect on future impairments.

MATERIAL RISKS

The Group's most material risks are described in detail in note 50 of the Annual Report for 2020, to which reference is made.

EVENTS SINCE THE BALANCE SHEET DATE

Termination of guarantee agreement with partner banks

Nykredit and Totalkredit have terminated an agreement from 2014 on provision of additional security by the Totalkredit partner banks. The agreement was an addendum to the partnership agreement, and its termination means that the banks no longer have to provide a 6% guarantee covering the mortgage loans originated by them. As a result of Totalkredit's and the Nykredit Group's strengthened capital position over the last few years, the need for external guarantees has been reduced.

Merger with LR Realkredit

LR Realkredit A/S was fully merged with Nykredit with effect from 1 January 2021 following approval by the Danish Ministry for Industry, Business and Financial Affairs and the Danish FSA of the merger between Nykredit Realkredit A/S and LR Realkredit in December 2020 and approval at the extraordinary general meeting of LR Realkredit A/S held on 25 January 2021 of the final resolution to merge the companies.

Nykredit has entered into an agreement to divest its Depository Services unit

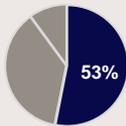
Nykredit has entered into an agreement with Bank of New York Mellon to divest Nykredit's Depository Services unit and activities. As part of the agreement, the unit's nine staff members will transfer to Bank of New York Mellon. The agreement is subject to regulatory approvals, which are anticipated at end-October 2021.

No further events have occurred in the period up to the presentation of the Annual Report 2020 which materially affect the Group's financial position.

BUSINESS AREAS

Nykredit's governance and organisational structure is based on the following business areas:

Banking



Comprises Retail and Corporates & Institutions.

Retail comprises mortgage lending and banking services tailored to Nykredit's personal customers and SMEs, including agricultural customers and residential rental customers. Retail also includes estate agency and leasing activities.

Corporates & Institutions comprises Nykredit's corporate and institutional clients, the public housing segment, large housing cooperatives and mortgage lending to business customers for properties abroad. The division is also responsible for Nykredit's activities within securities trading and financial instruments.

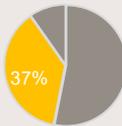
Business profit in 2020:
DKK 3,300 million

Income in 2020:
DKK 9,311 million

Impairment charges for loans and advances in 2020:
DKK 1,933 million

Total lending end-2020:
DKK 709 billion

Totalkredit Partners



Comprises Totalkredit-branded mortgage loans to personal and business customers arranged by 49 Danish local and regional banks (excluding Nykredit Bank). Mortgage loans arranged by Nykredit are included in the business area Banking.

Business profit in 2020:
DKK 2,315 million

Income in 2020:
DKK 3,326 million

Impairment charges for loans and advances in 2020:
DKK 291 million

Total lending end-2020:
DKK 669 billion

Wealth Management



Comprises the Group's asset management propositions and activities as well as portfolio administration services to institutional clients, foundations, municipalities, businesses and high-net-worth clients.

Business profit in 2020:
DKK 567 million

Income in 2020:
DKK 1,505 million

Total lending end-2020:
DKK 15 billion

Assets under management end-2020:
DKK 372 billion

Assets under administration end-2020:
DKK 949 billion

Percentages show the business divisions' share of business profit for 2020 excluding Group Items.

To this should be added Group Items, which comprises other income and costs not allocated to business areas as well as core income from securities and investment portfolio income.

Please refer to note 3 in the Financial Statements for complete segment financial statements with comparative figures.

BANKING

Banking strategy

The main ambition of the Banking strategy is to provide our customers with financial security – personal and business customers alike. To realise our ambition, Banking must deliver on a five-track strategy: Being customers' preferred bank, sustainable solutions, digitisation and simplicity, quality and integrity as well as people who will and can, and are ready to take the leap. Together the five strategy tracks make up the Banking organisation's strengths and Nykredit's Group strategy "Winning the Double 2.0".

Covid-19 response

At end-Q1, Denmark like other countries was hit by the coronavirus pandemic. The final impact is unknown, but it is only natural that families and businesses are worried about being unable to make ends meet for a period of time. We are fully aware of our responsibility and are helping our customers. In this spirit, during the year we have launched a number of initiatives to help Danish families and businesses.

We have offered our personal customers affected by critical income losses due to the covid-19 pandemic a special credit facility, payment holidays on car loans, consumer loans and bank home loans as well as no-fee overdrafts. We have also offered to pay out their frozen holiday pay by way of an interest- and fee-free overdraft facility in the amount of the holiday pay due to the customer in October.

We have offered our business customers payroll finance as well as payment holidays on banking and lease facilities. In addition, we established a corona hotline, which business customers may consult for financial advice on and information about government aid initiatives.

We have also introduced initiatives ensuring quick and correct processing of all cases. First, refusals on loan applications are subject to the four-eyes principle. And secondly, customers who disagree with a refusal and wish to file a complaint may take the matter to a designated complaints board with a fast-tracked complaints procedure.

We operate under a precautionary principle, and we abide by all government guidelines. Consequently, our customer centres have for some periods been closed, and for a while physical meetings have been replaced by online or telephone meetings, which is still recommended to our customers.

2020 in summary

So far 2020 has seen a high level of activity. We have welcomed many new full-service personal as well as business customers, and also many new private banking clients, who are attracted by our award-winning concept. Our corporate and institutional clients have had a high activity level, and lending has gone up. In order to strengthen customer experience, we have among other things

- introduced green home loans (Grønt BoligLån), green car loans (Grønt Billån) and green home check-up (Grønt BoligTjek) to our personal customers aimed to ensure that deciding to buy an electric car or making home energy improvements does not hinge on financing costs
- offered selected business customers who use Dinero's online accounting software easy access to an attractive business banking account
- launched Young Money, a new concept which makes it fun for children and teenagers to learn about saving up and payments.

Digital value propositions are a top priority in tandem with Nykredit's focus on having a nation-wide physical presence. In concert with other partners, such as fintech companies, we are working to expand the digital value propositions, making it easier to bank with Nykredit and to free up more adviser time for customers.

For this purpose, together with Dinero, we have launched a new digital concept for entrepreneurs, business owners and small businesses, providing access to a basic, inexpensive business account in less than 15 minutes. The solution will initially be tested on selected users of the accounting software. But the aim is to be able to scale all or part of the digital onboarding.

Similarly, we have launched Young Money, a new concept for children and teenagers aiming to make saving up and payments fun for young people and life with pocket money easier for their parents. Young Money is for children and teenagers aged 7-17 and includes a personal account, payment card and mobile app.

We remain dedicated to promoting sustainable solutions and having a sustainable product range. To this end, as part of our business banking solutions, in 2020 we have launched green construction loans, green machinery financing and financing of solar panel parks. Furthermore, we have increased our volume of green covered bonds and set up our Sustainable Solutions entity, with a team of specialists, advising businesses about the green transition and how to finance it. Similarly, for our personal customers, we have launched an energy calculator, green home loans, green car loans and green home check-ups.

DKK million

Results –			Q4/	Q3/	Q2/	Q1/	Q4/
Banking	2020	2019	2020	2020	2020	2020	2019
Net interest income	6,607	6,330	1,652	1,659	1,659	1,637	1,595
Net fee income	1,873	2,070	463	492	493	425	537
Wealth management income	665	614	188	146	162	169	170
Net interest from capitalisation	(349)	(336)	(84)	(87)	(86)	(92)	(82)
Trading, investment portfolio and other income	516	526	205	238	333	(259)	319
Income	9,311	9,204	2,423	2,448	2,561	1,879	2,540
Costs	4,078	3,843	1,133	989	1,000	956	1,094
Business profit before impairment charges	5,233	5,361	1,290	1,459	1,561	923	1,445
Impairment charges for mortgage lending	1,408	842	163	36	239	970	235
Impairment charges for bank lending	525	205	113	160	72	180	31
Business profit (loss)	3,300	4,314	1,014	1,263	1,249	(227)	1,179
Legacy derivatives	258	(113)	206	154	318	(420)	484
Profit before tax (loss)	3,558	4,201	1,220	1,417	1,567	(646)	1,663

Results for 2020 relative to 2019

Banking delivered a business profit of DKK 3,300 million in 2020 (2019: DKK 4,314 million).

Total income rose to DKK 9,311 million (2019: DKK 9,204 million). The underlying business is performing well. Continued growth in bank and mortgage lending positively impacted net interest income, up DKK 277 million compared with the previous year and totalling DKK 6,607 million (2019: DKK 6,330 million). Conversely, net fee income was no match for the extraordinary previous year and fell to DKK 1,873 million (2019: DKK 2,070 million).

Costs amounted to DKK 4,078 million (2019: DKK 3,843 million), chiefly due to a substantial increase in resources allocated to compliance.

Impairment charges for loans and advances were DKK 1,933 million (2019: DKK 1,047 million). The increase in 2020 was due to provisions taken in response to the expected adverse financial impact of the covid-19 pandemic.

Legacy derivatives saw a positive value adjustment of DKK 258 million (2019: a negative DKK 113 million).

Results for Q4/2020 relative to Q3/2020

Banking delivered a business profit of DKK 1,014 million in Q4/2020 (Q3/2020: DKK 1,263 million).

Income totalled DKK 2,423 million (Q3/2020: DKK 2,448 million). The decrease was mainly driven by decreasing net fee income as well as trading, investment portfolio and other income.

Impairment charges for loans and advances came to DKK 276 million (Q3/2020: DKK 196 million). In line with Q3/2020, impairments were impacted by the uncertainty about the duration and severity of the covid-19 pandemic.

Legacy derivatives were a gain of DKK 206 million (Q3/2020: a gain of DKK 154 million), chiefly driven by tightened credit and funding spreads.

Selected balance sheet items

Banking	31.12.2020	30.09.2020	30.06.2020	31.03.2020	31.12.2019
Retail Personal Banking					
Loans and advances	182,605	184,306	184,707	185,480	186,113
- of which mortgage lending, nominal value	165,419	166,945	167,537	168,022	168,397
- of which secured homeowner loans	7,640	7,682	7,684	7,704	7,727
- of which bank lending	9,547	9,679	9,487	9,754	9,989
Deposits	38,938	37,382	36,826	34,737	35,379
Retail Business Banking					
Loans and advances	242,701	243,708	243,857	244,866	243,976
- of which mortgage lending, nominal value	218,921	219,933	220,658	220,450	220,039
- of which bank lending	23,779	23,775	23,198	24,416	23,938
Deposits	24,645	22,954	22,052	20,962	21,059
Corporates & Institutions					
Loans and advances	283,578	277,811	272,389	267,990	264,003
- of which mortgage lending, nominal value	251,224	246,324	243,386	238,012	238,209
- of which bank lending	32,355	31,487	29,003	29,978	25,794
Deposits	8,843	9,813	10,135	6,149	9,495

Activities

Banking has recorded lending growth since end-2019, especially in bank lending. Loan volumes totalled DKK 708.9 billion at 31 December 2020 (end-2019: DKK 694.1 billion), of which DKK 635.6 billion was mortgage loans at nominal value (end-2019: DKK 626.6 billion). The increase was primarily concentrated in lending to corporate clients.

Bank lending in Retail Personal Banking came to DKK 9.5 billion (end-2019: DKK 10.0 billion). Bank deposits in Retail Personal Banking rose by DKK 3.6 billion from end-2019 to DKK 38.9 billion.

Bank lending in Retail Business Banking stood at DKK 23.8 billion (end-2019: DKK 23.9 billion).

Bank lending in Corporates & Institutions rose to DKK 32.4 billion (end-2019: 25.8 billion).

Arrears

At the September due date, Retail's 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.52% against 0.67% at the same date in 2019.

TOTALKREDIT PARTNERS

Totalkredit strategy

The main ambition of Totalkredit's strategy is to secure its future position as market leader in home financing by continuing to strengthen the alliance between the Nykredit Group and the Totalkredit partners by for instance prioritising joint development.

Covid-19 response

The Totalkredit Partners' division has organised its activities in compliance with regulatory recommendations. All functions of Totalkredit Partners have been running without interruption, with staff working mainly from home, in order for Totalkredit to continue to help customers and support our partner banks. Customers across Denmark have been able to raise mortgage loans with Totalkredit's partner banks as usual during the temporary national lockdowns in 2020.

Moreover, backed by Forenet Kredit, the Nykredit Group has extended the KundeKroner discount programme on the current terms up to and including 2021 to enhance our customers' financial visibility. The KundeKroner programme is a unique strength of our mutual ownership structure, which according to Forenet Kredit's objective is expected to benefit our customers in the coming years.

2020 in summary

Totalkredit Partners is committed to further strengthening the alliance with its partner banks as well as offering customers the best loan propositions in the market:

- as from December 2020 a green contribution of DKK 10,000 has been offered to up to 3,000 customers to replace their oil-fired boilers with heat pumps
- an energy calculator, developed together with our partner banks and the Danish Energy Agency, and used both by our customers directly and by our advisers to engage with customers about energy renovation
- recommended three times by the Danish Consumer Council as the Danish mortgage lender offering the lowest mortgage prices in the sector
- in 2020 took over selected parts of the digital company Bolighed, which continues its services under the name Mit hjem
- recorded high lending in all 98 municipalities and customer growth
- a joint IT platform, which supports our continued ability to offer customers the best home financing options.

This year Totalkredit celebrated its 30-year anniversary as mortgage provider. The strong alliance between Totalkredit and its partner banks has been instrumental in driving lending growth since end-2019. Lending in Totalkredit Partners totalled DKK 669 billion at end-2020.

The Totalkredit alliance is developing a new joint IT platform aimed to secure its market position in coming years as the best provider of advisory services and home financing options. All three of the collaborating IT partners have implemented the first part of the platform, offering customers and advisers a better overview of customers' aggregate facilities, including Totalkredit mortgage loans.

Totalkredit business mortgages are offered to the segments Office and Retail, Residential Rental as well as Industry and Trades. A total of 37 banks, representing the majority of partner banks having business customers with mortgage needs, offer business mortgages.

DKK million

Results –			Q4/	Q3/	Q2/	Q1/	Q4/
Totalkredit Partners	2020	2019	2020	2020	2020	2020	2019
Net interest income	2,978	2,879	796	738	728	716	782
Net fee income	504	657	149	136	98	121	192
Net interest from capitalisation	(222)	(182)	(61)	(60)	(47)	(53)	(44)
Net income relating to customer benefits programmes ¹	(5)	-	(5)	-	-	-	-
Trading, investment portfolio and other income	71	24	17	1	32	21	5
Income	3,326	3,378	896	815	810	805	935
Costs	719	651	178	173	193	175	206
Business profit before impairment charges	2,607	2,726	719	642	617	629	730
Impairment charges for mortgage lending	291	(69)	22	27	139	103	46
Business profit	2,315	2,796	697	614	478	526	683

¹ "Net income relating to customer benefits programmes" is described in detail in "Alternative performance measures".

Results for 2020 relative to 2019

Totalkredit Partners recorded a business profit of DKK 2,315 million (2019: DKK 2,796 million).

Income amounted to DKK 3,326 million (2019: DKK 3,378 million).

Net interest income was satisfactory and rose to DKK 2,978 million in 2020 (2019: DKK 2,879 million) positively impacted by rising mortgage lending. Conversely, interest margins were under pressure, as more and more customers opt for fixed-rate repayment loans.

Net fee income decreased to DKK 504 million relative to the previous year (2019: DKK 657 million), mainly driven by exceptionally high re-mortgaging activity in the same period last year.

Costs rose to DKK 719 million (2019: DKK 651 million), primarily due to expenses in connection with the establishment of Mit hjem, a new digital platform with information about customers' homes, as well as rising expenses for compliance and resolution schemes.

Impairment charges for loans and advances were DKK 291 million (2019: a negative DKK 69 million). The increase was due to provisions for loan impairments as a consequence of the coronavirus pandemic. Write-offs and individual impairment provisions in the homeowner segment were low.

Results for Q4/2020 relative to Q3/2020

Totalkredit Partners delivered a business profit of DKK 697 million in Q4/2020 (Q3/2020: DKK 614 million).

Income increased to DKK 896 million (Q3/2020: DKK 815 million), mainly driven by higher net interest income and net fee income, which were positively affected by rising mortgage lending.

Impairment charges for loans and advances were DKK 22 million (Q3/2020: DKK 27 million).

DKK million

Selected balance sheet items

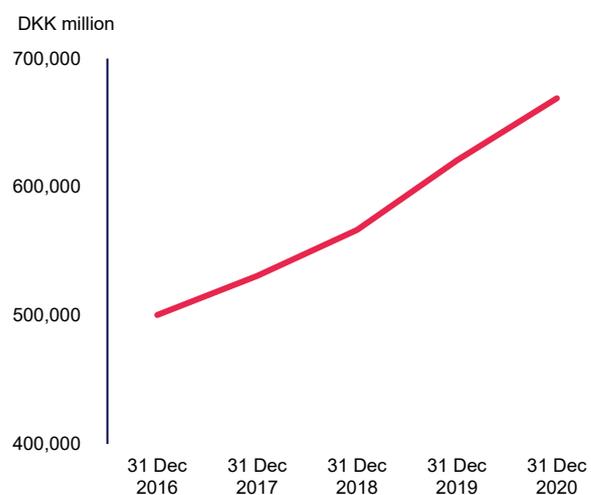
Totalkredit Partners	31.12.2020	30.09.2020	30.06.2020	31.03.2020	31.12.2019
Personal Banking					
Loans and advances	660,989	650,656	637,242	628,833	614,336
- of which mortgage lending, nominal value	653,109	642,383	628,634	619,871	604,881
- of which secured homeowner loans	7,881	8,274	8,608	8,962	9,455
Business Banking					
Loans and advances	8,100	7,750	7,339	6,772	6,319
- of which mortgage lending, nominal value	8,100	7,750	7,339	6,772	6,319

Activities

Totalkredit Partners recorded lending growth, and nominal lending to personal customers came to DKK 661.0 billion at end-2020 (end-2019: DKK 614.3 billion), equal to an 8% increase. The business loan portfolio increased by DKK 1.8 billion to nominally DKK 8.1 billion (end-2019: DKK 6.3 billion).

Arrears

At the September due date, Totalkredit Partners's 75-day mortgage loan arrears as a percentage of total mortgage payments due were 0.18% against 0.22% at the same date in 2019.

Lending, Totalkredit Partners

WEALTH MANAGEMENT

Wealth Management strategy

Being a financial mutual, we have a special obligation to put the needs of our clients first and particularly to act responsibly in relation to the society we are part of. Wealth Management pursues a shared strategic ambition to be Denmark's responsible wealth manager.

We must build long-term value for our clients and business partners, and the society we are part of. Our strategy consists of seven tracks: Corporate responsibility, being customers' preferred bank, digital customer experiences, strategic partnerships, alternatives, data as well as scale.

The strategy builds on the strengths that have taken us where we are today, with rapidly increasing assets under management and client growth. Clients should see us as a responsible and trustworthy business partner.

Covid-19 response

Wealth Management is maintaining all operations, but we have adjusted our ways of working. We adhere to all guidelines from the authorities to minimise the spread of covid-19. We recommend that all meetings – internal, external and with customers – are held online.

Remaining in close contact with all of our Wealth Management clients has been essential, as many client portfolios have been affected by the impact from covid-19 on financial markets.

2020 in summary

Wealth Management got off to a good start in 2020 before the covid-19 crisis set in. Many of our Wealth Management client portfolios were affected by the impact from covid-19 on financial markets, but from Q2 we again recorded an increase in assets under management. We continued our commitment to enhancing the customer experience by, for example,

- upscaling digital propositions, channels and customer advisory services
- developing products and solutions, which in addition to our existing product range, provide our customers with even more and better opportunities to make sustainable and responsible investments, for example in three passive investment funds, which, as the first of its kind, invest in accordance with the Paris Agreement and carry the Nordic Swan Ecolabel
- increasing our investments in alternatives as well as offering alternative investments to more customer segments, including private investors investing via our portfolio management products
- collaborating with our Sparinvest partner banks on offering relevant investment products to wealth clients all over the country, for example, Sparinvest's first Nordic Swan Ecolabelled fund, Sparinvest Bæredygtige Aktier
- expanding our business area within administration of credit and lending strategies in Nykredit Portefølje Administration
- upgrading our value proposition to the Private Banking Elite segment to ensure its relevance and holistic approach to wealth clients.

Award-winning value propositions

The Private Banking Elite segment recorded continued client growth. In the latest survey conducted by Prospera, a market research company, Nykredit Private Banking Elite was named the best private banking provider in Denmark, for the fourth year running. Furthermore, Nykredit Private Banking Elite won the awards Best Private Bank Client Service and Best Private Bank Talent Management at the WealthBriefing European Awards 2020. Moreover, Nykredit Invest won all three main categories at the annual Morningstar Fund Awards. The investment fund Nykredit Invest was awarded best manager of equities, best manager of bonds as well as best manager of equities, bonds and balanced funds. This is the third year running that Nykredit Invest has won one or more main categories at the Morningstar Fund Awards.

Also, the fund Sparinvest INDEX Europa Growth KL won the Morningstar category "European Equities". Nykredit Invest and Sparinvest were nominated in 7 out of 8 of Morningstar's categories.

After three years in the market, the investment fund Bæredygtige Aktier was rated 5 stars by Morningstar. The fund has generated good returns and has effective risk management strategies.

68% of Nykredit Asset Management's investment strategies (GIPS composites) generated above-benchmark returns in 2020. Over the past three years, 74% has generated above-benchmark returns.

DKK million

Results –			Q4/	Q3/	Q2/	Q1/	Q4/
Wealth Management	2020	2019	2020	2020	2020	2020	2019
Net interest income	185	129	47	48	49	41	35
Net fee income	32	36	4	12	6	10	8
Wealth management income	1,261	984	311	301	319	330	320
Net interest from capitalisation	(10)	(9)	(2)	(3)	(2)	(2)	(2)
Trading, investment portfolio and other income	37	23	12	8	12	5	6
Income	1,505	1,163	371	366	384	384	367
Costs	883	666	248	206	212	217	250
Business profit before impairment charges	622	498	123	160	172	167	116
Impairment charges for mortgage lending	(6)	11	(1)	(1)	0	(4)	6
Impairment charges for bank lending	62	0	(7)	9	5	55	6
Business profit	567	487	131	153	167	116	104
Legacy derivatives	0	0	0	1	1	(1)	1
Profit before tax	567	487	131	153	168	115	105

Results for 2020 relative to 2019

Wealth Management's business profit remained high at DKK 567 million in 2020 (2019: DKK 487 million).

Income amounted to DKK 1,505 million and rose compared with the previous year (2019: DKK 1,163 million) mainly due to recognition of Sparinvest as from September last year.

Impairment charges for loans and advances of DKK 56 million (2019: DKK 11 million) were limited and related to the coronavirus pandemic.

Results for Q4/2020 relative to Q3/2020

Wealth Management delivered a business profit of DKK 131 million in Q4 (Q3/2020: DKK 153 million).

Income was DKK 371 million in Q4/2020, up DKK 5 million, primarily driven by rising wealth management income and income from trading, investment portfolio and other income (Q3/2020: DKK 366 million).

Impairment charges for loans and advances came to a net reversal of DKK 8 million (Q3/2020: DKK 8 million).

DKK million

Selected balance sheet items	31.12.2020	30.09.2020	30.06.2020	31.03.2020	31.12.2019
Wealth Management					
Assets under management	371,710	332,439	325,029	305,735	335,771
- of which Nykredit Group investment funds	168,415	157,237	153,063	142,158	162,997
Assets under administration ¹	948,684	886,287	858,788	780,956	882,197
Lending/deposits					
Loans and advances	14,494	14,091	13,768	13,430	13,301
- of which mortgage lending, nominal value	10,170	9,688	9,377	9,075	8,539
- of which secured homeowner loans	1,078	1,090	1,107	1,117	1,134
- of which bank lending	3,245	3,313	3,284	3,238	3,629
Deposits	14,649	14,461	15,506	16,551	16,121

¹ Comparative figures have been restated due to a change relating to our investment funds.

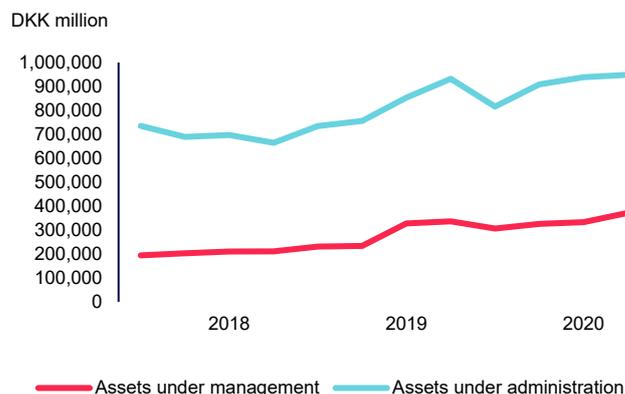
Activities

In 2020, financial markets first saw covid-19-induced substantial negative value adjustments and then a subsequent rebound, which has impacted the development in assets under management.

Total assets under management rose by DKK 35.9 billion to DKK 371.7 billion at end-2020 (end-2019: DKK 335.8 billion). The rise comprised positive net sales of DKK 30.7 billion, driven by demand from institutional clients, international clients, Private Banking Elite clients and the Group's savings products, as well as positive returns of DKK 5.2 billion.

Total assets under administration increased by DKK 66.5 billion on end-2019 to DKK 948.7 billion at end-2020 (end-2019: DKK 882.2 billion) with a net addition of DKK 56.9 billion, driven by demand from institutional clients and the Group's savings products, as well as positive returns of DKK 9.6 billion.

Assets under management and assets under administration by Wealth Management



GROUP ITEMS

	DKK million						
Results –			Q4/	Q3/	Q2/	Q1/	Q4/
Group Items	2020	2019	2020	2020	2020	2020	2019
Net interest income	10	6	4	3	2	1	4
Net fee income	(42)	(24)	(2)	(22)	(4)	(14)	(7)
Wealth management income	24	12	6	12	4	3	4
Net interest from capitalisation	160	175	33	41	43	43	39
Net income relating to customer benefits programmes ¹	(199)	(358)	(45)	(57)	(52)	(45)	(236)
Trading, investment portfolio and other income	473	1,099	632	173	828	(1,161)	178
Income	426	911	628	150	821	(1,173)	(19)
Costs	93	187	(80)	85	16	71	(15)
Business profit (loss) before impairment charges	334	723	708	64	806	(1,244)	(4)
Impairment charges for bank lending	(8)	5	(4)	(1)	(13)	9	5
Business profit (loss)	342	718	712	65	818	(1,253)	(9)
Badwill, impairment of goodwill and amortisation of customer relationships	(2)	564	0	0	(2)	0	564
Profit (loss) before tax	340	1,283	712	65	816	(1,253)	555

¹ "Net income relating to customer benefits programmes" is described in detail in "Alternative performance measures".

A few income statement and balance sheet items, including badwill, are not allocated to the business areas but are included in Group Items.

Group Items also includes Nykredit's total return on the securities portfolio. The activities of the companies Nykredit Ejendomme A/S (wound up) and Ejendomselskabet Kalvebod A/S also form part of Group Items.

Results for 2020 relative to 2019

The business profit of Group Items decreased by DKK 376 million on last year to DKK 342 million (2019: DKK 718 million).

This was strongly impacted by the covid-19 pandemic, and the decrease can mainly be ascribed to large losses on the investment portfolio in Q1 which were, however, recouped in subsequent quarters. At the same time, the investment portfolio developed very positively in 2019 with considerable gains on the portfolio of, for example, Danish bank equities.

CAPITAL, FUNDING AND LIQUIDITY

EQUITY AND OWN FUNDS

Nykredit's equity was DKK 89.8 billion at end-2020, up DKK 5.4 billion on end-2019.

It is recommended to the Annual General Meeting that Nykredit distribute ordinary dividend for 2020 of DKK 2,200 million, corresponding to about 40% of profit after tax for 2020. Nykredit has had talks with the FSA about dividend for 2020, while dividend for 2019 is still retained by recommendation of the Danish FSA. Dividend will be deducted from equity carried for accounting purposes at the time of approval by the Annual General Meeting, whereas the proposed dividend was deducted from own funds for capital adequacy purposes already at end-2020.

The recommendation from the Board of Directors is based on an overall assessment of Nykredit's position, attaching importance to the fact that profit before tax exceeds original guidance of between DKK 6.25 billion and DKK 6.75 billion, which was determined before the corona crisis set in. It is also underlined that Nykredit, even after distributing dividend of about 40% of profit after tax, holds a strong capital position with a CET1 capital ratio of 20.2%, and that Nykredit has taken loan impairment charges for 2020 of DKK 2.3 billion, of which DKK 2.0 billion has been provided for future losses related to the corona crisis.

	DKK million	
Nykredit Group		
Equity (including AT1 capital)	31.12.2020	31.12.2019
Equity, beginning of year	84,366	79,883
Profit for the year	5,664	7,427
Other adjustments	(276)	(2,944)
Equity, year-end	89,754	84,366

	DKK million	
Nykredit Group		
Capital and capital adequacy	31.12.2020	31.12.2019
Credit risk	332,383	323,497
Market risk	40,128	29,336
Operational risk	28,109	25,499
Total risk exposure amount	400,620	378,332
Equity (including AT1 capital)	89,754	84,366
AT1 capital etc	(3,753)	(3,777)
Proposed dividend	(2,200)	(3,610)
CET1 regulatory adjustments	(2,864)	(2,902)
CET1 capital	80,938	74,077
Additional Tier 1 capital	2,232	2,380
AT1 regulatory deductions	(38)	(48)
Tier 1 capital	83,132	76,409
Tier 2 capital	6,935	7,189
Tier 2 regulatory adjustments	1,925	1,224
Own funds	91,993	84,822
CET1 capital ratio, %	20.2	19.5
Tier 1 capital ratio, %	20.7	20.1
Total capital ratio, %	22.9	22.4

Own funds and capital adequacy are specified further in note 2 of the Financial Statements.

On 26 October 2020, Nykredit Realkredit A/S redeemed capital notes in the form of AT1 capital of EUR 500 million (DKK 3.8 billion), and on

6 October 2020, issued AT1 capital of EUR 500 million (DKK 3.7 billion), which is included in equity carried for accounting purposes. For capital adequacy purposes, AT1 capital is included in Tier 1 capital and not in CET1 capital.

Capital

Nykredit's own funds include CET1 capital, AT1 capital and Tier 2 capital after regulatory deductions.

At end-2020 Nykredit's risk exposure amount (REA) totalled DKK 400.6 billion (end-2019: DKK 378.3 billion). With own funds at DKK 92.0 billion, this corresponds to a total capital ratio of 22.9% (end-2019: 22.4%). The CET1 capital ratio was 20.2% (end-2019: 19.5%).

REA increased mainly in Q2 following elevated market risk caused by the financial market turbulence in Q1 and implementation of new regulatory requirements applying to IRB models. Over the coming 12-24 months, total REA is expected to increase by 0-10%, primarily driven by growth in lending and model changes. The estimated scenario-based REA increase is subject to high uncertainty, and so is the timing of such increase.

CET1 capital came to DKK 80.9 billion at end-2020 (end-2019: DKK 74.1 billion). The decision by the Annual General Meeting to transfer the dividend for 2019 to the next financial year positively impacted CET1 capital in 2020. AT1 capital amounted to DKK 2.2 billion after regulatory deductions at end-2020. The level remains unchanged compared with end-2019. Tier 2 capital was DKK 6.9 billion excluding regulatory adjustments at end-2020. In determination of the Nykredit Group's own funds, minority interests have been excluded from AT1 capital and Tier 2 capital issued by the subsidiary Nykredit Realkredit A/S.

Capital targets 2021

Nykredit's capital policy is laid down annually by the Board of Directors and is to support the Group's strategy and objectives.

In accordance with its business model, Nykredit aims to have stable earnings, a strong capital structure and competitive ratings. Based on a structured capital management framework, the Group aims to be able to maintain its business activities throughout Denmark regardless of fluctuations in economic trends. This implies having access to capital to meet new regulatory requirements and in addition be able to withstand a severe economic downturn and consequent losses. At the same time, Nykredit wants to ensure sufficient own funds to generate dividend for its owners, in turn allowing Forenet Kredit to realise its key priorities. Nykredit's capital policy must also adhere to current legislation and FSA requirements.

The Board of Directors has set the CET1 capital requirement at 15.5-16.5% of REA, whereas the total capital need is calculated at 20-21%. This corresponds to Nykredit's capital requirement during a severe recession and is based on stress tests conducted according to P2G (Pillar II Guidance). Furthermore, Nykredit holds CET1 capital to meet the upcoming Basel requirements and may also obtain new CET1 capital from Forenet Kredit and through investment commitments from a number of Danish pension companies.

As a systemically important financial institution (SIFI), Nykredit is subject to a special SIFI buffer requirement of 2%. A capital conservation buffer of 2.5% is also applicable to all financial institutions. Since the covid-19 outbreak, the countercyclical buffer rate has been 0%, as determined by the Danish Minister for Industry, Business and Financial Affairs upon recommendation from the Danish Systemic Risk Council. All buffer requirements are included in the overall capital need and must be met using CET1 capital.

Required own funds 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 own funds. The required own funds are the minimum capital required, in Management's judgement, to cover all significant risks.

The determination of the required own funds takes into account the business objectives by allocating capital for all relevant risks, including calculation uncertainties. Nykredit applies model-based stress tests and capital projections to determine both the required own funds and its capital targets. Nykredit's stress tests are described in more detail in the publication Risk and Capital Management 2020 available at nykredit.com/riskandcapitalmanagement.

Nykredit's required own funds were DKK 43.9 billion at end-2020 (end-2019: DKK 41.2 billion) and consist of two components: Pillar I and Pillar II capital. The internal capital adequacy requirement, calculated as required own funds as a percentage of REA, was 11.0% (end-2019: 10.9%).

DKK million		
Nykredit Group		
Required own funds and internal capital adequacy requirement	31.12.2020	31.12.2019
Credit risk	26,591	25,880
Market risk	3,210	2,347
Operational risk	3,249	2,040
Total Pillar I	32,050	30,267
Risk scenarios and credit quality changes	6,601	2,930
Other risks	5,249	8,036
Total Pillar II	11,850	10,966
Total required own funds	43,900	41,233
Internal capital adequacy requirement (Pillar I and Pillar II), %	11.0	10.9

Pillar I

Pillar I capital, covering credit, market and operational risks, was determined at DKK 32.1 billion at end-2020 (end-2019: DKK 30.3 billion). The Pillar I requirement is identical to the statutory capital requirement.

Pillar II

Pillar II capital covers other risks as well as a capital charge for a slight economic downturn and changed customer credit quality. In a worsened economic situation the capital charge is determined using eg stress tests. The Pillar II capital requirement was determined at DKK 11.9 billion at end-2020 (end-2019: DKK 11.0 billion).

The determination of other risks includes assessments of effects of model updates, validation and backtest results, data quality as well as operational risks, IT risks, strategic risks etc. The Pillar II requirement also includes a general capital charge that serves as a management buffer, reflecting that capital determination depends on statistical methods, choice of model, model properties, unforeseen events, etc.

Dividend policy

Nykredit complies with the authorities' recommendation to financial undertakings to refrain from distributing dividend in the financial year 2019. Nykredit's long-term ambition remains to provide our owners with a competitive return in the form of dividend in the region of 50% of profit for the year, taking into account the current capital policy. The purpose is to ensure that Forenet Kredit strengthens its capital position and can continue to make contributions to the Group to be used for KundeKroner discounts for example.

Nykredit Group		
Shareholders at 31 December 2020	Share capital, DKK	Share capital, %
Forenet Kredit f.m.b.a.	1,046,965,700	78.90
PFA Pension	133,083,800	10.03
PensionDanmark	31,824,400	2.40
PKA	31,824,400	2.40
PRAS A/S	29,852,600	2.25
Østifterne f.m.b.a.	21,616,300	1.63
AP Pension	21,563,500	1.63
AkademikerPension	5,786,300	0.44
Industriens Fond	4,463,700	0.34
Total	1,326,980,700	100.00



FUNDING AND LIQUIDITY

Nykredit coordinates its liquidity and funding at Group level and generally issues bonds, senior debt and capital instruments through Nykredit Realkredit A/S.

Bank lending is mainly funded by deposits. At 31 December 2020 Nykredit Bank's deposits equalled 124% of lending against 131% in 2019.

Nykredit's balance sheet mainly consists of match-funded mortgage loans. Mortgage lending is secured by mortgages on real estate and funded through the issuance of mortgage covered bonds (SDOs and ROs) and is therefore characterised by a high level of collateralisation.

Balance principle and match funding

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

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

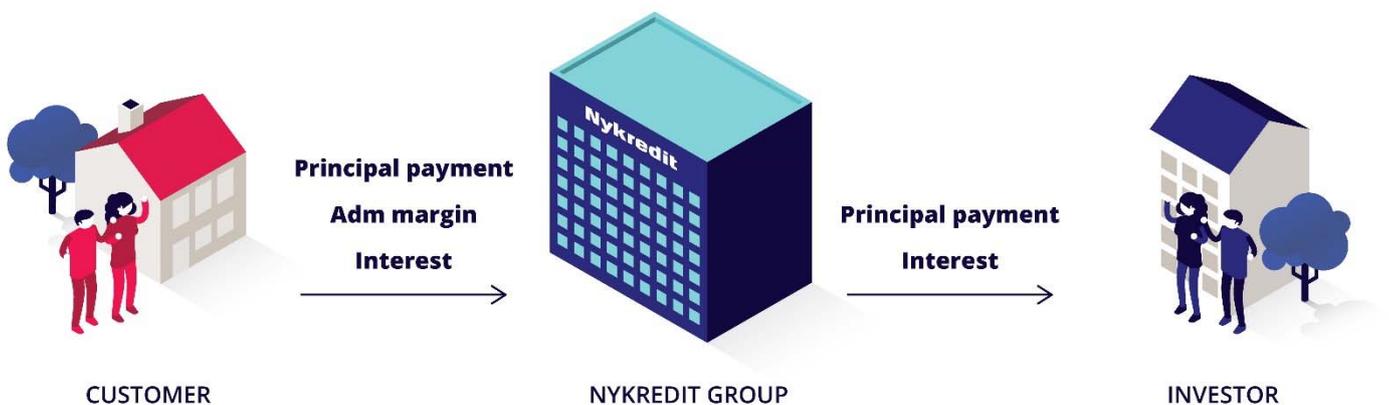
To eliminate interest rate risk and foreign exchange risk, the interest rate and foreign exchange terms of mortgage loans match those of the bonds funding the loans. Long-term fixed-rate loans maintain the same funding throughout the term of a loan. Adjustable-rate mortgages (ARMs) and variable-rate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

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

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.

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

Balance principle and match funding



Liquidity

Nykredit's liquid assets are mainly placed in liquid Danish and other European government and covered bonds. These securities are eligible as collateral in the repo market and with central banks and are directly applicable for raising liquidity.

Nykredit holds substantial liquidity reserves and meets the regulatory requirements by a comfortable margin. The size and composition of the liquidity buffer remain as intended and ensure Nykredit's capacity to withstand any renewed financial turmoil. This also means that Nykredit has secured funding to meet any increased loan demand. Nykredit's liquidity position is illustrated in the table below, which shows that the LCRs of the various companies are significantly above the regulatory requirement of 100%.

	(%)	
Nykredit Group		
LCR determination	2020	2019
Nykredit Realkredit Group*	771	357
Nykredit Realkredit Group, LCR requirement in EUR	422	483
Nykredit Realkredit and Totalkredit	5,064	3,482
Nykredit Realkredit and Totalkredit, incl min LCR requirement	171	155
Nykredit Bank	178	153

* LCR is calculated excluding LR Realkredit. Since 2016, as a Danish mortgage provider, Nykredit has been exempt from including part of its mortgage-related cash flows in the determination of the LCR, and the Danish FSA has instead set a minimum liquidity requirement. In practice, the requirement means that Nykredit must hold a stock of liquid assets of 2.5% of its mortgage lending. The LCR of the Nykredit Realkredit Group at end-2019 has been restated following announcement of its Annual Report due to a reinterpretation of the scope of consolidation.

Covered bond market

Nykredit is the largest issuer of mortgage bonds in Europe, and the Group's issues mainly consist of mortgage covered bonds (SDOs and ROs).

Nykredit's SDOs and ROs are issued through daily tap issuance coupled with bond auctions to refinance ARMs and floating-rate loans etc. At end-2020, the Group had a nominal amount of DKK 1,283 billion of SDOs in issue and DKK 138 billion of ROs in issue.

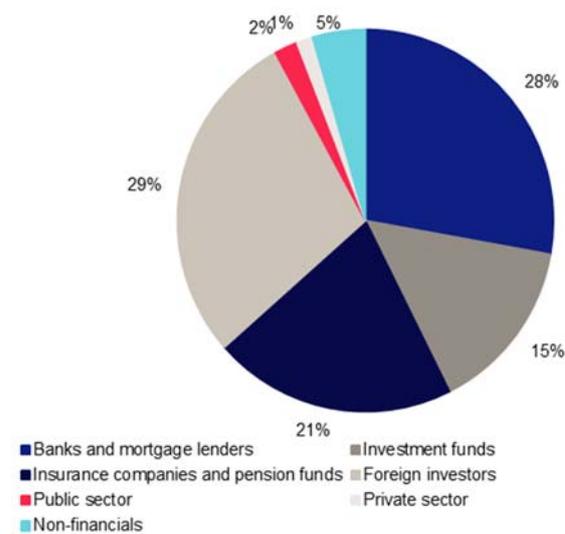
The covid-19 situation triggered a short period of price declines, spread widening and increased volatility in covered bonds in March and April. In line with past experience, Nykredit did not have difficulty selling bonds to fund its lending despite the market turmoil. The covered bond market stabilised in Q2.

Nykredit's investors are mainly Danish institutional investors, comprising Danish banks, mortgage lenders and investment funds, which held a total of 43% at end-2020, and insurance companies and pension funds, which held 21%. Foreign ownership amounted to 29% at end-2020. In recent years, foreign investors have increasingly purchased long-dated callable covered bonds and relatively fewer short-dated bonds.

In 2020 Nykredit issued bonds worth a total of DKK 421.5 billion, of which daily tap issues amounted to DKK 297 billion, while bonds issued for the purpose of refinancing auctions amounted to DKK 124.5 billion. LR Realkredit issued bonds worth about DKK 2.6 billion in 2020.

In addition to daily tap sales and refinancing auctions, Nykredit occasionally issues SDOs through investment bank syndicates.

Nykredit Group
Covered bonds investor base



Green bonds

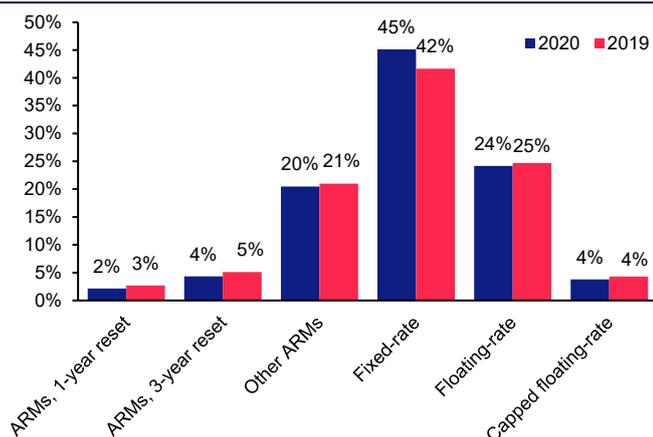
Since 2019 Nykredit has been offering green mortgage loans to finance energy-efficient buildings with energy label A or B or other equivalent certification. About DKK 9.1 billion-worth of green bonds had been issued at end-2020.

In 2020 Nykredit updated its Green Bond Framework, which was established in compliance with ICMA's Green Bond Principles (GBP) and describes the principles of green loans. This allows Nykredit to finance a wide variety of sustainable assets such as renewable energy, energy renovations etc through green bonds.

Refinancing risk

Over a number of years Nykredit has reduced its refinancing risk and established an even maturity profile, for example by refinancing ARMs with short-dated funding into loan types with fixed interest rates or longer interest reset periods, mainly ARMs with 5-year interest reset, or Cita- or Cibor-linked loans. This trend was underpinned by the low interest rates.

Nykredit Group Mortgage lending by loan type



Nykredit holds refinancing auctions four times a year to reduce refinancing risk as much as possible. The annual maturity one year ahead totals DKK 253 billion, of which ordinary principal payments, prepayments etc total DKK 94 billion. Thus, refinancing volumes amount to DKK 158 billion.

	DKK billion
Nykredit Group	1 January
Refinancing¹	- 31 December 2021
Total maturity before set-off of self-issued bonds	252.5
- ordinary principal payments and scheduled ² prepayments (settled)	66.4
- ordinary principal payments and scheduled ² prepayments (not settled)	22.9
- pre-issued bonds and interest rate risk ²	4.8
Total refinancing volume	158.3
- pre-auctioned amount sold under forward contracts	(19.9)
Refinancing volume remaining for 1 January 2021	138.4
- 31 December 2021	138.4
of which SDOs and ROs	-
of which other issues	138.4

¹ Applicable for the January, April, July and October 2021 payment dates.

² Known as at 31 December 2020.

Because of the continued low interest rate levels, borrowers increasingly choose loans funded by bonds with maturities from 5 to 30 years. Annual refinancing volumes are expected to be maintained at around DKK 160 billion.

Liquidity and bond portfolio

The Group's bond portfolio comprises the liquid assets of the Group's mortgage lenders and Nykredit Bank. This includes portfolios attributable to market making in the mortgage lending and banking areas, proceeds from the issuance of senior secured and unsecured debt as well as encumbered assets.

In compliance with the balance principle, the bond portfolios of the mortgage lenders consist of a temporary portfolio relating to the refinancing of bullet covered bonds used to fund Nykredit's ARMs, funds prepaid such as ordinary principal payments, prepayments and mortgage loans not yet paid out. This is why the value of bonds in issue exceeds the value of the mortgage loan portfolio up to a payment date.

	DKK billion	
Nykredit Group		
Difference between mortgage lending and bonds in issue	2020	2019
Mortgage loans – nominal value, see note 20 a	1,321	1,263
Bonds in issue – nominal value, see notes 33 a and 33 b	1,421	1,415
Difference	100	152
The difference comprises:		
- Bonds sold in connection with refinancing ¹	30	33
- Ordinary principal payments and prepayments ²	68	112
- Pre-issued bonds in respect of which the underlying loans have not been disbursed and other pre-issues	1	7
Total	100	152

¹ Nykredit issues and auctions new bonds one month prior to the maturity of the existing bonds. The proceeds are used to buy back/redeem the bonds maturing on 2 January. For a period, there is a double set of bonds.

² The loan portfolio is 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 prepayment. Nykredit will generally place the proceeds in bonds maturing on one of the next payment dates.

Capital market funding

The regulatory requirement of a debt buffer of at least 2% of mortgage lending was fully phased in on 15 June 2020. Nykredit meets the fully loaded 2% debt buffer requirement. As from 2022, the debt buffer requirement will be adjusted so that, together with the own funds and MREL requirements in Nykredit Bank, it will amount to at least 8% of the consolidated balance sheet.

In 2020 Nykredit issued senior non-preferred debt of approximately DKK 15 billion to meet the debt buffer/MREL requirements. Senior non-preferred debt in issue totalled DKK 41.7 billion at year-end.

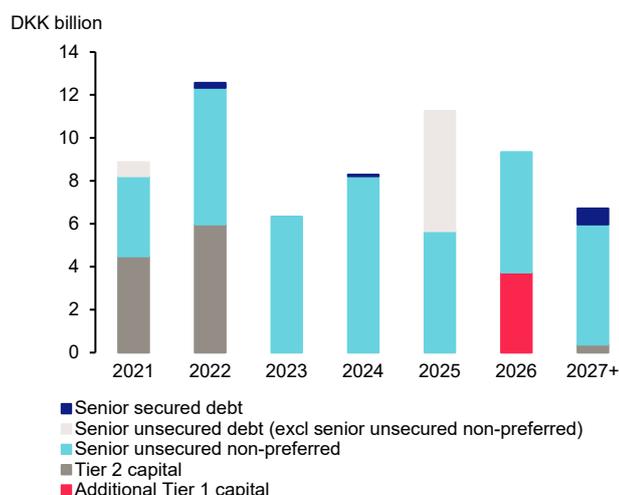
In H1 the Danish FSA relaxed its subordination requirement for MREL, which allowed Nykredit to meet part of the MREL requirement with senior preferred debt. As at 31 December 2020 Nykredit had issued senior preferred debt of DKK 5.6 billion.

On 6 October 2020 Nykredit Realkredit A/S issued AT1 capital of EUR 500 million (DKK 3.7 billion).

The Bank's senior unsecured debt outstanding consisted of Euro Medium Term Notes (EMTN) of DKK 0.5 billion and short-term ECP of DKK 4.9 billion as at 31 December 2020.

Nykredit Group

Maturity profile of capital market funding



Due to the debt buffer requirement, Nykredit must increase its bail-in-able liabilities by end-2021. Nykredit expects to issue about DKK 15 billion in 2021, of which Nykredit has issued DKK 0.9 billion-worth of senior non-preferred debt in January 2021.

ECP issuance will continue through Nykredit Bank.

Credit ratings

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

S&P Global Ratings

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

Senior non-preferred debt has a BBB+ rating with S&P.

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

Covered bonds issued by LR Realkredit are not and will not be rated.

Fitch Ratings

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

On 19 June 2020 Fitch changed the outlook on the Issuer Credit Rating from negative to stable. The previously negative outlook, announced by Fitch on 31 March 2020, mirrored the overall economic uncertainty revolving around the covid-19 pandemic. The stable outlook reflects Fitch's view that Nykredit has sufficient headroom to resist downside scenarios, particularly thanks to our strong capital position.

Senior non-preferred debt is rated A by Fitch.

Listing of ratings

For a complete overview of Nykredit's credit ratings with S&P and Fitch Ratings, please visit nykredit.com/rating.

DKK million

Nykredit Group

Bonds in issue	31.12.2020	31.12.2019
Covered bonds (ROs), see note 33 a	138,260	152,406
Covered bonds (SDOs), see note 33 b	1,282,909	1,262,714
Senior secured debt, see note 33 c	852	934
Senior preferred debt in Nykredit Bank A/S	516	595
Senior preferred debt in Nykredit Realkredit A/S	5,579	-
Senior non-preferred debt	41,651	30,306
Tier 2 capital, see note 43	10,893	11,004
AT1 capital, see note 2 (Nykredit Realkredit A/S)	3,720	3,735
ECP issues of Nykredit Bank A/S	4,885	3,185

Debt to fund Nykredit Bank is issued by Nykredit Realkredit, and the proceeds are transferred to Nykredit Bank by way of long-term inter-company funding.

The total funding and ECP issuance need will depend on the development in customer deposits and lending as well as the Bank's other business activities.

Issuance schedule for 2021

Nykredit Realkredit will continue to issue mortgage covered bonds (SDOs and ROs) on tap and at refinancing auctions. Nykredit expects to refinance bonds worth DKK 39 billion and DKK 35 billion at the auctions in February and May 2021, respectively, and DKK 33 billion and DKK 42 billion at the auctions in August and November 2021, respectively.

ESG ratings

The mounting general awareness of climate and environmental sustainability as well as governance is also present among investors and issuers. ESG ratings (Environmental, Social and Governance) are a tool used by investors and other stakeholders to assess a company's position relative to sustainability, corporate responsibility and governance.

Nykredit focuses on the ESG rating agencies, MSCI and Sustainalytics, which consider all ESG factors, as well as on the CDP (formerly Carbon Disclosure Project), which assesses the environmental impact of businesses. Nykredit finds that these agencies are currently the most used among our investors. The agencies have published unsolicited ratings of Nykredit based on publicly available information.

In November 2020 MSCI upgraded Nykredit's ESG rating by one notch from BBB to A, and in December 2020 the CDP upgraded Nykredit's rating by one notch from B to A-. Nykredit's ESG risk rating from Sustainalytics of 16.5 remained unchanged in 2020.

ESG rating agency	Nykredit's rating	Scale ¹
MSCI	A	AAA to CCC
Sustainalytics	16.5	0 to 100
CDP	A-	A to D-

¹ Highest to lowest rating (the lower the score, the better the rating).

Supervisory Diamond

Nykredit is subject to the Danish FSA's Supervisory Diamond, both at the level of the Group and the individual companies.

The Supervisory Diamond model for banks and mortgage lenders, respectively, uses five key benchmarks to measure if a bank or a mortgage lender is operating at an elevated risk.

Nykredit complies with all benchmark limits of the Supervisory Diamond model for banks and mortgage lenders as at 31 December 2020.

Nykredit Bank A/S		
Supervisory Diamond	31.12.2020	31.12.2019
Large exposures (limit value <175%)	132.3%	109.9%
Lending growth (limit value <20%)	8.7%	8.1%
Property exposure (limit value <25%)	12.6%	10.2%
Funding ratio (limit value <1.0)	0.60	0.57
Liquidity benchmark (limit value >100%)	150.7%	194.9%

Supervisory Diamond for mortgage lenders

Benchmark	Definition	Nykredit Realkredit Group 31 December 2020	Nykredit Realkredit A/S 31 December 2020	Limit value
Lending growth in segment				
Personal customers ¹	Annual lending growth may not exceed 15% in each of the segments personal customers, commercial residential properties, agricultural properties and other commercial.	6.0%	(19.4)%	15.0%
Commercial residential properties		6.3%	6.5%	15.0%
Agricultural properties		(1.3)%	(1.3)%	15.0%
Other commercial		3.1%	3.3%	15.0%
Borrower's interest rate risk				
Private residential and residential rental	The proportion of lending where the LTV ratio exceeds 75% of the statutory LTV limit and where the loan rate is fixed for up to two years only may not exceed 25% of the total loan portfolio.	11.0%	20.4%	25.0%
Interest-only loans				
Personal customers	The proportion of IO loans for owner-occupied and holiday homes with an LTV ratio above 75% of the statutory LTV limit may not exceed 10% of total lending.	7.2%	4.6%	10.0%
Loans with short-term funding				
Refinancing (annually)	The proportion of loans to be refinanced must be below 25% per year and below 12.5% per quarter.	9.7%	15.8%	25.0%
Refinancing (quarterly)		2.3%	2.1%	12.5%
Large exposures				
Loans and advances:equity	The sum of the 20 largest exposures must be less than equity.	39.7	38.8	100.0%

¹ The decrease in loans and advances to personal customers of Nykredit Realkredit A/S is a natural consequence of new lending for personal customers being issued through Totalkredit A/S.

CREDIT RISK

Credit risk reflects the risk of loss resulting from Nykredit's customers and counterparties defaulting on their obligations.

Nykredit's credit exposures mainly consist of mortgage loans. As mortgage loans are secured by real estate, credit risk is low. Credit risk on mortgage loans is typically characterised by a stable development.

Information related to covid-19

There is still substantial uncertainty about the impact of the covid-19 pandemic. Nykredit's main scenario is continuously reassessed, and at end-2020 the scenario assumed that GDP will return to the pre-covid-19 level in 2022.

Loan impairments related to covid-19 are comprised of three different components based on stress test calculations. Firstly, stress simulations have been performed for the stage 1 and stage 2 personal customer segment and the following business sectors: manufacturing, accommodation and food service activities, retail, arts, entertainment and recreation activities, transport, construction, sale and repair of motor vehicles, service providers, professionals, general practitioners, dentists, hospitals as well as business rental. Secondly, the property values of stage 3 customers have been stressed to simulate a reduction in collateral values. In stage 3 there is a higher probability of an adverse scenario for customers in vulnerable sectors, and lastly, the macroeconomic scenarios of the model have been updated to allow for the covid-19 impact, including relief packages.

In 2020 we offered our customers a number of solutions to mitigate the impact of covid-19, including greater possibilities of temporary overdrafts and payment holidays etc. For accounting purposes, this is a special loan option which does not make the loan terms more favourable. Accordingly, no special impairment provisions have been made for such credit facilities, where they were offered to customers who were creditworthy before the covid-19 crisis and not due to financial distress.

For further information about the impacts of covid-19 on impairment charges for loans and advances and lending mix, please refer to our Fact Book Q4/2020, which is available at Nykredit.com.

Provisions in 2020 related to covid-19

Nykredit has made loan impairment provisions of DKK 2,059 million in 2020 for the consequential losses arising from covid-19. This situation is monitored by Nykredit's scenario expert group, which regularly assesses the need for calculation updates based on input concerning relief packages, support schemes and overall international economic trends.

Nykredit Group

Loans, advances, guarantees and impairment charges for loans and advances

DKK million	Loans, advances and guarantees		Total provisions for loan impairment and guarantees		Impairment charges for loans and advances, earnings impact	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	2020	2019
Mortgage lending, nominal value						
Nykredit Realkredit	502,853	500,522	4,944	3,845	1,378	695
Totalkredit	798,424	740,289	1,633	1,469	296	82
LR Realkredit	20,209	21,877	75	51	25	-
Total	1,321,486	1,262,689	6,652	5,365	1,699	777
Loans and advances etc						
Nykredit Bank	71,146	65,466	3,012	2,526	475	190
Total	71,146	65,466	3,012	2,526	475	190
Receivables from credit institutions	43,215	52,413	22	28	(6)	7
Reverse repurchase lending	37,271	48,749	-	-	-	-
Guarantees	9,087	6,616	241	137	104	20
Loan impairment, %¹						
Nykredit Realkredit	-	-	0.98	0.77	0.27	0.14
Totalkredit	-	-	0.20	0.20	0.04	0.01
Total	-	-	0.50	0.42	0.13	0.06
Nykredit Bank	-	-	4.23	3.72	0.64	0.28
Total	-	-	4.23	3.72	0.64	0.28

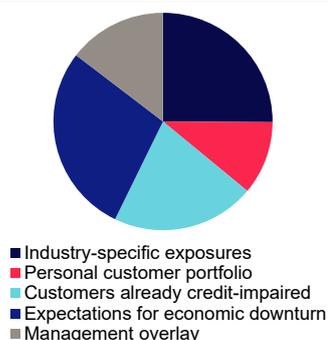
¹ Loan impairment excluding receivables from credit institutions, reverse repurchase lending and guarantees.

The loan portfolio has developed positively in 2020 and individual impairment provisions remain low. Arrears ratios have been declining for some portfolios and are stable for others. Write-offs have also been low.

The portfolio of personal customers has been reassessed from a covid-19 perspective, and at year-end provisions of DKK 225 million have been made based on management judgement. Moreover, stress simulations have been performed for the sectors manufacturing, accommodation and food service, retail and construction etc, which resulted in increased provisions of DKK 185 million in Q4/2020. Already credit-impaired customers have been subject to a reduction in collateral values, as the pandemic will impact general liquidity. The provisions are distributed at customer and facility level.

Nykredit's macroeconomic forecasts in connection with loan impairments related to covid-19 have been incorporated into the impairment models and in the model-based impairment provisions.

Breakdown of loan impairments related to covid-19



Credit models

Nykredit uses credit models to determine the capital requirement for credit risk. Nykredit also uses internal ratings-based (IRB) models in the determination of credit risk for the greater part of the loan portfolio. The determination of credit risk is based on three key parameters: Probability of Default (PD), expected Loss Given Default (LGD) and expected Exposure at Default (EAD). The three key parameters are estimated on the basis of Nykredit's customer default and loss history.

The PD is customer-specific, while the other parameters are product-specific. One PD is therefore assigned to each customer, while each of the customer's products has a separate LGD and EAD.

Expectations for macroeconomic models

Nykredit's impairment model calculations include forward-looking macroeconomic scenarios. The scenarios must reflect uncertainties relating to the economy as well as both improved and deteriorating outlooks. In 2020 the scenarios were updated to reflect the expected negative economic impact of the covid-19 crisis. The base scenario must reflect the economic environment, including the effect of covid-19 relief packages, taking into account the economic and general effects of coronavirus flare-ups and increased lockdown measures in Q4/2020. The base scenario carries a 55% weighting. The scenario implies expected GDP growth of 3.4% and house price rises of 2.0% in 2021 but based on a significant drop in GDP in 2020. The adverse scenario was included in the models with a weighting of 35%. This scenario implies expected GDP growth of 1.0% and house price declines of 3% in 2021. The improved scenario carries a 10% weighting and is based on the macroeconomic conditions observed at the date of this Annual Report. This scenario uses realised levels of interest rates, GDP, house prices and unemployment.

	%			
Nykredit Group				
Main scenarios for impairment calculations	2019	2020	2021	2022
Short-term rate ¹	(0.4)	(0.2)	(0.2)	(0.2)
Long-term rate ²	(0.2)	(0.3)	(0.2)	(0.1)
House prices ³	3.0	2.0	2.0	1.9
GDP ³	2.3	(3.8)	3.4	2.6
Unemployment ⁴	3.7	4.7	4.4	4.2

¹ Short-term rate reflects the Copenhagen Interbank Offered Rate (Cibor).

² Long-term rate reflects 10-year Danish government bonds.

³ House prices and GDP reflect annual changes as a percentage.

⁴ Unemployment is registered gross unemployment as a percentage of the workforce stated as an annual average.

There is still substantial uncertainty about the impact of the pandemic despite the relief packages from the Danish government and the covid-19 initiatives from the Danish banks. Nykredit's main scenario assumes that during 2022 GDP and house prices will return to the levels prevailing in the period immediately preceding the covid-19 pandemic due to the effects of the relief packages.

MORTGAGE LENDING

At end-2020 Nykredit's credit exposure in terms of nominal mortgage lending was DKK 1,321 billion, corresponding to an increase of DKK 58.8 billion (end-2019: DKK 1,263 billion).

The security underlying mortgage lending is substantial. Furthermore, mortgage loans granted via Totalkredit are covered by set-off agreements. The loss risk relating to personal loans is mitigated through an agreement with the partner banks. Under the agreement, incurred losses corresponding to the cash part of a loan exceeding 60% of the mortgageable value at the time of granting are offset against future commission payments to the partner banks having arranged the loan.

The average LTV was 61.3% at end-2020 (end-2019: 61.8%).

Nykredit Group

Arrears ratio – 75 days past due

Payment date	Arrears relative to total mortgage payments	Debt outstanding in arrears relative to total debt outstanding	Debt outstanding affected by arrears
	%	%	DKK billion
2020			
- September	0.26	0.19	2.41
- June	0.29	0.22	2.84
- March	0.34	0.25	3.15
2019			
- December	0.30	0.24	2.96
- September	0.35	0.25	3.11
- June	0.36	0.28	3.47
- March	0.37	0.28	3.36

Total provisions for mortgage loan impairment

Total provisions for mortgage loan impairment equalled 0.50% of total mortgage lending, excluding credit institutions (end-2019: 0.42%). Total impairment provisions amounted to DKK 6,652 million at end-2020 (end-2019: DKK 5,365 million). The covid-19 provisions are based on stress test calculations and have been included in total impairment provisions.

Impairment charges for loans and advances are mainly attributable to:

DKK million	
Nykredit Group	
Total impairment provisions for mortgage lending	31.12.2020
Individual impairment provisions (stage 3)	2,681
Model-based impairment provisions (stages 1, 2 and 3)	3,971
- of the above attributable to covid-19	1,482
Total impairment provisions for mortgage lending	6,652

Stress test calculations are made as a supplement to model-based impairment provisions to the extent that recent economic changes (such as covid-19, unemployment, etc) have not yet been captured by Nykredit's models.

Earnings impact

Impairment charges for mortgage lending for the year came to DKK 1,699 million (2019: DKK 777 million). Of the impairment charges for loans and advances for the year, DKK 447 million was attributable to owner-occupied dwellings and DKK 1,252 million to the business segment.

Arrears

Mortgage loan arrears are determined 15 and 75 days past the due date. Mortgage loan arrears dropped to 0.26% of total mortgage payments due 75 days past the September due date (September 2019: 0.35%).

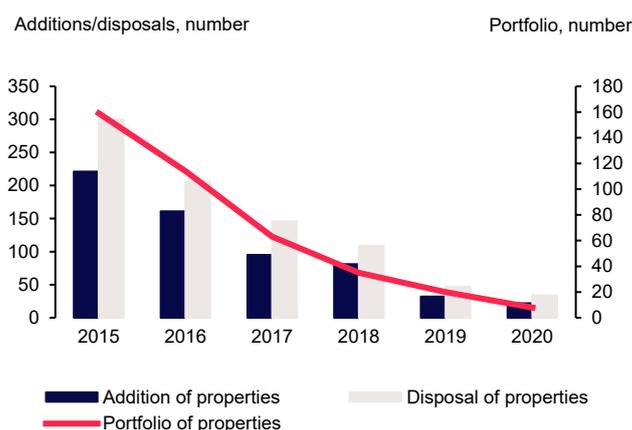
Bond debt outstanding affected by arrears as a percentage of total bond debt outstanding also decreased to DKK 2.41 billion (September 2019: DKK 3.11 billion).

Properties acquired by foreclosure

In 2020 the Group acquired 22 properties and sold 34. The property portfolio counted 8 properties at 31 December 2020 (end-2019: 20).

Nykredit Group

Properties acquired by foreclosure/sold



Nykredit Group

DKK million

Mortgage lending by property type¹

/number

Fair value at end-2020	Owner-occupied dwellings	Public housing ²	Cooperative housing	Private rental	Office and retail	Agriculture	Industry and trades	Other	Total
Mortgage lending									
- Bond debt outstanding	860,957	72,442	35,984	114,201	121,986	87,376	22,891	14,033	1,329,870
- Number of loans	696,697	14,323	5,113	26,597	17,269	28,997	2,287	1,764	793,047
Bond debt outstanding by loans subject to									
- public guarantees	290	46,759	349	14	51	100	3	81	47,647
- bank guarantees	43,823	-	-	-	-	-	-	-	43,823
- set-off agreements with partner banks	140,876	-	-	-	-	-	-	-	140,876
- no guarantee	675,967	25,684	35,635	114,187	121,935	87,276	22,888	13,952	1,097,524
Total	860,957	72,442	35,984	114,201	121,986	87,376	22,891	14,033	1,329,870
LR Realkredit		10,338	1,911		195			8,316	20,760
Total, including LR Realkredit	860,957	82,781	37,895	114,201	122,181	87,376	22,891	22,349	1,350,630
Bond debt outstanding by loans type									
Fixed-rate loans									
- repayment loans	339,541	16,718	12,834	11,338	20,325	6,355	5,543	4,694	417,348
- with interest-only period	153,671	60	3,462	13,650	2,673	10,177	10	539	184,241
Adjustable-rate mortgage loans (ARMs)									
- repayment loans, 1-year interest reset	12,334	201	127	1,029	1,032	1,300	182	85	16,289
- other repayment loans	80,672	33,935	1,395	10,295	11,929	7,206	1,651	793	147,876
- with interest-only period, 1-year interest reset	8,106	-	119	464	308	1,174	13	2	10,186
- other with interest-only period	127,698	17	4,481	24,742	10,988	9,897	2,693	176	180,692
Money market-linked loans									
Loans with interest rate cap									
- repayment loans	30,563	65	194	488	415	1,190	42	208	33,165
- with interest-only period	10,660	-	83	93	35	507	1	2	11,381
Loans without interest rate cap									
- repayment loans	31,864	301	541	12,290	24,376	18,922	4,789	4,030	97,114
- with interest-only period	65,847	89	11,303	39,785	49,903	30,648	7,966	3,436	208,977
Index-linked loans	0	21,058	1,446	27	2	-	-	69	22,601
Total	860,957	72,442	35,984	114,201	121,986	87,376	22,891	14,033	1,329,870
Bond debt outstanding by region									
Capital Region of Denmark	231,248	26,446	19,747	36,848	37,158	2,160	2,692	5,789	362,088
Sealand Region	110,042	8,012	3,164	5,522	11,719	12,746	2,027	870	154,101
North Denmark Region	113,374	8,228	3,309	10,351	8,321	21,706	2,516	1,081	168,886
Central Denmark Region	213,411	14,489	4,945	22,995	20,151	27,262	5,596	4,316	313,166
South Denmark Region	180,382	15,267	4,749	14,600	15,035	23,468	2,771	1,976	258,249
Faeroe Islands and Greenland	2,218	-	71	517	122	-	-	-	2,927
- Total foreign	10,282	-	-	23,370	29,479	34	7,288	-	70,453
Total	860,957	72,442	35,984	114,201	121,986	87,376	22,891	14,033	1,329,870
Bond debt by debt outstanding, DKK million									
0-2	526,172	4,845	1,403	15,017	8,464	14,625	1,098	665	572,289
2-5	294,453	7,316	5,487	15,239	11,045	28,279	1,532	1,215	364,566
5-10	37,434	24,588	17,195	26,344	23,040	39,069	2,843	3,680	174,193
20-50	2,485	18,978	7,120	16,010	16,018	4,716	1,629	2,409	69,364
50-100	312	11,215	2,414	11,576	12,720	686	1,207	1,417	41,547
100-	101	5,502	2,365	30,015	50,700	-	14,581	4,647	107,911
Total	860,957	72,442	35,984	114,201	121,986	87,376	22,891	14,033	1,329,870
Bond debt outstanding by remaining loan term, years									
0-10	20,423	6,272	449	24,935	38,673	1,760	5,607	821	98,941
10-15	47,147	7,902	2,277	4,415	23,549	4,618	4,222	1,963	96,093
15-20	121,604	10,593	10,988	12,624	37,039	15,118	13,006	4,173	225,145
20-25	160,591	26,629	6,300	19,902	10,122	25,843	43	1,850	251,279
25-30	511,192	21,019	15,969	52,324	12,603	40,037	14	5,225	658,383
30-35	-	27	1	-	-	-	-	-	27
35-	-	0	-	1	-	-	-	-	1
Total	860,957	72,442	35,984	114,201	121,986	87,376	22,891	14,033	1,329,870

¹ The breakdown by property type is not directly comparable with Nykredit's business areas.

² Public housing includes mortgage lending for subsidised urban renewal.

BANK LENDING

Bank lending at amortised cost amounted to DKK 71.1 billion at end-2020 (end-2019: DKK 65.5 billion).

Reverse repurchase lending totalled DKK 37.3 billion at end-2020 (end-2019: DKK 48.7 billion). Guarantees provided amounted to DKK 9.1 billion (end-2019: DKK 6.6 billion).

Nykredit Group		
Bank lending and guarantees	DKK million	
	2020	2019
Bank lending	71,146	65,466
Reverse repurchase lending	37,271	48,749
Guarantees	9,087	6,616
Total	117,504	120,831

Provisions for bank loan impairment (exclusive of credit institutions and guarantees) totalled DKK 3,012 million at end-2020 (end-2019: DKK 2,526 million). The covid-19 provisions are based on stress test calculations and included in total impairment provisions.

Impairment charges for loans and advances are mainly attributable to:

DKK million	
Nykredit Group	
Total provisions for bank loan impairment	31.12.2020
Individual impairment provisions (stage 3)	1,960
Model-based impairment provisions (stages 1, 2 and 3)	1,052
- of the above attributable to covid-19	577
Total provisions for bank loan impairment	3,012

Guarantees

Guarantees provided were DKK 9,087 million at end-2020 (end-2019: DKK 6,616 million), which represented a rise of 37%. At end-2020, provisions for guarantees amounted to DKK 241 million (end-2019: DKK 137 million).

Earnings impact

Impairment charges for loans and advances and provisions for guarantees for the year were DKK 579 million (2019: DKK 210 million).

Nykredit Group

Credit exposures: bank lending, reverse repurchase lending and guarantees by sector¹

	31.12.2020			31.12.2019		
	Lending, year-end	Total impairment provisions	Earnings impact	Lending, year-end	Total impairment provisions	Earnings impact
Public sector	866	4	3	765	1	(1)
Agriculture, hunting, forestry and fishing	3,431	184	30	4,197	164	27
Manufacturing, mining and quarrying	9,759	415	134	8,921	285	3
Energy supply	7,096	40	16	2,857	30	6
Construction	2,631	198	8	3,723	198	37
Trade	8,788	453	111	7,831	335	63
Transport, accommodation and food service activities	7,193	183	101	5,780	99	22
Information and communication	3,262	106	5	3,434	102	48
Finance and insurance	43,211	144	33	54,702	122	2
Real estate	16,566	595	123	14,266	472	20
Other	8,426	355	54	9,941	266	5
Total business customers	110,363	2,673	615	115,651	2,072	233
Personal customers	26,914	576	(39)	33,773	589	(22)
Total	138,143	3,254	579	150,188	2,663	210
- of which provisions for losses under guarantees		241	105		137	20
Impairment provisions for credit institutions		12	(1)		12	0
- of which intercompany guarantees	20,639	-		29,358	-	-
Total		3,266	578		2,675	210

¹ As the breakdown is based on public sector statistics, it is not directly comparable with the Bank's business areas.

ORGANISATION AND MANAGEMENT

ORGANISATION AND RESPONSIBILITIES

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

The Board of Directors must be composed so that it possesses the right mix of skills required to undertake the executive and strategic management of the business and to take any measures to ensure that the business is operated in a responsible and satisfactory way; to this end, it must possess the knowledge and experience required to be able to critically assess and challenge the work and proposals of the Executive Board.

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

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

Further details on the composition, size and diversity of the Board of Directors as well as the CVs of the individual board members are available at nykredit.com/boardofdirectors.

Performance evaluation of the Board of Directors in 2020

In H2/2020 Nykredit's Board of Directors conducted the annual Board evaluation. The Board evaluation, which was conducted by Chairman Merete Eldrup, comprised a questionnaire survey as well as interviews with members of the Board of Directors and the Executive Board.

The evaluation outcomes were presented to the Board of Directors at their meeting on 2 December 2020 where the Board's performance and collaboration with the Group Executive Board were thoroughly discussed.

The outcomes of the Board evaluation were generally positive. The main conclusion was that the Board of Directors is effective, has the right skills and works efficiently, that the collaboration between the Board, the board committees and the Group Executive Board is effective and that the organisation of the work and the documentation provided to the Board of Directors are generally of a high quality.

It was also concluded that continuous efforts should be made to find more time for discussions of special business matters and to optimise the use of the board committees to ensure that board meeting discussions focus on the matters most relevant to Nykredit.

The next Board evaluation is scheduled for H2/2021.

Board Committees

The Board of Directors of Nykredit Realkredit A/S has appointed a Board Audit Committee, a Board Risk Committee, a Board Nomination Committee and a Board Remuneration Committee. These Committees advise the Board of Directors on particular matters and prepare cases for review by the entire Board of Directors, each within their field of responsibility.

Board Audit Committee

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

The Board Audit Committee consists of Jørgen Høholt, former Banking Executive, (Chairman), Per W. Hallgren, CEO, and Vibeke Krag, former CEO, who are all members of the Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S elected by the Annual General Meeting.

The Board Audit Committee held 7 meetings in 2020.

Board Risk Committee

The function of the Board Risk Committee is to oversee Nykredit's overall risk profile and strategy, including to assess the long-term capital requirement and the capital policy. It also assesses risks related to products, business model, remuneration structure and incentives as well as risk models and methodological basis. The Board Risk Committee also assists the Board of Directors in overseeing that the risk appetite defined by the Board of Directors is implemented correctly in the organisation.

The Board Risk Committee consists of Per W. Hallgren, CEO (Chairman), Michael Demsitz, CEO, Jørgen Høholt, former Banking Executive, and Hans-Ole Jochumsen, former Vice Chairman, who are all members of the Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S elected by the Annual General Meeting.

The Board Risk Committee held 7 meetings in 2020.

Board Nomination Committee

The Board Nomination Committee is tasked with making recommendations to the Board of Directors on the nomination of candidates for the Board of Directors and the Executive Board. The Committee also advises the Board of Directors with respect to targets for the under-represented gender on the Board of Directors and laying down a diversity policy applying to the same. In addition, the Board Nomination Committee, reporting to the Board of Directors, is ultimately responsible for defining the skills profiles of the Board of Directors and the Executive Board and for the continuous evaluation of their performance and achievements.

The Board Nomination Committee consists of Merete Eldrup, former CEO (Chairman), Nina Smith, Professor, and Per W. Hallgren, CEO,

who are all members of the Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S elected by the Annual General Meeting.

The Board Nomination Committee held 4 meetings in 2020.

Board Remuneration Committee

The principal tasks of the Board Remuneration Committee are to qualify proposals for remuneration prior to consideration by the Board of Directors and to make recommendations in respect of Nykredit's remuneration policy, including guidelines on incentive pay, for the approval of the Board of Directors, as well as to assist in ensuring that these are observed. Moreover, the Board Remuneration Committee reviews and considers the criteria for and process of appointing risk takers, assesses whether the Group's processes and systems relative to remuneration are sufficient and takes into consideration the Group's risks, and ensures that the remuneration policy and practices are in alignment with and promote sound and effective risk management and are in accordance with the Group's business strategy, objectives, values and long-term interests. Finally, the Board Remuneration Committee ensures that the information in the Annual Report about remuneration of the Board of Directors and the Group Executive Board is correct, fair and satisfactory.

The Board Remuneration Committee consists of Merete Eldrup, former CEO (Chairman), Nina Smith, Professor, and Per W. Hallgren, CEO, who are all members of the Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S elected by the Annual General Meeting, and of Olav Bredgaard Brusen, Deputy Chairman of NYKREDS, who is staff-elected member of the Board of Directors of both companies.

The Board Remuneration Committee held 3 meetings in 2020.

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

Group Executive Board

Nykredit's Group Executive Board consists of Michael Rasmussen, Group Chief Executive, David Hellemann, Group Managing Director (CFO/COO), Anders Jensen, Group Managing Director (CRO) and Tonny Thierry Andersen, Group Managing Director (Banking).

Committees

The Group Executive Board has set up five committees, which perform specific tasks within selected fields. Each committee must report to the entire Group Executive Board, and the individual members may at any time request the Executive Board to decide on a case.

The Credits Committee is charged with ensuring adequate credit risk management and approving and/or deciding credit applications and loan impairments as well as overseeing the management of risks in the Nykredit Group's credits area. The Committee manages the Group's loan portfolio and submits recommendations on credit policies to the individual Executive Boards and Boards of Directors. The Committee lays down business procedures for the granting of credits within the limits of the guidelines laid down by the Group Executive Board and the Board of Directors. The Committee's remit covers Nykredit Realkredit A/S, Nykredit Bank A/S and Nykredit Leasing A/S.

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

The Group Risk Committee is charged with overseeing the Nykredit Group's overall risk profile and capital requirements, in order to assist the individual Executive Boards and Boards of Directors of the Nykredit Group in ensuring compliance with current legislation and practice. The Committee's remit covers Nykredit Realkredit A/S, Totalkredit A/S, Nykredit Bank A/S, Nykredit Portefølje Administration A/S and Nykredit Leasing A/S.

The Contingency Committee has the overall responsibility for compliance with IT security policy rules in relation to contingencies (major accidents and catastrophes) and the Group's entire spectrum of contingency plans covering IT as well as business aspects. The Committee's remit covers Nykredit A/S, Nykredit Realkredit A/S, Totalkredit A/S, Nykredit Bank A/S, Nykredit Portefølje Administration A/S, Nykredit Leasing A/S and Nykredit Mægler A/S.

The Products Committee's overarching objective is to ensure that the Nykredit Group's products meet applicable business and regulatory requirements. The Committee must ensure that any launch of new or changes to existing products and services, involving material risks for the Group, the individual companies, counterparties or customers, are in alignment with the business models of the individual companies and comply with the current product policy and the Executive Boards' guidelines for development and approval of new products and services. Further, the Committee must regularly monitor and evaluate the existing products and assess any need for changing or adjusting individual products or an entire product range. The Committee's remit covers Nykredit Realkredit A/S, Totalkredit A/S, Nykredit Bank A/S, Nykredit Portefølje Administration A/S and Nykredit Leasing A/S.

CORPORATE GOVERNANCE

Some years ago, it was decided that Nykredit should act as a listed company for external purposes and operate on the basis of sound business terms.

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

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, are aimed at ordinary listed companies with many shareholders.

Nykredit differs from ordinary listed companies, as it has only a limited number of shareholders: Forenet Kredit, Industriens Fond, Østifterne

f.m.b.a., PRAS A/S and a group of Danish pension companies headed by PFA Pension and with PensionDanmark, PKA, AP Pension and AkademikerPension as co-investors.

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 per se creates a favourable setting for a close dialogue between the shareholders and the company management.

Where appropriate, Nykredit also complies with the managerial code of conduct of Finance Denmark, which supplements the Recommendations on Corporate Governance. Information on Nykredit's organisation and corporate governance is available at nykredit.com/corporate-governance.

Forenet Kredit

In 1991 the mortgage association Nykredit was converted into a public limited company. Nykredit operates its business through Nykredit Realkredit A/S, the object of which is to carry on mortgage banking and other financial business. The company is wholly owned by Nykredit A/S, the object of which is to carry on Nykredit's business. Forenet Kredit is the largest shareholder of Nykredit A/S, holding 78.9% of the shares. Its objects are to be a shareholder of Nykredit and to carry on financially sustainable mortgage banking and other financial business for the benefit of its customers. The members of Forenet Kredit's Board of Directors elected by the Committee of Representatives make up 4 of 9 of the Board of Directors of Nykredit A/S and 4 of 7 of the Board of Directors of Nykredit Realkredit A/S.

REMUNERATION

Material risk takers

At end-2020, the Group had identified a total of 240 risk takers:

- Members of the Board of Directors: 25
- Group Managing Directors: 4
- Managing Directors of financial subsidiaries: 8
- Other material risk takers: 203

The criteria for identifying other material risk takers are approved annually by the Board of Directors in accordance with current EU rules.

Remuneration of material risk takers

Pursuant to the Danish Financial Business Act, material risk takers are subject to special restrictions, chiefly in relation to variable remuneration. 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 the possibility that Nykredit may retain the deferred amount under special circumstances.

The Boards of Directors of Nykredit A/S and Nykredit Realkredit A/S in 2016 decided to grant three members of the Executive Board retention payment to be earned over several years. Provisions for retention payment for the Executive Board of DKK 13 million were made for 2020.

Except from the above potential retention payment, the members of the Board of Directors and the Group Executive Board do not receive variable remuneration, nor bonus awards. The total remuneration of

the Board of Directors and the Group Executive Board appears from note 14 of the Financial Statements.

The bonus provisions in respect of Subsidiary Managing Directors and other risk takers amounted to DKK 68 million for 2020 (2019: DKK 78 million). The 2020 bonus provisions corresponded to 23% of their fixed salaries.

The total remuneration of risk-takers appears from note 14 of these Financial Statements. Details on variable remuneration of risk takers, remuneration policy and practices are available at nykredit.com/remuneration

Bonus programmes

Special individual bonus programmes apply to some of the staff of Markets Trading, Asset Management, Investments and Group Treasury who have major earnings responsibility, in line with market standards for such positions. The remuneration of these staff members is chiefly based on their job performance. The 2020 bonus provisions in respect of these staff members (excluding risk takers) amounted to DKK 51 million (2019: DKK 57 million). The 2020 bonus provisions corresponded to 42% of their fixed salaries.

In addition, a limited number of individual bonus programmes apply to selected staff members. The 2020 bonus provisions in respect of these staff members (excluding risk takers) amounted to DKK 26 million (2019: DKK 23 million). The 2020 bonus provisions corresponded to 25% of their fixed salaries.

Bonus programmes under which the variable remuneration component may reach up to 25% of the base salary apply to other members of management and a small number of the members of staff in high-level positions or tasked with special projects. The 2020 bonus provisions in respect of these management and staff members (excluding risk takers) amounted to DKK 5 million (2019: DKK 5 million). The 2020 bonus provisions corresponded to 4% of their fixed salaries.

Effective from 2019 as the first qualifying year, a long-term (2-year) incentive scheme has been established for a limited number of members of management reporting directly to the Group Executive Board. For 2020, provisions for the scheme amounted to DKK 11 million (2019: DKK 35 million).

A number of staff members employed with the Group following the integration of Sparinvest are covered by an incentive scheme previously applied by Sparinvest. For 2020, provisions for the scheme amounted to DKK 11 million (2019: DKK 8 million).

The bonus programmes do not apply to other management or staff members, but they may receive individual one-off awards. The 2020 provisions for one-off awards came to DKK 14 million (2019: DKK 10 million), which corresponded to 1% of the relevant group's fixed salaries.

Total provisions for accounting purposes for bonuses and one-off awards for 2020 came to DKK 161 million (2019: DKK 169 million), excluding the long-term incentive scheme. The total provisions for bonuses and one-off awards for 2020 corresponded to 6% of total fixed salaries.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

Nykredit's internal controls and risk management relating to the financial reporting process have been designed to efficiently manage and minimise the risk of errors and omissions in connection with financial reporting.

Financial reporting process

The Board of Directors and the Executive Board have the overall responsibility for the financial reporting process and for compliance with relevant accounting legislation and any other regulation of financial reporting.

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 regularly reviews items in respect of which estimates may have a material impact on the value of assets and liabilities.

The process is based on a number of fixed routines, including the planning process, which are prepared together with material business units, management support functions and the Executive Board.

Group Finance & Investments, which includes the finance functions of Nykredit A/S, Nykredit Realkredit A/S, Totalkredit A/S, Nykredit Bank A/S, Nykredit Portefølje Administration A/S and Sparinvest SE and LR Realkredit, undertakes the Group's overall financial reporting and is responsible for ensuring that Group financial reporting complies with policies laid down and current legislation. Group Finance & Investments is also responsible for the day-to-day internal reporting in the Treasury and Markets areas.

Group Finance & Investments prepares monthly internal reports and performs budget control, which includes accounting for the monthly, quarterly and annual results. Further, Group Finance & Investments is responsible for the Group's external annual and interim financial reporting.

The finance units of other subsidiaries, including Nykredit Leasing A/S and Nykredit Mægler, 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.

The finance units of each subsidiary are responsible for their own reporting. Financial data and Management's comments on financial and business results are reported monthly to Group Finance & Investments.

Control environment

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

The Executive Board is responsible for risk delineation, management and monitoring.

In addition to this, the Board Audit Committee oversees the effectiveness of Nykredit's internal control systems, financial reporting, internal audit and risk management. The Committees perform the current management and monitoring on behalf of the Executive Board.

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, including unlisted financial instruments and impairment charges for loans and advances
- Review of the 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 Nykredit'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.

Business procedures have been laid down and controls implemented for all material and high-risk areas, and Group-wide general principles and requirements for the preparation of business procedures and a process for the approval of business procedures in material risk areas have been established. The controls comprise manual and physical controls as well as general IT controls and automatic controls in the IT systems applied.

In connection with the preparation of financial statements, a number of fixed procedures and internal controls are performed. These procedures and controls include fixed analysis and reconciliation routines and compliance with fixed business procedures as well as ongoing dialogue with Nykredit's business units and management support functions for the purpose of obtaining a business assessment of the information in the financial statements.

Communication and information

The Board of Directors has adopted an overall communications policy, stating that Nykredit is committed to a transparent and credible business conduct – in compliance with legislation and the Stock Exchange Code of Ethics. The communications policy is reviewed once a year by the Board of Directors and was last revised in October 2020.

Nykredit's Boards of Directors and Executive Boards regularly receive internal and external financial reporting. Internal reporting includes analyses of important issues with respect to Nykredit's business areas and subsidiaries etc.

For further information on the Group's risk and capital management, please refer to the publication Risk and Capital Management 2020, available at nykredit.com/riskandcapitalmanagement.

COMPANY DETAILS

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

Website: nykredit.com
Tel: +45 44 55 10 00

CVR no: 12 71 92 48
Financial year: 1 January – 31 December
Municipality of registered office: Copenhagen

External auditors

Deloitte
Deloitte Chartered Accountant Company
Weidekampsgade 6
DK-2300 Copenhagen S

Annual General Meeting

The Annual General Meeting of the Company will be held on 25 March 2021.

BOARD OF DIRECTORS

Merete Eldrup, former Chief Executive Officer
Chairman

Nina Smith, Professor
Deputy Chairman

Olav Bredgaard Brusen, Deputy Chairman of Finansforbundet NYKREDS*
Michael Demsitz, Chief Executive Officer
Per W. Hallgren, Chief Executive Officer
Jørgen Høholt, former Banking Executive
Hans-Ole Jochumsen, former Vice Chairman
Vibeke Krag, former Chief Executive Officer
Allan Kristiansen, Chief Relationship Manager*
Ann-Mari Lundbæk Lauritsen, Political Secretary of Finansforbundet NYKREDS*
Lasse Nyby, Chief Executive Officer
Claus E. Petersen, Deputy Chief Executive Officer
Inge Sand, Senior Agricultural Adviser*
Kristina Andersen Skiöld, Chairman of Finansforbundet NYKREDS*

* Staff-elected member

See pages 157-161 for directorships and executive positions of the members of the Board of Directors and the Executive Board.

BOARD AUDIT COMMITTEE

Jørgen Høholt, Chairman
Per W. Hallgren
Vibeke Krag

BOARD RISK COMMITTEE

Per W. Hallgren, Chairman
Michael Demsitz
Jørgen Høholt
Hans-Ole Jochumsen

BOARD NOMINATION COMMITTEE

Merete Eldrup, Chairman
Nina Smith
Per W. Hallgren

BOARD REMUNERATION COMMITTEE

Merete Eldrup, Chairman
Nina Smith
Per W. Hallgren
Olav Bredgaard Brusen

EXECUTIVE BOARD

Michael Rasmussen
Group Chief Executive

Tonny Thierry Andersen
Group Managing Director

David Hellemann
Group Managing Director

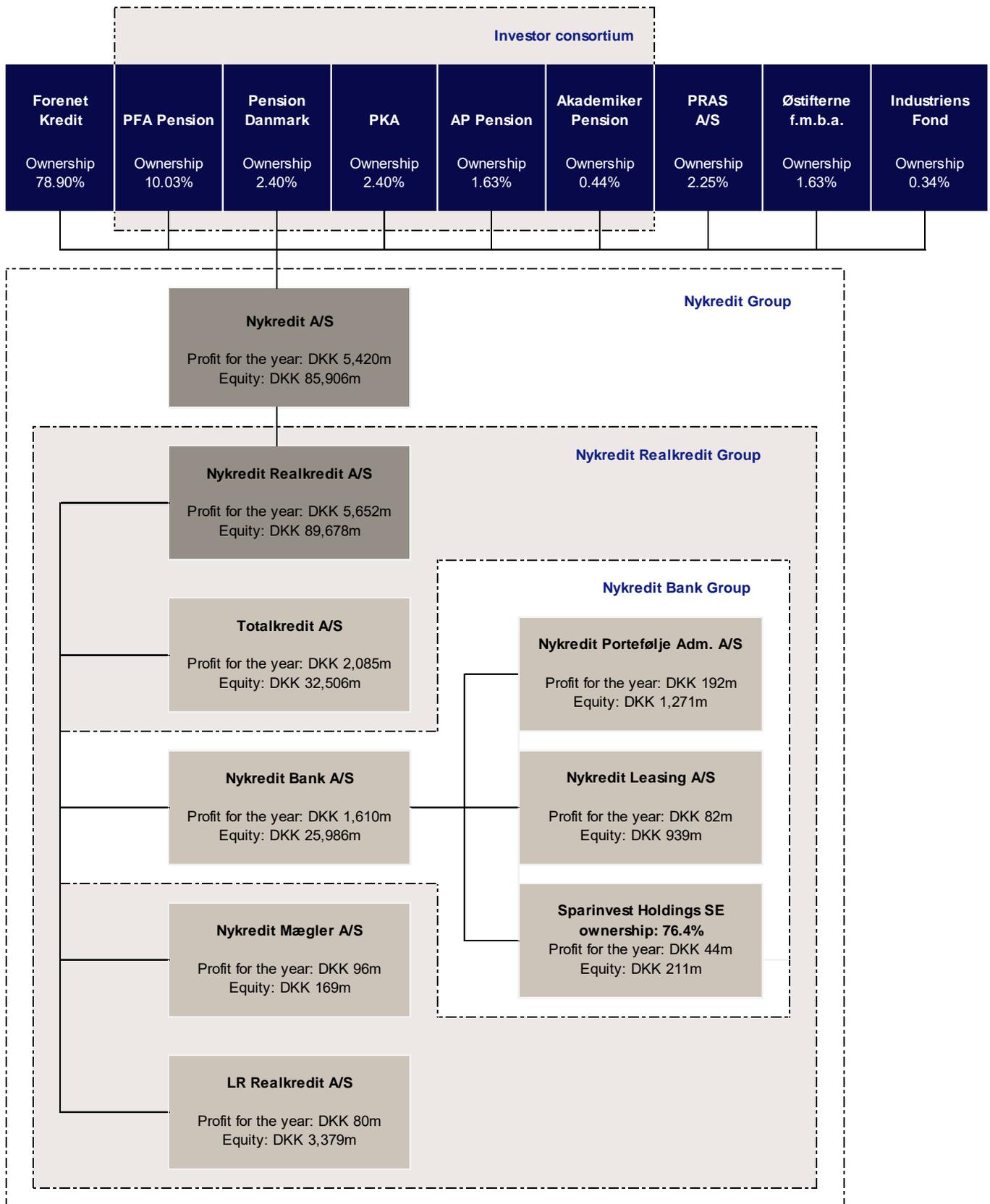
Anders Jensen
Group Managing Director

At nykredit.com you may read more about the Nykredit Group and download the following reports:

- Annual Report 2020
- CR Report 2020
- Risk and Capital Management 2020.

Information on corporate governance is available at nykredit.com/organisation

GROUP CHART



ALTERNATIVE PERFORMANCE MEASURES

In the opinion of Management, the Management Commentary should be based on the internal management and business division reporting, which also forms part of Nykredit's financial governance. This will provide readers of the financial reports with information that is relevant to their assessment of Nykredit's financial performance.

The income statement format of the financial highlights on page 5 and the business areas (pages 16-26 and note 3) reflect the internal management reporting.

In certain respects, the presentation of the financial highlights differs from the format of the Financial Statements prepared under the International Financial Reporting Standards (IFRS). No correcting entries have been made, which means that profit for the year is the same in the financial highlights and in the IFRS-based Financial Statements. The reclassification in note 4 shows the reconciliation between the presentation in the financial highlights table of the Management Commentary and the presentation in the Consolidated Financial Statements prepared according to the IFRS and includes:

"Net interest income" comprising net administration margin income from mortgage lending as well as interest income from bank lending and deposits. The corresponding item in the income statement (page 51) includes all interest.

"Net fee income" comprising income from mortgage refinancing and mortgage lending, income from bank lending, service fees, provision of guarantees and leasing business etc.

"Wealth management income" comprising asset management and administration fees etc. This item pertains to business with customers conducted through the Group's entities Nykredit Markets, Nykredit Asset Management, Nykredit Portefølje Administration A/S and Sparinvest, but where income is ascribed to the business areas serving the customers.

"Net interest from capitalisation" comprising the risk-free interest attributable to equity and net interest from subordinated debt etc. Net interest is composed of the interest expenses related to debt, adjusted for the internal liquidity interest. "Trading, investment portfolio and other income", which includes income from swaps and derivatives transactions currently offered, Nykredit Markets activities, repo deposits and lending, debt capital markets activities as well as other income and expenses not allocated to the business divisions, including income from the sale of real estate.

"Net income relating to customer benefits programmes" comprising discounts etc, such as KundeKroner, ErhvervsKroner and MineMål granted to the Group's customers. The amount includes contributions received. The effect of the benefits programmes is included under "Group Items".

Supplementary financial ratios etc

In relation to the internal presentation of income, a number of supplementary financial ratios are included in the Management Commentary.

Profit (loss) for the year as % of average business capital (ROAC).

The return target appearing from the table in the financial highlights shows profit (loss) for the year relative to average business capital. Profit corresponds to net profit or loss less interest expenses for Additional Tier 1 capital, which is treated as dividend in the Financial Statements. Business capital corresponds to a capital target of 16% of the risk exposure amount.

Profit (loss) for the year as % of average equity. Profit (loss) for the year is calculated as stated above. Average equity is calculated on the basis of the value at the beginning of the period and at the end of all quarters of the period.

Costs as % of income is calculated as the ratio of "Costs" to "Income".

Impairment charges for the year, %. Impairment charges are calculated based on impairment charges for loans and advances relative to loans and advances.

MANAGEMENT STATEMENT AND AUDIT REPORTS

STATEMENT BY THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD

The Board of Directors and the Executive Board have today reviewed and approved the Annual Report for the period 1 January – 31 December 2020 of Nykredit A/S and the Nykredit Group.

The Consolidated Financial Statements have been presented in accordance with International Financial Reporting Standards as adopted by the EU. The Financial Statements and the Management Commentary are prepared in accordance with the Danish Financial Business Act.

In our opinion, the Consolidated Financial Statements and the Financial Statements give a true and fair view of the Group's and the Parent's assets, liabilities, equity and financial position at 31 December 2020 and of the results of the Group's and the Parent's operations and the Group's cash flows for the financial year 2020.

Further, in our opinion, the Management Commentary gives a fair review of the development in the operations and financial circumstances of the Group and the Parent as well as a description of the material risk and uncertainty factors which may affect the Group and the Parent.

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

Copenhagen, 11 February 2021

Executive Board

Michael Rasmussen
Group Chief Executive

Tonny Thierry Andersen
Group Managing Director

David Hellemann
Group Managing Director

Anders Jensen
Group Managing Director

Board of Directors

Merete Eldrup
Chairman

Nina Smith
Deputy Chairman

Olav Bredgaard Brusen*

Michael Demsitz

Per W. Hallgren

Jørgen Høholt

Hans-Ole Jochumsen

Vibeke Krag

Allan Kristiansen*

Ann-Mari Lundbæk Lauritsen*

Lasse Nyby

Claus E. Petersen

Inge Sand*

Kristina Andersen Skiøld*

* Staff-elected member

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Nykredit A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Nykredit A/S for the financial year 1 January to 31 December 2020, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including the summary of significant accounting policies, for the Group as well as for the Parent, and the consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds, and the parent financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at 31 December 2020 and of its financial performance and cash flows for the financial year 1 January to 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds.

Also, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at 31 December 2020 and of its financial performance for the financial year 1 January to 31 December 2020 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements" section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were appointed auditors of Nykredit A/S for the first time on 1 August 1991 for the financial year 1991. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 30 years up to and including the financial year 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan impairment charges	How the matter was addressed in our audit
<p>The Group's loans and advances amount to DKK 1,459,687 million at 31 December 2020 (DKK 1,402,200 million at 31 December 2019), and impairment charges therefor amount to DKK 2,272 million in 2020 (DKK 994 million in 2019) in the consolidated financial statements.</p> <p>We consider the measurement of impairment charges a key audit matter as the determination of expected losses is based on management judgement and subject to significant uncertainty. Due to the significance of such management judgement and the loan volumes of the Group and the Parent, auditing impairment charges for loans and advances is a key audit matter.</p> <p>The principles for determining expected credit losses are described in the Summary of significant accounting policies, and Management has described the management of credit risks and the review for impairment in more detail in notes 16 and 50 to the consolidated financial statements.</p> <p>In 2020, recognising the effects of COVID-19 has required particular focus in terms of both management judgements and management add-ons in models.</p> <p>The areas of loans involving the highest level of management judgement, thus requiring greater audit attention, are:</p> <ul style="list-style-type: none"> ■ Identification of credit-impaired exposures ■ Parameters and management judgements applied in the calculation model used to determine Stage 1 and Stage 2 expected losses ■ Valuation of collateral and future cash flows, including management judgement involved in determining Stage 3 expected losses ■ The assessment of the effects of COVID-19 and other events that were not already considered by the models in terms of management judgements incorporated in the models and management add-ons in the models. 	<p>Based on our risk assessment, our audit comprised a review of relevant central and decentral business procedures, test of controls and analysis of the amount of impairment charges.</p> <p>Our audit procedures included testing relevant controls regarding:</p> <ul style="list-style-type: none"> ■ Current assessment of credit risk ■ Assessment and validation of input and assumptions applied in calculating Stage 1 and Stage 2 impairment charges ■ Determining management judgements in the model and Stage 3. <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"> ■ Reviewing, on a sample basis, exposures to ensure timely identification of credit-impaired loans ■ Challenging the parameters and significant assumptions applied in the calculation models and reviewing the staging methodology and the data used ■ Challenging the procedures and methodologies applied for the areas involving the highest level of management judgement by using our industry knowledge and experience ■ Challenging management judgements in the calculation model used with special focus on management consistency and bias, including documentation of the adequacy of management judgements ■ Reviewing, on a sample basis, credit-impaired loans and advances, including checking for adequate impairment charges ■ Challenging management judgements incorporated in the models and management add-ons in the models in relation to the effects of covid-19 and other events that had not already been considered by the models.
<p>Fair value of swaps</p> <p>Determining the value of swaps is subject to significant uncertainty and complexity and is highly based on management judgement. Due to the significance of such management judgement, swaps are a key audit matter. The Group's swaps amount to DKK 21,322 million (DKK 20,832 million at 31 December 2019) for positive and DKK 10,691 million (DKK 12,462 million at 31 December 2019) for negative fair values at 31 December 2020.</p> <p>The principles for determining the value are described in the Summary of significant accounting policies, and Management has further described the management of market risks and the determination of value in notes 46 and 50 to the consolidated financial statements.</p> <p>The areas involving the highest level of judgements and complexity, thus requiring greater audit attention, are:</p> <ul style="list-style-type: none"> ■ Assessment of customers' ability to pay ■ Practice for methodologies applied in the valuation of swaps. 	<p>How the matter was addressed in our audit</p> <p>Our audit comprised a review of relevant business procedures, test of key controls and analysis of valuations.</p> <p>Furthermore, our audit procedures included:</p> <ul style="list-style-type: none"> ■ Assessing the model applied to calculate the risk of customers' non-payment by using our industry knowledge and experience ■ Assessing the changes in the assumptions against sector trends and historical observations ■ Performing a risk-based test of valuation of swaps with customers.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements or the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the management commentary.

Management's responsibilities for the consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Business Act, and for the preparation of parent financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error

and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 11 February 2021

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Henrik Wellejus
State-Authorised
Public Accountant
Identification No 24807

Bjørn Würtz Rosendal
State-Authorised
Public Accountant
Identification No 40039

INCOME STATEMENTS

Nykredit A/S		DKK million			
2019	2020		2020	2019	
		Note	Nykredit Group		
INCOME STATEMENTS					
0	0	Interest income	7	23,433	25,095
-	-	Interest income based on the effective interest method	7	2,016	1,932
0	0	Interest expenses	8	14,212	15,990
(0)	(0)	Net interest income		11,237	11,038
-	-	Dividend on equities etc	9	50	169
-	-	Fee and commission income	10	3,815	3,623
-	-	Fee and commission expenses	11	3,747	4,056
(0)	(0)	Net interest and fee income		11,355	10,774
-	-	Value adjustments	12	2,050	2,130
-	-	Other operating income	13	1,409	2,198
20	11	Staff and administrative expenses	14	5,302	4,850
-	-	Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	15	294	305
-	-	Other operating expenses		176	191
-	-	Impairment charges for loans, advances and receivables etc	16	2,272	994
7,210	5,429	Profit from investments in associates and Group enterprises	17	8	5
7,190	5,418	Profit before tax		6,780	8,766
(5)	(2)	Tax	18	1,116	1,340
7,194	5,420	Profit for the year		5,664	7,427
Distribution of profit for the year					
7,194	5,420	Shareholders of Nykredit A/S		5,420	7,194
-	-	Minority interests		21	(1)
-	-	Holders of Additional Tier 1 capital notes		223	233
7,194	5,420	Profit for the year		5,664	7,427
Proposal for the distribution of profit					
7,210	5,429	Statutory reserves			
(3,626)	(2,209)	Retained earnings			
3,610	2,200	Proposed dividend			
-	-	Additional Tier 1 capital			

STATEMENTS OF COMPREHENSIVE INCOME

Nykredit A/S		DKK million		
		Nykredit Group		
2019	2020		2020	2019
7,194	5,420	Profit for the year	5,664	7,427
		OTHER COMPREHENSIVE INCOME		
		Items that cannot be reclassified to profit or loss:		
-	-	- Actuarial gains/losses on defined benefit plans	(34)	28
-	-	- Tax on actuarial gains/losses on defined benefit plans	7	(6)
22	(26)	Share of comprehensive income in associates and Group enterprises	-	-
22	(26)	Total items that cannot be reclassified to profit or loss	(26)	22
22	(26)	Other comprehensive income	(26)	22
7,216	5,394	Comprehensive income for the year	5,638	7,449
		Distribution of comprehensive income		
7,216	5,394	Shareholders of Nykredit A/S	5,394	7,216
-	-	Minority interests	21	(1)
-	-	Holders of Additional Tier 1 capital notes	223	233
7,216	5,394	Comprehensive income for the year	5,638	7,449

BALANCE SHEETS

DKK million

Nykredit A/S		Nykredit Group		
2019	2020	Note	2020	2019
ASSETS				
-	-		16,146	7,210
21	-	19	43,215	52,413
-	-	20	1,350,925	1,287,610
-	-	21	108,762	114,590
-	-	22	106,094	108,555
-	-		637	-
-	-	23	7,046	7,135
-	-	24	40	43
80,543	85,926	25	-	-
-	-	26	2,291	2,181
Land and buildings				
-	-		0	-
-	-		58	75
-	-		540	662
-	-	27	598	736
-	-	28	188	156
3	7	37	93	255
10	6	38	149	126
-	-	29	22	32
-	-	30	28,998	28,710
1	1		557	568
80,579	85,940		1,665,759	1,610,319

BALANCE SHEETS

DKK million

Nykredit A/S		Nykredit Group			
2019	2020		Note	2020	2019
LIABILITIES AND EQUITY					
32	22	Payables to credit institutions and central banks	31	14,611	13,914
-	-	Deposits and other payables	32	97,987	100,656
-	-	Bonds in issue at fair value	33	1,366,709	1,336,414
-	-	Bonds in issue at amortised cost	34	52,368	33,810
-	-	Other non-derivative financial liabilities at fair value	35	9,723	4,523
-	-	Current tax liabilities	37	74	78
16	12	Other liabilities	36	22,618	24,404
-	-	Deferred income		14	14
48	34	Total payables		1,564,104	1,513,812
Provisions					
-	-	Provisions for pensions and similar obligations	39	47	62
-	-	Provisions for deferred tax	38	395	389
-	-	Repayable reserves in pre-1972 series	40	32	34
-	-	Provisions for losses under guarantees	41	241	137
-	-	Other provisions	42	293	515
-	-	Total provisions		1,008	1,136
-	-	Subordinated debt	43	10,893	11,004
Equity					
1,327	1,327	Share capital		1,327	1,327
Accumulated value adjustments					
-	-	- revaluation reserves		5	5
-	-	- value adjustment of equities available for sale		-	-
Other reserves					
62,362	67,745	- statutory reserves		-	-
-	-	- series reserves		41,762	48,871
-	-	- non-distributable reserve fund		4,849	4,849
13,233	14,634	- retained earnings		35,762	21,869
3,610	2,200	- proposed dividend		2,200	3,610
80,532	85,906	Shareholders of Nykredit A/S		85,906	80,532
-	-	Minority interests		96	57
-	-	Holders of Additional Tier 1 capital		3,753	3,777
80,532	85,906	Total equity		89,754	84,366
80,579	85,940	Total liabilities and equity		1,665,759	1,610,319
OFF-BALANCE SHEET ITEMS					
-	-	Contingent liabilities	44	9,121	6,616
-	-	Other commitments		20,762	28,206
-	-	Total		29,883	34,822

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit Group

	Share capital ¹	Revaluation reserves	Series reserves	Non-distributable reserve fund ²	Retained earnings	Proposed dividend	Shareholders of Nykredit A/S	Minority interests	Additional Tier 1 capital ³	Total equity
2020										
Equity, 1 January	1,327	5	48,871	4,849	21,869	3,610	80,532	57	3,777	84,366
Profit for the year	-	-	-	-	3,220	2,200	5,420	21	223	5,664
Total other comprehensive income	-	-	-	-	(26)	-	(26)	-	-	(26)
Total comprehensive income	-	-	-	-	3,194	2,200	5,394	21	223	5,638
Issuance of Additional Tier 1 capital	-	-	-	-	-	-	-	-	3,734	3,734
Redemption of Additional Tier 1 capital	-	-	-	-	-	-	-	-	(3,735)	(3,735)
Net transaction costs in connection with issuance of Additional Tier 1 capital instruments	-	-	-	-	(35)	-	(35)	-	-	(35)
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	-	(233)	(233)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	14	-	14	-	(14)	-
Tax on Additional Tier 1 capital	-	-	-	-	-	-	-	-	-	-
Reversed dividend	-	-	-	-	3,610	(3,610)	-	-	-	-
Distributed dividend and adjustments	-	-	-	-	-	-	-	(16)	-	(16)
Subsequent adjustment of purchase price allocation	-	-	-	-	-	-	-	34	-	34
Adjustment pursuant to capital adequacy rules	-	-	(7,109)	-	7,109	-	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	-	0	-	0	-	-	0
Portfolio of self-issued bonds	-	-	-	-	-	-	-	-	0	0
Total other adjustments	-	-	-	-	0	-	0	-	-	0
Equity, 31 December	1,327	5	41,762	4,849	35,762	2,200	85,906	96	3,753	89,754
2019										
Equity, 1 January	1,327	5	36,575	1,646	33,757	2,800	76,111	-	3,772	79,883
Profit (loss) for the year	-	-	-	-	3,584	3,610	7,194	(1)	233	7,427
Total other comprehensive income	-	-	-	-	22	-	22	-	-	22
Total comprehensive income	-	-	-	-	3,606	3,610	7,216	(1)	233	7,449
Interest paid on Additional Tier 1 capital	-	-	-	-	-	-	-	-	(233)	(233)
Foreign currency translation adjustment of Additional Tier 1 capital	-	-	-	-	(1)	-	(1)	-	1	-
Tax on Additional Tier 1 capital	-	-	-	-	0	-	0	-	-	0
Distributed dividend and adjustments	-	-	-	-	-	(2,800)	(2,800)	(108)	-	(2,908)
Additions relating to acquisition of Group enterprise	-	-	-	3,203	(3,203)	-	-	166	-	166
Adjustment pursuant to capital adequacy rules	-	-	12,296	-	(12,296)	-	-	-	-	-
Transferred from provisions – pre-1972 series	-	-	-	-	12	-	12	-	-	12
Adjustment relating to subsidiaries	-	0	-	-	(7)	-	(6)	-	-	(6)
Portfolio of self-issued bonds	-	-	-	-	-	-	-	-	4	4
Equity, 31 December	1,327	5	48,871	4,849	21,869	3,610	80,532	57	3,777	84,366

¹ The share capital is divided into shares of DKK 100 and multiples thereof. Nykredit A/S has only one class of shares, and all the shares confer the same rights on shareholders.

² A non-distributable reserve fund in Totalkredit A/S and LR Realkredit A/S.

³ Additional Tier 1 (AT1) capital is perpetual, and payment of principal and interest is discretionary. For accounting purposes, the AT1 capital is consequently treated as equity. As authorised by the Danish FSA, on 26 October 2020 Nykredit redeemed the AT1 capital (nominally EUR 500 million/AT1 capital) raised in 2015. On 15 October 2020, Nykredit issued new AT1 capital of nominally EUR 500 million which carries an interest of 4,125% up to 15 October 2026. The loan is perpetual with an early redemption option from April 2026. The loan will be written down if the Common Equity Tier 1 (CET1) of Nykredit Realkredit A/S, the Nykredit Realkredit Group or the Nykredit Group falls below 7.125%.

Pursuant to the Danish Financial Business Act, the subsidiaries Nykredit Bank A/S, Nykredit Bank A/S, LR Realkredit A/S, Totalkredit A/S, Nykredit Portefølje Administration A/S and Sparinvest Holdings SE are subject to a number of restrictions including regulatory capital requirements which determine the scope for distributing dividend of such companies to the parent.

STATEMENT OF CHANGES IN EQUITY

DKK million

Nykredit A/S

	Share capital ¹	Statutory reserves ²	Retained earnings	Proposed dividend	Total equity
2020					
Equity, 1 January	1,327	62,362	13,233	3,610	80,532
Profit (loss) for the year	-	5,429	(2,209)	2,200	5,420
Total other comprehensive income	-	(26)	-	-	(26)
Total comprehensive income	-	5,403	(2,209)	2,200	5,394
Reversed dividend	-	-	3,610	(3,610)	-
Distributed dividend	-	-	-	-	-
Dividend received from subsidiary	-	-	-	-	-
Adjustment relating to subsidiaries	-	(20)	-	-	(20)
Equity, 31 December	1,327	67,745	14,634	2,200	85,906
2019					
Equity, 1 January	1,327	57,925	14,058	2,800	76,111
Profit (loss) for the year	-	7,210	(3,626)	3,610	7,194
Total other comprehensive income	-	22	-	-	22
Total comprehensive income	-	7,232	(3,626)	3,610	7,216
Distributed dividend	-	-	-	(2,800)	(2,800)
Dividend received from subsidiary	-	(2,800)	2,800	-	-
Adjustment relating to subsidiaries	-	5	-	-	5
Equity, 31 December	1,327	62,362	13,233	3,610	80,532

¹ The share capital is divided into shares of DKK 100 and multiples thereof. Nykredit A/S has only one class of shares, and all the shares confer the same rights on shareholders.

² The item relates to a transfer to reserves for net revaluation according to the equity method. The item includes a non-distributable reserve fund of DKK 1,646 million in Totalkredit A/S and DKK 3,203 million in LR Realkredit A/S.

Dividend policy

Nykredit's long-term ambition is to provide its owners with a competitive return in the form of dividend of around 50% profit for the year taking into account Nykredit's capital policy. Based on profit for the full year 2020 and Nykredit's strong capital position, the Board of Directors will recommend for approval by the Annual General Meeting that a cash dividend of DKK 2,200 million be distributed.

CASH FLOW STATEMENT

DKK million

Nykredit Group	2020	2019
Profit for the year	5,664	7,427
Adjustments		
Net interest income	(11,237)	(11,038)
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	293	305
Profit from investments in associates	(8)	(5)
Impairment charges for loans, advances and receivables etc	2,272	994
Prepayments/deferred income, net	13	(101)
Tax on profit for the year	1,116	1,340
Other adjustments	(529)	(1,861)
Total	(2,416)	(2,939)
Change in operating capital		
Loans, advances and other receivables	(59,759)	(88,280)
Deposits and payables to credit institutions	(1,971)	5,714
Bonds in issue	48,853	127,525
Other operating capital	2,948	(3,580)
Total	(12,346)	38,440
Interest income received	25,201	26,740
Interest expenses paid	(14,055)	(16,151)
Corporation tax paid, net	(1,005)	(1,180)
Cash flows from operating activities	(2,205)	47,849
Cash flows from investing activities		
Acquisition of enterprises		(3,020)
Acquisition of associates	(2)	(4)
Sale of associates	2	-
Dividend received from associates	11	5
Purchase and sale of bonds and equities, net	2,234	(11,822)
Purchase of intangible assets	(125)	(138)
Sale of intangible assets	2	15
Purchase of property, plant and equipment	(84)	(77)
Sale of property, plant and equipment	22	4
Total	2,060	(15,037)
Cash flows from financing activities		
Distributed dividend	(16)	(2,850)
Purchase and sale of self-issued bonds	9	(12)
Payment of lease liabilities	(161)	(136)
Total	(168)	(2,998)
Total cash flows for the year	(312)	29,814
Cash and cash equivalents, beginning of year	59,623	29,691
Foreign currency translation adjustment of cash	51	118
Total cash flows for the year	(312)	29,814
Cash and cash equivalents, year-end	59,361	59,623
Cash and cash equivalents, year-end:		
Cash balances and demand deposits with central banks	16,146	7,210
Receivables from credit institutions and central banks	43,215	52,413
Total	59,361	59,623

NOTES

Nykredit Group

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5. Income	78	41. Provisions for losses under guarantees	117
6. Net interest income etc and value adjustments	79	42. Other provisions	117
7. Interest income	80	43. Subordinated debt	118
8. Interest expenses	80	44. Off-balance sheet items	119
9. Dividend on equities etc	81	45. Related party transactions and balances	120
10. Fee and commission income	81	46. Fair value disclosures	122
11. Fee and commission expenses	81	47. Offsetting	127
12. Value adjustments	81	48. Derivative financial instruments	128
13. Other operating income	81	49. Repo transactions and reverse repurchase lending	130
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1. ACCOUNTING POLICIES

GENERAL

The Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The Consolidated Financial Statements have furthermore been prepared in accordance with additional Danish disclosure requirements for annual reports as stated in the IFRS Executive Order governing financial companies issued pursuant to the Danish Financial Business Act and formulated by Nasdaq Copenhagen for issuers of listed bonds.

All figures in the Annual Report are rounded to the nearest million Danish kroner (DKK), unless otherwise specified. The totals stated are calculated on the basis of actual figures prior to rounding. Due to the rounding-off to the nearest whole million Danish kroner, the sum of individual figures and the stated totals may differ slightly.

SPECIAL CIRCUMSTANCES IN 2020

Covid-19

The covid-19 pandemic has impacted the Group's activities and consequently its financial reporting in a number of ways in 2020. The most significant impact on these Financial Statements derived from increased impairments based on stress tests etc given the uncertainty surrounding the covid-19 pandemic. This will be further specified in the Management Commentary as well as in "Significant accounting estimates" under accounting policies.

Because of the pandemic, the Group has resolved not to distribute dividend in 2020. The dividend proposed in 2019 was therefore transferred to equity.

Sparinvest

Relative to the information provided in the Financial Statements for 2019, changes regarding intangible assets and deferred tax were implemented in 2020. The changes described in detail in note 54 did not affect profit for the year nor comprehensive income.

CHANGE IN ACCOUNTING POLICIES, NEW AND AMENDED STANDARDS AND INTERPRETATIONS

Presentation of interest

Due to increased negative interest from the Group's deposit and lending business, "Negative interest income" will now be included under "Interest expenses" in the income statement. Correspondingly, "Negative interest expenses" will be included under "Interest income". The change was included in the interim financial statements and will not impact profit for the year, comprehensive income, balance sheet and equity. Comparative figures have been restated.

Business areas, Note 3

Business areas have been restated relative to 2019 due to an organisational adjustment. Total results are unchanged. Comparative figures have been restated.

Amendments to IAS 39, IFRS 9 and IFRS 7 "Interest Rate Benchmark Reform" implemented as at 1 January 2020.

The amendments are aimed at mitigating the potential risks of "Hedge accounting" in the transition period until the new reference rates have been fully phased in. The amendments, which are described in detail in note 51, have increased

our disclosure obligation but have not impacted profit for the year, comprehensive income, balance sheet or equity for 2020 and are expected to have a relatively insignificant impact.

Amendments to IAS 1 and IAS 8 "Definition of Material" implemented as at 1 January 2020.

The amendments clarify when information is material in relation to the decision-making of users of financial statements. The amendments have not impacted the financial reporting.

Amendments to IFRS 3 "Business combinations" implemented as at 1 January 2020.

The amendment is to further determine whether a transaction implies the acquisition of an asset or a group of assets that does not constitute a business. The amendment does not affect profit for the year, comprehensive income, balance sheet or equity.

Amendment to IFRS 16 "Leases" implemented as at 1 June 2020.

The amendment concerns the accounting treatment of the lessee's covid-19-related lease payment holidays. The amendment will take effect on 1 January 2021 but has been implemented already in 2020. The amendment has not impacted the Financial Statements.

Other general comments on accounting policies

For a better overview and to reduce the amount of note disclosures where figures and qualitative disclosures are considered of insignificant importance to the Financial Statements, certain disclosures have been excluded.

Apart from the above, the Group's accounting policies are otherwise unchanged compared with the Annual Report for 2019.

REPORTING STANDARDS AND INTERPRETATIONS NOT YET IN 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 for the financial year beginning on 1 January 2020:

IFRS 17 "Insurance Contracts" (approved for use in the EU, effective from 1 January 2021).

In addition, a number of minor amendments, including "Interest Rate Benchmark Reform" in phase 2 (IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16) as well as IFRS 3, IFRS 16 and IAS 37 and annual improvements 2018-2020 have not yet taken effect or are pending EU approval.

The above is not expected to significantly impact Nykredit's financial reporting.

SIGNIFICANT ACCOUNTING ASSESSMENTS AND ESTIMATES

Significant assessments

As part of determining the accounting policies, Management makes a number of assessments that may affect the Financial Statements. Significant assessments include:

Assessment of the time of recognition and derecognition of financial instruments and assessment of the business models which form the basis for classification of financial assets, including whether the contractual cash flows of a financial asset represent solely payments of principal and interest.

Significant accounting estimates

The preparation of the Financial Statements involves the use of qualified accounting estimates. These estimates and assessments are made by Nykredit's Management in accordance with accounting policies and based on past experience and an assessment of future conditions.

Accounting estimates are tested and assessed regularly. The estimates and assessments applied are based on assumptions which Management considers reasonable and realistic, but which are inherently 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:

Determination of the value of assets and liabilities recognised at fair value

Value adjustment of financial assets and liabilities measured at fair value is based on officially listed prices. For financial instruments for which no listed prices in an active market or observable data are available, the valuation implies the use of significant estimates and assessments in connection with the choice of credit spread, maturity and extrapolation etc of each instrument.

The covid-19 pandemic led to significant volatility in fixed income markets particularly in Q1 and therefore also increased complexity in determining the market value of especially interest rate swaps. Market conditions normalised somewhat in the subsequent quarters of 2020.

Note 46 specifies the methods applied to determine the carrying amounts and the specific uncertainties related to the fair value measurement of financial instruments.

Particularly, the fair value measurement of unlisted derivative financial instruments involves significant estimates and assessments in connection with the choice of calculation methods and valuation and estimation techniques. The valuation of unlisted derivative financial instruments changes continuously, and Nykredit monitors market practice closely to ensure that the valuation of unlisted derivative financial instruments is consistent with market practice.

The valuation is based on yield curves, volatilities and market prices on which data is usually obtained through providers such as Reuters, Bloomberg and market makers. Market practice for the valuation of unlisted derivatives moreover includes increasing use of market inputs in the valuation, including Credit Valuation Adjustment (CVA).

For further details, please refer to note 46. The fair value of unlisted derivative financial instruments was 1.3% of the Group's assets at end-2020 (1.3% at end-2019).

Measured on the basis of level 2 or level 3 inputs of the fair value hierarchy, the fair value of financial assets and liabilities was 87.5% and 0.2%, respectively, of the Group's balance sheet total at end-2020 for financial assets (86.1% and 0.3% at end-2019), and 1.1% and 0.0%, respectively, for financial liabilities (2.0% and 0.0% at end-2019).

The fair value of financial instruments for which no listed prices in an active market are available accounted for 88% of the Group's assets at end-2020 (93% at end-2019).

Measurement of loans and advances etc – impairments

Covid-19 – special circumstances

The covid-19 pandemic has impacted both the Company's operations and use of accounting estimates in 2020, and there is still substantial uncertainty about the impact of the covid-19 pandemic. The Group has still not seen any significant rise in write-offs, but the pandemic is expected to have a material impact on future individual impairment provisions.

As a result of the pandemic, the authorities, including the EBA, ESMA and the Danish FSA, have issued guidelines on eg how lending on more lenient terms and/or temporary breach of loan terms exclusively as a consequence of the pandemic under certain circumstances can be treated within the scope of the IFRS and the Danish Executive Order on Financial Reports without immediately resulting in a significant deterioration of the creditworthiness of the customer and an increased impairment need. According to the guidelines, financial statements must still give a true and fair view, and impairments must reflect the expected credit losses but the guidelines also allow for impairment provisions related to such credit facilities to be made on more lenient terms. In the assessment of expected credit losses, the current situation and the economic outlook must be taken into consideration. The economic outlook is reflected in the classification into stages by weighting together macroeconomic scenario stresses based on probabilities of default.

Loan impairments related to covid-19 are comprised of different components based on the model adjustments below:

- stress simulations have been performed for the personal customer segment and the following business sectors: manufacturing, accommodation and food service, retail, arts, entertainment and recreation activities, transport, construction, and sale and repair of motor vehicles, some professionals as well as business rental.
- the property values of stage 3 customers have been stressed to simulate a reduction in collateral values and the impact on impairment levels.
- the macroeconomic scenarios have been updated to allow for the covid-19 impact, including mitigating relief packages. The probability of an adverse scenario has increased. The uncertainty about the pandemic makes it difficult to estimate a risk scenario – therefore Nykredit applies ICAAP scenarios to model the stressed scenario. This specifically involves a scenario with increasing interest rates.

Model-based impairments must still be determined using the most likely scenario and an adverse or improved scenario. Due to the economic outlook resulting from covid-19, the macroeconomic scenarios used for the determination of impairments have been changed to reflect the current situation. The amendments are described in detail in "Stage 1 and stage 2 impairments" on page 64.

Nykredit has offered our customers a number of solutions to cushion the impact of covid-19. The solutions include wider access to temporary overdrafts and payment holidays. For accounting purposes, these solutions reflect special loan options and not lending granted on relaxed terms. Accordingly, no additional impairment provisions have been made for such credit facilities, where they were offered to creditworthy (high-rated) customers in accordance with the new guidelines. For credit facilities etc provided to low-rated customers, impairment provisions have been made in line with usual practice. Nykredit closely monitors the development in losses on customers who have been granted special covid-19 loans, regularly assessing whether the impairments reflect such development.

Nykredit has made loan impairment provisions of DKK 2 billion in 2020 for the consequential losses arising from covid-19. Impairment provisions are based on stress tests and portfolio calculations. Covid-19-induced write-offs are low. This situation is monitored by Nykredit's scenario expert team, which regularly assesses the need for calculation updates based on input concerning relief packages, support schemes and global economic trends.

Covid-19-induced impairments are based on increased probability of loss and default on credit facilities and customers at stage 1, 2 and 3.

Impairment – in general

Credit risk reflects the risk of loss resulting from Nykredit's counterparties defaulting on their obligations. The determination of credit risk relates to loans and advances without (stage 1) or with significant increase (stage 2) in credit risk and impaired loans and advances (stage 3).

In addition to balances with credit institutions as well as loans, advances and provisions, impairment calculations also include provisions for guarantees and unutilised credit commitments.

The determination of impairment of loans and advances etc involves significant estimates and assessments, including determining whether a significant increase in credit risk has occurred since initial recognition. 12-month expected credit losses are initially recognised for loans and advances measured at amortised cost. This does not apply to loans and advances measured at fair value, as these are recognised at fair value under IFRS 13. A non-significant increase will subsequently imply higher 12-month expected credit losses, while a significant increase in the credit risk or impairment of a loan will imply calculation of expected credit losses corresponding to lifetime expected credit losses.

Add to this that the loss determination also depends on the value of collateral security received and expected payments from customers and dividend in liquidation from estates in bankruptcy, where measurement is subject to a number of estimates. Similarly, the determination of the period in which the cash flows are received involves significant estimates.

In a number of instances, the model-based impairment provisions, primarily in stages 1 and 2, need to be supplemented by management judgement. This is typically in connection with eg macroeconomic events that may affect the level of impairment provisioning, but which have not yet been captured by the model-based impairments. This estimate is made by managers and staff with in-depth knowledge of the credits area.

The underlying reasons, for example changes in agricultural settlement prices due to changed economic trends and/or changed export potential as well as financial and legal conditions in the real estate sector, may affect credit risk beyond the result derived on the basis of model-based impairments. The estimates are adjusted and evaluated on a regular basis.

RECOGNITION, CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial instruments, including loans, advances and receivables, bonds in issue and other debt as well as derivative financial instruments represent more than 95% of the Group's assets as well as liabilities (95% at end-2019).

Recognition of financial instruments

Financial instruments are recognised on the settlement date. With respect to financial instruments that are subsequently measured at fair value, 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" and "Other liabilities", respectively, in the balance sheet and set off against "Value adjustments" in the income statement.

Assets 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.

Initially, financial instruments are recognised at fair value at the time of recognition. Financial instruments are subsequently measured at amortised cost or fair value depending on the categorisation of the individual instrument. Financial instruments subsequently measured at amortised cost are recognised inclusive or exclusive of the transaction costs related to the origination of financial assets or liabilities.

Classification and measurement of financial instruments

Valuation principles and classification of financial instruments are described below as well as in note 46.

Financial assets are classified as follows:

- The asset is held to collect cash flows from payments of principal and interest (hold to collect business model). Measured at amortised cost after initial recognition.
- The asset is held to collect cash flows from payments of principal and interest and sell the asset (hold to collect and sell business model). Measured at fair value with changes recognised through other comprehensive income with reclassification to the income statement on realisation of the assets. Nykredit had no financial instruments in this category in 2019 and 2020.
- Other financial assets are measured at fair value through profit or loss. These include assets managed on a fair value basis or held in the trading book, or assets which have contractual cash flows that are not solely payments of principal and interest on the amount outstanding, including derivative financial instruments. It is also possible to measure financial assets at fair value with value adjustment through profit or loss, when such measurement significantly reduces or eliminates an accounting mismatch that would otherwise have occurred on measurement of assets and liabilities or recognition of losses and gains on different bases.

For the first two categories, it is a condition that the objective of the business model is to hold assets to collect contractual cash flows representing payments of principal and interest etc combined with limited sales activity.

If this is not the objective of the business model, the financial assets will be placed in a category, which is subject to fair value adjustment through profit or loss. Financial assets, which, if measured at amortised cost would result in a measurement mismatch, are also recognised in this category.

The Group's financial assets and business models are continuously reviewed to ensure correct classification thereof. The review includes an assessment of whether collecting cash flows is a significant element of holding the assets, including whether the cash flows represent solely payments of principal and interest.

This assessment is based on the assumption that ordinary rights to prepay loans and/or extend loan terms fulfil the condition that the cash flows are based on collection of interest and principal payments. Some product types are subject to daily interest rate adjustment, but with an interest rate fixing based on a longer time horizon. However, this is not assessed to significantly postpone the time value of the money in the currently low interest rate environment.

Generally, financial liabilities are measured at amortised cost after initial recognition. Financial liabilities may also be measured at fair value if the instrument is part of an investment strategy or a risk management system based on fair values and is continuously stated at fair value in the reporting to Management, and when measurement at fair value reduces or eliminates an accounting mismatch.

Loans, advances and receivables as well as financial liabilities at amortised cost

Receivables from and payables to credit institutions and central banks, the Group's bank lending, certain bond portfolios, corporate bonds in issue, a part of the senior debt in issue and subordinated debt as well as deposits and other payables are included in this category.

Loans, advances and receivables, certain bonds as well as liabilities are measured at fair value on initial recognition inclusive or exclusive of the inherent transaction costs, and subsequently at amortised cost. For loans, advances and receivables as well as bonds, amortised cost equals cost less principal payments, impairment provisions for losses and other accounting adjustments, including amortisation of any fees and transaction costs that form part of the effective interest of the instruments. For liabilities, amortised cost equals the capitalised value using the effective interest method. Using this method, transaction costs are distributed over the life of the asset or liability.

If the interest rate risk of fixed-rate financial instruments is effectively hedged using derivative financial instruments, the amortised cost of the asset is added to or deducted from the fair value of the hedged interest rate risk.

Value adjustments due to credit risk are recognised in "Impairment charges for loans, advances and receivables etc".

Financial assets and liabilities measured at fair value through profit or loss

A financial asset or a financial liability belong in this category

- if the asset is not held within a business model whose objective is to hold assets to collect cash flows representing payments of principal and interest and which has limited sales activity.
- if measurement of the asset or liability at amortised cost would result in a measurement mismatch.

Mortgage loans are measured at fair value. The same applies to the liabilities that are issued for the purpose of funding these loans, ie covered bonds and senior secured debt.

Generally, mortgage loans are not transferred during their term, and the business model is based on holding the portfolio in order to collect the cash flows. However, for mortgage loans and their inherent liabilities Nykredit applies the fair value measurement option allowed under the accounting rules with value adjustment through profit or loss.

This should be viewed in the context of mortgage loans granted in accordance with Danish mortgage legislation are funded by issuing listed covered bonds of uniform terms.

Such mortgage loans may be prepaid by delivering the underlying bonds, and the Group buys and sells self-issued covered bonds on a continuing basis as they constitute a significant part of the Danish money market. If mortgage loans and covered bonds in issue were measured at amortised cost, the purchase and sale of self-issued covered bonds would lead to a timing difference between the recognition of gains and losses in the Financial Statements. Thus, the purchase price of the portfolio would not equal the amortised cost of the bonds in issue. If the portfolio of self-issued 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 remaining time-to-maturity.

In order to prevent a mismatch in profit or loss, mortgage loans are measured at fair value involving an adjustment for the market risk based on the value of the underlying bonds and an adjustment for credit risk based on the impairment need.

The Group's equity portfolio and part of the bond portfolios are measured at fair value through profit or loss. The business model behind the bond portfolio is not intrinsically based on collecting cash flows from payments of principal and interest but is based on, for example, short-term trading activity and investments focused on cost minimisation, where contractual cash flows do not constitute a central element but follow solely from the investment.

Equity instruments are not based on cash flows which comprise payments of principal and interest. Therefore, these instruments are measured at fair value with value adjustment through profit or loss.

Derivative financial instruments (derivatives), which are assets or liabilities, are measured at fair value through profit or loss. In Nykredit, hedging interest rate risk (hedge accounting) is still made according to the IAS 39 rules, in part as IFRS 9 does not yet comprise provisions on macro hedging.

Positive and negative fair values of derivative financial instruments are recognised in "Other assets" or "Other liabilities".

Please also see note 46.

Realised and unrealised gains and losses arising from changes in the fair value are recognised in "Value adjustments" through profit or loss for the period in which they arose. Value adjustment of mortgage loans attributable to credit risk is recognised in "Impairment charges for loans, advances and receivables etc" together with other impairment charges for loans and advances and provisions for guarantees.

Impairment charges for loans, advances and receivables

Impairments corresponding to expected credit losses are placed in stages, which reflect the changes in credit risk since initial recognition.

- Stage 1 covers loans and advances etc without significant increase in credit risk since initial recognition. For this category, impairment provisions at initial recognition are made corresponding to the expected credit losses over a period of 12 months for lending at amortised cost.

For loans and advances measured at fair value, initial impairment is assumed to be almost nil, as the value of the loan at the time of recognition is based on fair value in accordance with IFRS 13. Subsequently, impairments will be increased equal to 12-month expected credit losses based on analysis of the distribution of credit losses throughout the life of the loan.

If there is an insignificant change in credit risk, the impairment provisions will be adjusted but kept in stage 1.

- Stage 2 covers loans and advances etc with significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the expected credit losses over the asset's time-to-maturity.
- Stage 3 covers loans and advances that are credit impaired, and which have been subject to individual provisioning on the specific assumption that the customers will default on their loans.

Impairment calculations are based on continuous development of existing methods and models for impairment, taking into account forward-looking information and scenarios.

The definition of default is dictated by a customer's financial position and payment behaviour. An exposure is considered to be in default when a mortgage customer's payment of a significant amount is 75 days past due and at the time when Nykredit Bank sends a third reminder. Both scenarios are shorter than the rule of assumption of 90 days under the accounting rules. Exposures for which individual impairment provisions have been made or a direct loss has been incurred are also considered in default.

In expected credit loss calculations, the time-to-maturity corresponds at a maximum to the contractual maturity, as adjustments are made for expected prepayments, as required. Nevertheless, for credit-impaired financial assets, the determination of expected losses should be based on contractual maturity.

Group Credits is responsible for these processes and calculations. In addition the Group's Capital, Risk and Finance units also participate as stakeholders coordinating and performing the determination and presentation of impairment for accounting purposes. The procedures and calculations are widely based on the Group's risk models.

Stage 1 and stage 2 impairments

Model-based impairment in stages 1 and 2 is based on transformations of PD and LGD values to short term (12 months) or long term (remaining life of the product/cyclicality). The parameters are based on Nykredit's IRB models, and forward-looking information is determined according to the same principles as apply to regulatory capital and stress tests. For a small fraction of portfolios with no IRB parameters, simple methods are used based on appropriate loss ratios.

A key element of the determination of impairment is establishing when a financial asset should be transferred from stage 1 to stage 2. The following principles apply:

- For assets/facilities with 12-month PD <1% at the time of granting: Increased PD for expected time-to-maturity of the financial asset of 100% and an increase in 12-month PD of 0.5 percentage points
- For assets/facilities with 12-month PD >1% at the time of granting: Increased PD for expected time-to-maturity of the financial asset of 100% or an increase in 12-month PD of 2.0 percentage points
- The Group considers that a significant increase in credit risk has occurred no later than when an asset is more than 30 days past due, unless special circumstances apply.

In stages 1 and 2, impairments are based on a number of potential outcomes (scenarios) of a customer's financial situation. In addition to past experience, the models should reflect current conditions and future outlook at the balance sheet date. The inclusion of scenarios must be probability-weighted and unbiased.

The choice of macroeconomic scenarios is significant to total impairments which are very sensitive to choice of scenarios and probability-weights.

Generally, three scenarios apply:

- main scenario reflecting Nykredit's best estimate (base scenario)
- adverse scenario reflecting higher expected credit losses than the main scenario
- improved scenario with lower expected credit losses than the main scenario to cover an appropriate potential loss outcome based on Nykredit's best estimate.

Nykredit has updated the scenarios in 2020. The base scenario was updated to reflect the economic environment, including the effect of covid-19 relief packages, taking into account the societal and economic effects of coronavirus flare-ups and increased lockdown measures. The base scenario carries a 55% weighting. The scenario implies expected GDP growth of 3.4% (2020: -3.8%) and house price rises of 2% in 2021. The adverse scenario was included in the models with a weighting of 35%. The scenario implies expected GDP growth of 1.0% and house price declines of 3% in 2021. The improved base scenario carries a 10% weighting and is based on the macroeconomic conditions observed at the date of this Annual Report. This scenario uses realised levels of interest rates, GDP, house prices and unemployment.

The calculation of the adverse scenario is based on the assumptions of eg interest rates and property prices also used to determine the internal capital adequacy requirement.

There is still substantial uncertainty about the impact of the pandemic despite the relief packages from the Danish government and banks.

Stage 3 impairment

Individual reviews and risk assessments of significant loans, advances and receivables are performed regularly to determine whether these are impaired.

Stage 3 includes loans and advances etc where observations indicate that the asset is impaired. Most often, this is where

- borrowers are experiencing considerable financial difficulties owing to eg changes in income, capital and wealth, leading to the assumption that the customers are unable to fulfil their obligations
- borrowers fail to meet their payment obligations or default on an obligation
- there is an increased probability of the borrowers' bankruptcy, or borrowers are offered more lenient contractual terms (for example, interest rate and loan term) due to deterioration in the borrowers' financial circumstances.

Relative to large stage 3 exposures, credit officers perform an individual assessment of scenarios as well as changes to credit losses etc. Relative to small stage 3 exposures, the credit loss is determined using a portfolio model according to the same principles as are used in an individual assessment.

Furthermore, model-based impairment is subject to management judgement.

Differences between stages due to credit improvements

When the criteria for migration between stages due to increased credit risk or credit impairment are no longer present, impairment provisions will be reversed to the initial stages.

From stage 2 to stage 1 this could happen if the change in PD and/or arrears fails to meet the criteria described above.

The same applies to impairment provisions in stage 3, which will be transferred to stage 2 if the conditions for credit impairment no longer apply.

Impairment of mortgage lending measured at fair value

IFRS 9 does not comprise provisions governing impairment of mortgage lending measured at fair value. Value adjustment of financial assets measured at fair value is thus subject to IFRS 13 and the Danish Executive Order on Financial Reports.

In accordance with the Danish Executive Order on Financial Reports with guidance notes issued by the Danish Financial Supervisory Authority (Danish FSA), Nykredit records impairments of mortgage lending applying the same principles as are used for impairment of loans and advances at amortised cost (see IFRS 9) provided that the impairments are recorded within the framework of IFRS 13.

When calculating impairment of mortgage loans measured at fair value certain adjustments are made compared with the calculation of impairment of loans measured at amortised cost. However, in the assessment of stage 1 impairment, an analysis of the distribution of credit losses over the loan period is made, and on this basis it is assessed whether interest/administration margin income has been received in the financial period, which is expected to cover any expected credit losses in the following periods. If this is the case, stage 1 impairment of lending measured at fair value is made in the financial period.

Provisions in general

Provisions for receivables from credit institutions, loan impairment and receivables etc are taken to an allowance account and deducted from the relevant asset items. Similarly, provisions for guarantees and unutilised credit commitments are made under liabilities and equity.

Provisions for expected credit losses equal the difference between the present value of the contractual payments and an amount, which, based on eg scenario assessments and the time value of money, constitutes the expected cash flows.

Write-offs, changes in loan impairment provisions for the year and provisions for guarantees are charged to the income statement in "Impairment charges for loans, advances and receivables etc".

For mortgage loans granted via Totalkredit, the partner banks are subject to a set-off and guarantee agreement. The agreement means that if a partner bank covers part of an incurred loss, "Impairment charges for loans, advances and receivables etc" will be reduced by this amount.

Where events subsequently occur showing a partial or complete impairment reduction, impairment provisions are reversed accordingly.

The Group amortises/depreciates a financial asset when reliable information indicates that the debtor is in serious financial difficulty and collection seems unrealistic. Financial assets amortised/depreciated may still be subject to the enforcement activities of the Group's collection procedures, taking into consideration any legal advice. Any collection is recognised in profit or loss. Personal liability claims are pursued in collaboration with an external business partner.

RECOGNITION, MEASUREMENT AND PRESENTATION 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 in the income statement for the period in which it arose.

All costs incurred by the Group are recognised in the income statement, including depreciation, amortisation, impairment charges, provisions and reversals as a result of changed accounting estimates of amounts previously recognised in the income statement.

Hedge accounting

The Group applies derivative financial instruments (interest rate swaps) to hedge interest rate risk on loans and advances, subordinated debt and bonds in issue 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 recognised 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 regular basis.

If the criteria for hedge accounting are no longer met, the accumulated value adjustment of the hedged item is amortised over its residual life. Please also refer to note 51 on "Hedge accounting".

Offsetting

Financial assets and liabilities are offset and presented as a net amount when the Group has a legally enforceable right of set-off and intends either to settle by way of netting or to realise the asset and settle the liability simultaneously.

Offsetting mostly takes place in connection with repo transactions and derivative financial instruments cleared through recognised clearing centres. Impairments are offset against the relevant assets (loans, advances and receivables etc as well as bonds).

Consolidation

Nykredit A/S (the Parent) and the enterprises in which Nykredit A/S exercises direct or indirect control over the financial and operational management and receives a variable return are included in the Consolidated Financial Statements. Nykredit A/S and its subsidiaries are collectively referred to as the Nykredit Group.

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 are prepared in accordance with the Group's accounting policies. The financial statements of partly owned subsidiaries are fully consolidated, and minority interests' share of the Group's profit or loss and equity is stated as separate items in the income statement and under Group equity, respectively. All intercompany income and costs, dividends, intercompany shareholdings, intercompany derivatives and balances as well as realised and unrealised intercompany gains and losses are eliminated.

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.

Divested enterprises are included up to the time of divestment.

Segment information and presentation of financial highlights

Segment information is provided for business areas, and income and assets relating to foreign activities are specified. Nykredit has few business activities outside Denmark.

The income statement format of the financial highlights on page 5 and the business areas in note 3 reflect the internal management reporting. The reclassification in note 4 shows the reconciliation between the presentation in the financial highlights table of the Management Commentary and the presentation in the Consolidated Financial Statements prepared according to the IFRS and includes:

"Net interest income" comprising net administration margin income from mortgage lending as well as interest income from bank lending and deposits. The corresponding item in the income statement (page 51) includes all interest.

"Net fee income" comprising income from mortgage refinancing and mortgage lending, income from bank lending, service fees, provision of guarantees and leasing business etc.

"Wealth management income" comprising asset management and administration fees etc. This item pertains to business with customers conducted through the Group's entities Nykredit Markets, Nykredit Asset Management, Nykredit Portefølje Administration A/S and Sparinvest Holdings S.E., but where income is ascribed to the business areas serving the customers.

"Net interest from capitalisation" comprising the risk-free interest attributable to equity and net interest from subordinated debt etc. Net interest is composed of the interest expenses related to debt, adjusted for the internal liquidity interest.

"Net income relating to customer benefits programmes" comprising discounts etc in the form of KundeKroner, ErhvervsKroner and MineMål granted to the Group's customers. The amount includes contributions received from Forenet Kredit. The item is included in Group Items to illustrate the earnings of the individual business areas excluding the impact of the Group's customer benefits programmes whilst also presenting the impact on income of the programmes in a separate item.

"Trading, investment portfolio and other income" comprising eg income from swaps and derivatives transactions currently offered, Nykredit Markets activities, repo deposits and lending, debt capital markets activities as well as other income and expenses not allocated to the business areas, including income from the sale of real estate.

Business areas are defined on the basis of differences in customer segments and services. Items not allocated to the business areas are included in Group Items.

Segment 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. 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 "Value adjustments" through profit or loss.

On 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 adjustments are recognised in "Value adjustments" through profit or loss.

Currency translation differences arising on translation of non-monetary assets and liabilities are recognised in the income statement together with other fair value adjustment of the relevant items.

The financial statements of 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 transactions and reverse repurchase lending

Securities sold as part of repo transactions are retained in the appropriate principal balance sheet item, eg "Bonds".

The amount received is recognised under payables in "Payables to credit institutions and central banks" or "Deposits and other payables".

Payment paid for securities acquired as part of reverse repurchase lending is recognised in "Receivables from credit institutions and central banks" or "Loans, advances and other receivables at amortised cost".

Where the Group resells assets received in connection with reverse repurchase lending, and where the Group is obliged to return the instruments, this liability is recognised at fair value and included in "Other non-derivative financial liabilities at fair value".

Repo deposits from and reverse repurchase lending to customers and credit institutions are recognised and measured at amortised cost, and the return is recognised as interest income and interest expenses in the income statement.

Leases

Leases where Nykredit is the lessor 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". On initial recognition, receivables under finance leases are measured at an amount equal to the net investment in the lease. Lease payments receivable are recognised in "Interest income" calculated as a return on the lease receivable or as principal of the lease receivable, respectively.

Direct costs of establishment of leases are recognised in the net investment.

Leases where Nykredit is the lessee include primarily leases (owner-occupied properties), which are recognised in the balance sheet as right-of-use assets (leasehold premises) as well as liabilities arising from those leases. The asset is depreciated over the course of its useful life, and the lease liability will be reduced by the principal amount, which is determined as the lease payments less the interest portion of the lease liability.

The lease term used to determine the rental obligation corresponds to the period in which Nykredit as lessee has the right to, and expects to, use the underlying assets. The assessment is made at portfolio basis with a rental period of 7 years on average for leases which have not been terminated. For leases which have been terminated or are expected to be terminated, the period is about 3 years on average.

The present value of the liability has been calculated using a discount rate equal to a risk-free swap rate and a Nykredit-specific credit risk charge which matches the loan term.

The calculated interest on the liability is included in the income statement in "Interest expenses", while depreciation/amortisation is included in "Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets". The value of the leased asset is recognised in "Land and buildings", while the liability is included in the liability item "Other liabilities".

Finance leases where Nykredit is the lessee include primarily leases entered into by Nykredit Mægler A/S which have been subleased to the company's business partners on identical terms.

Assets included under "Other assets" correspond to future receivable lease payments, whereas the liabilities included under "Other liabilities" correspond to outstanding lease liabilities. The calculation of the assets and liabilities is based on the same principles as applied to operating leases, see above.

Repayments received and repayments paid are offset against the relevant asset and liability, while interest is carried under "Interest income" or "Interest expenses".

Business combinations

On acquisition of new enterprises where control is obtained over the acquired enterprise, the purchase method is applied. The profit and balance sheet of the acquired enterprise will be recognised in Nykredit's Financial Statements as from the date of acquisition.

The balance sheet of the acquired enterprise is recognised at fair value as from the date of acquisition. The difference between the fair value of the net assets acquired and the purchase sum is as far as possible recognised as separable intangible assets, for example customer relations etc, while the remaining value is considered as goodwill, or as badwill if the price paid for an acquisition is less than the net assets.

Please refer to note 54.

INCOME STATEMENT

Interest income and expenses etc

Interest comprises interest due and accrued up to the balance sheet date.

Interest income comprises administration margin income on mortgage lending, interest and interest-like income, including interest-like commission received, and other income that forms an integral part of the effective interest of the underlying instruments if they are measured at amortised cost.

The item also includes interest payable or deductible relating to voluntary payment of tax on account and paid tax as well as index premiums on assets, forward premiums 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.

Discounts relating to customer programmes are offset against the relevant items.

Interest income from loans and advances measured at amortised cost for which stage 3 impairment is made is included in "Interest income" at an amount reflecting the effective interest from the impaired value of loans and advances. Any interest income from the underlying loans and advances exceeding this amount is included in "Impairment charges for loans, advances and receivables".

Interest expenses comprise all interest-like expenses including adjustment over the life of financial liabilities measured at amortised cost and where the cost differs from the redemption price.

Negative interest

Negative interest income is recognised in "Interest expenses", and negative interest expenses are recognised in "Interest income". Negative interest is specified in a note.

Dividend

Dividend from equity investments is recognised as income in the income statement in the period in which the dividend is declared.

Fees and commissions

Fees and commissions comprise 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 relating to loans and advances measured at amortised cost are treated as interest if they form an integral part of the effective interest of a financial instrument.

Non-interest expenses for customer benefits programmes are carried under fees and commissions.

Other fees and commissions are fully recognised in the income statement at the date of transaction.

Other operating income

"Other operating income" comprises operating income not attributable to other income statement items, including lease income, contributions from Forenet Kredit, goodwill as well as gain on the sale of investment and owner-occupied properties.

Value adjustments

Value adjustments consist of foreign currency translation adjustments and value adjustments of assets and liabilities measured at fair value.

Staff and administrative expenses

Staff expenses comprise wages and salaries as well as social security costs, pensions etc. Termination benefits as well as holiday pay/allowance obligations are recognised successively.

Administrative expenses comprise IT and marketing costs as well as leasehold rent.

Other operating expenses

"Other operating expenses" comprises operating expenses not attributable to other income statement items, including contributions to guarantee and resolution schemes for mortgage banks as well as one-off expenses.

Tax

Tax for the year, consisting of current tax for the year and changes to deferred tax and adjustment of tax for previous years, is recognised in the income statement, unless the tax effect concerns items recognised in "Other comprehensive income". Tax relating to "Other comprehensive income" items is recognised in the same item.

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 Danish tax of the jointly taxed companies is payable in accordance with the scheme for payment of tax on account.

Based on 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.

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.

Deferred tax assets, including the tax base of any 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 tax on future positive taxable income. On each balance sheet date, it is assessed whether it is probable that a deferred tax asset can be used.

Current tax assets and current tax liabilities are offset when there is a legally enforceable right to do so.

The Nykredit Group's companies are jointly taxed with Forenet Kredit. Current corporation tax payable is distributed among the jointly taxed companies relative to their taxable income (full distribution subject to refund for tax losses).

ASSETS

Loans, advances and other financial assets

Reference is made to the above description under "Significant accounting estimates and assessments" and "Financial instruments" for these items.

Investments in associates

Investments in associates include enterprises that the Nykredit Realkredit Group does not control, but in which the Group exercises significant influence. 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 proportional ownership interest of the enterprises' equity value determined in accordance with the Group's accounting policies less/plus the proportionate share of unrealised intercompany gains and losses plus goodwill.

The proportionate share of associates' profit or loss after tax is recognised in the consolidated income statement.

Intangible assets

Goodwill

Goodwill comprises positive balances between the cost of enterprises acquired and the fair value of the net assets of such enterprises at the time of acquisition.

Goodwill is recognised at cost on initial recognition in the balance sheet and subsequently at cost less accumulated impairments. Goodwill is not amortised.

Goodwill is tested for impairment once a year and is written down to the recoverable amount through profit or loss, if this is lower than the carrying amount. The recoverable amount is calculated as the present value of the future net cash flows expected from the cash-generating units to which the goodwill relates. Identification of cash-generating units is based on the management structure and the way the units are managed financially.

Goodwill impairment is reported in the income statement and is not reversed.

Impairment testing and the assumptions used for testing are described in notes 26a and 54.

Other intangible assets

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.

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 the development costs.

Capitalised development projects comprise salaries and other costs directly attributable to the Group's development activities.

Other development costs are recognised as costs 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.

Customer relationships etc 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 3-7 years.

Other intangible assets are written down to the recoverable amount where objective evidence of impairment (OEI) is identified.

Land and buildings including leased properties

Owner-occupied properties

Owner-occupied properties are properties which the Group uses for administration, sales and customer contact centres or for other service activities.

Owner-occupied properties where Nykredit acts as lessee are described under "Leases".

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 charges. 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. Please also refer to note 27 a.

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.

Positive value adjustments less deferred tax are added to revaluation reserves under equity via "Other comprehensive income". Impairment charges offsetting former revaluation of the same property are deducted from revaluation reserves via "Other comprehensive income", while other impairment charges are recognised through profit or loss.

When the asset is ready for its intended use, it is depreciated on a straight-line basis over the estimated useful life of 10-50 years, allowing for the expected scrap value at the expiry of the expected useful life. Land is not depreciated.

Gains and losses on divested assets are determined by comparing sales proceeds with carrying amounts and are recognised in the income statement under "Other operating income" or "Other operating expenses". On divestment of revalued assets, revaluation amounts contained in the revaluation reserves are transferred to "Retained earnings" under equity without recognition in the income statement.

Other property, plant and equipment

Equipment

Equipment is measured at cost less accumulated depreciation and impairment charges. Cost includes the purchase price and costs directly related to the acquisition up to the time when the assets are ready for their intended use.

Depreciation is made on a straight-line basis over the expected useful lives of:

- Computer equipment and machinery etc up to five years
- Fixtures, equipment and cars up to five years
- Leasehold improvements; maximum term of the lease is 15 years.

The assets' residual values and useful lives are reviewed 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 divestment 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 as well as investments in 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.

Properties acquired in connection with the termination of an exposure are recognised in "Assets in temporary possession".

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 arising on initial classification as assets in temporary possession and gains and losses on subsequent measurement at the lower of the carrying amount and the fair value less selling costs are recognised in "Impairment charges for loans, advances and receivables etc" in the income statement.

Income and expenses relating to subsidiaries in temporary possession are recognised separately in the income statement if the impact is significant.

LIABILITIES AND EQUITY

Payables

Debt obligations relating to financial instruments are described in "Recognition, classification and measurement of financial instruments".

Provisions

Provisions are recognised where, as a result of an event having 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 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 for the period concerned, and any contributions payable are recognised in "Other payables" in the balance sheet.
- Defined benefit plans under which the Group is obliged to pay certain benefits 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 of defined benefit plans is based on assumptions of the future development in eg wages, interest rates, inflation and mortality. Discounting is based on an interest rate determined in accordance with IAS 19. The value in use is only calculated for benefits to which staff members have become entitled through their employment with the Group.

The fair value of assets relating to defined benefit plans less the actuarial value in use of the pension obligations is recognised in the balance sheet under "Other assets" or "Other liabilities". Actuarial gains and losses are recognised in "Other comprehensive income" in the year in which they arose.

Repayable reserves in pre-1972 series

Repayable reserves include reserves in pre-1972 series repayable after full or partial redemption of mortgage loans in compliance with the articles of association of the series concerned.

Provisions for losses under guarantees etc

Provisions for losses under guarantees and unutilised credit commitments etc are recognised applying the same principles as are used for impairment charges for loans, advances and receivables. Reference is made to the preceding paragraph.

Subordinated debt

Subordinated debt consists of financial liabilities in the form of subordinate loan capital and Additional Tier 1 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 measured at fair value on initial recognition and subsequently at amortised cost.

Nykredit has raised subordinated debt in the form of bonds in issue which are subject to permanent write-down through profit or loss if Nykredit's Common Equity Tier 1 capital ratio drops to 7% or less. Until this level is reached, Nykredit is obliged to pay interest to bondholders.

Equity

Share capital

Shares in issue are classified as equity where there is no legal obligation to transfer cash or other assets to the shareholder.

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 any impairment fully or partially cancelling out previously recognised value gains. The item is also adjusted on divestment of properties.

Series reserves

Series reserves include series reserves where there is no obligation to repay the borrowers.

Non-distributable reserve fund

Includes a reserve fund in Totalkredit A/S and LR Realkredit A/S established when former mortgage banks were converted into limited companies. The reserves are non-distributable.

Retained earnings

Retained earnings comprise reserves which are in principle distributable to the Company's shareholders. However, under the Danish Financial Business Act, distribution is subject to Nykredit's compliance with the capital requirements applying to the Company and the Group.

Proposed dividend

Dividend expected to be distributed for the year is carried as a separate item in equity. Proposed dividend is recognised as a liability at the time of adoption at the Annual General Meeting (time of declaration).

Minority interests

Minority interests comprise the share of a subsidiary's equity owned by other parties than the Group companies.

Additional Tier 1 capital

Perpetual Additional Tier 1 capital with discretionary payment of interest and principal is recognised as equity for accounting purposes. Correspondingly, interest expenses relating to the issue are recorded as dividend for accounting purposes. Interest is deducted from equity at the time of payment. Tax attributable to interest expenses will be recognised in profit or loss.

CASH FLOW STATEMENT

The consolidated cash flow statement is prepared according to the indirect method based on profit or loss for the year. The consolidated cash flow statement shows cash flows for the year stemming from:

- Operating activities
- Investing activities
- Financing activities.

Operating activities include the Group's principal and other activities which are not part of its investing or financing activities.

Investing activities comprise the purchase and sale of non-current assets and financial investments not included in cash and cash equivalents.

Financing activities comprise subordinated debt raised as well as redeemed, including the sale and purchase of self-issued subordinated debt, and payments to or from shareholders as well as holders of Additional Tier 1 capital.

Furthermore, the cash flow statement shows the changes in the Group's 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 balances and demand deposits with central banks" and "Receivables from credit institutions and central banks".

ACCOUNTING POLICIES APPLYING SPECIFICALLY TO THE PARENT NYKREDIT A/S

The financial statements of the Parent Nykredit A/S are prepared in accordance with the Danish Financial Business Act and the Danish FSA Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. (the Danish Executive Order on Financial Reports).

In all material respects, these rules comply with the International Financial Reporting Standards (IFRS) and the Group's accounting policies as described above.

Amendments to the Danish Executive Order on Financial Reports and other amendments

Relative to the "Accounting policies" in the Financial Statements for 2019, no amendments to the Danish Executive Order on Financial Reports have been adopted in 2020 which affect our accounting policies.

Compared with 2019 negative interest income has been included under "Interest expenses", while negative interest expenses have been included under "Interest income", see the Group's accounting policies.

Other ordinary income

The item "Other operating expenses" contains a large share of income from administrative services, etc, provided by the Parent to the other Group companies, for which settlement is made on the basis of intercompany agreements. In addition, the item contains other operating income not attributable to other income statement items, including income relating to gains on the sale of investment and owner-occupied properties as well as other non-current assets.

Investments in Group enterprises etc

Investments in Group enterprises (subsidiaries) are recognised and measured according to the equity method.

NOTES

Nykredit Group

The proportional ownership interest of the equity value of the enterprises less/plus unrealised intercompany gains and losses is recognised in "Investments in Group enterprises" in the Parent's 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 goodwill in "Intangible assets" in the balance sheet.

Nykredit's share of the enterprises' profit or loss after tax and elimination of unrealised intercompany gains and losses is recognised in the Parent's income statement.

Total net revaluation of investments in Group enterprises is transferred to equity in "Statutory reserves" through the distribution of profit for the year.

Statutory reserves

The Parent's statutory reserves include value adjustment of investments in subsidiaries and associates (net revaluation according to the equity method). The reserves are reduced by dividend distribution to the Parent and are adjusted for other changes in the equity of subsidiaries and associates. The reserves are non-distributable.

The non-distributable reserve fund concerns the reserve fund of Totalkredit A/S and LR Realkredit A/S.

NOTES

Nykredit A/S		DKK million		
				Nykredit Group
2019	2020		2020	2019
2. CAPITAL AND CAPITAL ADEQUACY				
80,532	85,906	Equity for accounting purposes	89,754	84,366
-	-	Minority interests not included	(96)	(57)
-	-	Carrying amount of Additional Tier 1 capital recognised in equity	(3,753)	(3,777)
80,532	85,906	Equity excluding Additional Tier 1 capital	85,906	80,532
(3,610)	(2,200)	Proposed dividend ¹	(2,200)	(3,610)
-	-	Prudent valuation adjustment	(33)	(78)
-	-	Minority interests	49	35
-	-	Intangible assets excluding deferred tax liabilities	(2,099)	(2,114)
-	-	Provisions for expected credit losses in accordance with IRB approach	(16)	(40)
-	-	Other regulatory adjustments	(337)	(343)
(306)	(329)	Deduction for own shares	(329)	(306)
-	-	Interest accrued	(2)	-
(3,916)	(2,529)	Common Equity Tier 1 regulatory deductions	(4,968)	(6,455)
76,616	83,376	Common Equity Tier 1 capital	80,938	74,077
-	-	Additional Tier 1 capital	2,232	2,380
-	-	Additional Tier 1 regulatory deductions	(38)	(48)
-	-	Total Additional Tier 1 capital after regulatory deductions	2,194	2,332
76,616	83,376	Tier 1 capital	83,132	76,409
-	-	Tier 2 capital	6,935	7,189
-	-	Tier 2 regulatory adjustments	1,925	1,224
76,616	83,376	Own funds	91,993	84,821
298,011	317,927	Credit risk	332,383	323,497
-	-	Market risk	40,128	29,336
1	1	Operational risk	28,109	25,499
298,011	317,928	Total risk exposure amount	400,620	378,332
Financial ratios				
25.7	26.2	Common Equity Tier 1 capital ratio, %	20.2	19.5
25.7	26.2	Tier 1 capital ratio, %	20.7	20.1
25.7	26.2	Total capital ratio, %	22.9	22.4

Note: Comparative figures as at 31.12.2019 for Nykredit A/S have been restated as a result of deductions for own shares.

¹ As a result of the covid-19 crisis, the Annual General Meeting, which convened in March 2020, resolved to transfer the proposed dividend for 2019 to the next financial year.

Capital and capital adequacy have been determined in accordance with Capital Requirements Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR) and Regulation (EU) No 876/2019 amending Regulation (EU) No 575/2013 of 20 May 2019 (CRR2).

Nykredit has been designated as a systemically important financial institution (SIFI) by the Danish authorities. As a result, a special SIFI CET1 capital buffer requirement of 2% applies to the Nykredit Realkredit Group. To this should be added the permanent buffer requirement of 2.5% in Denmark which must also be met with Common Equity Tier 1 capital. The countercyclical buffer is currently 0%.

2. CAPITAL AND CAPITAL ADEQUACY (CONTINUED)

Pursuant to the Danish Financial Business Act, the Board of Directors and the Executive Board must ensure that Nykredit has sufficient funds and accordingly determine the required level of own funds. The required own funds are the minimum capital required, in Management's judgement, to cover all significant risks.

The determination takes into account the business objectives and capital policy targets by allocating capital for all relevant risks, including calculation uncertainties.

The Boards of Directors of Nykredit's individual companies determine at least annually the required own funds and internal capital adequacy requirement (ICAAP result) of their respective companies.

Stress tests and capital projection

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

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

The most important macroeconomic factors identified are:

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

Nykredit generally operates with three macroeconomic scenarios: a baseline scenario, a weaker economic climate and a severe recession.

Nykredit Group

Stress scenarios for determination of capital requirement

	20202	2021	2022	2023
Baseline scenario				
Property prices, growth	3.4%	3.3%	1.7%	1.5%
Interest rates ¹	(0.4)%	(0.2)%	(0.2)%	(0.1)%
Unemployment	5.4%	5.1%	5.0%	4.9%
GDP growth	(3.5)%	3.7%	2.6%	2.4%
Weaker economic climate (scenario applied under Pillar II)				
Property prices, growth	3.4%	(3.0)%	(3.0)%	(2.0)%
Interest rates ¹	(0.4)%	1.0%	2.1%	3.1%
Unemployment	5.4%	5.7%	6.4%	6.9%
GDP growth	(3.5)%	1.0%	0.5%	0.1%
Severe recession (scenario applied for capital policy)				
Property prices, growth	3.4%	(12.0)%	(10.0)%	(5.0)%
Interest rates ¹	(0.4)%	2.5%	3.5%	4.5%
Unemployment	5.4%	7.4%	9.1%	9.7%
GDP growth	(3.5)%	(3.0)%	(2.0)%	0.0%

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

² 2020 figures are forecasted.

The capital requirement for credit risk builds primarily on correlations between the macroeconomic factors, the Probability of Default (PD) and Loss Given Default (LGD). These correlations are an essential element of the capital projection model. Operating losses in a stress scenario increase the capital requirement, while operating profits are not included.

The scenarios operate with the impacts of both rising and falling interest rates. The capital charge is calculated based on the most severe scenario.

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

Baseline scenario

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

Stress scenario: Weaker economic climate

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

Stress scenario: Severe recession

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

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

Other stress scenarios

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

The covid-19 crisis is being closely monitored and continuously supplemented by covid-19-related stress tests to assess potential ramifications. Based on the actual macroeconomic trends and current outlook, Nykredit finds that any covid-19-related stress effects will be more than adequately covered by internal scenarios as well as the Danish FSA's stress scenarios.

Nykredit also participates in the EU-wide stress test exercises of the EBA, which in 2020 were postponed due to covid-19 but has been rescheduled for 2021.

The most recent results have confirmed Nykredit's strong capital position under the current capital requirements.

The Boards of Directors will reassess the capital needs if any major unexpected events occur. The determination of the internal capital needs of the individual companies by the Boards of Directors is based on a number of stress tests as well as an assessment of the company's business model, risk profile and capital structure.

Furthermore, the Board Risk Committee and the Group Risk Committee closely monitor the development in the capital needs of the individual companies and are briefed at least quarterly. The Asset/Liability Committee monitors and coordinates the capital, funding and liquidity of the Group and the individual Group companies. The report Risk and Capital Management 2020, available at nykredit.com/reports, contains a detailed description of the determination of required own funds and internal capital adequacy requirement of Nykredit as well as all Group companies. The report is not audited.

Nykredit Group

3. BUSINESS AREAS

The business areas reflect Nykredit's organisation and internal reporting. Banking includes: Retail, which serves personal customers and SMEs (small and medium-sized enterprises). It also includes Corporates & Institutions, comprising activities with corporate and institutional clients, securities trading and derivatives trading. Wealth Management comprises wealth and asset management activities. Please refer to the Management Commentary. In Q2/2020 changes were made to the business areas Business Banking and Corporates & Institutions. Comparative figures have been restated accordingly.

The presentation is based on the segments used for internal management reporting.

	Personal Banking	Business Banking	Total Retail	Corporates & Institutions	Total Banking	Totalcredit Partners	Wealth Management	Group Items	Total
RESULTS									
2020									
RESULTS BY BUSINESS AREA									
Net interest income	1,912	2,747	4,660	1,947	6,607	2,978	185	10	9,780
Net fee income	674	607	1,281	592	1,873	504	32	(42)	2,367
Wealth management income	397	136	534	131	665	-	1,261	24	1,950
Net interest from capitalisation	(75)	(133)	(208)	(141)	(349)	(222)	(10)	160	(421)
Net income relating to customer benefits programmes ¹	-	-	-	-	-	(5)	-	(199)	(203)
Trading, investment portfolio and other income	17	161	178	338	516	71	37	473	1,097
Income	2,926	3,519	6,444	2,867	9,311	3,326	1,505	426	14,569
Costs	2,170	1,192	3,362	716	4,078	719	883	93	5,773
Business profit before impairment charges	756	2,327	3,082	2,151	5,233	2,607	622	334	8,796
Impairment charges for loans and advances	98	1,531	1,629	304	1,933	291	56	(8)	2,272
Business profit	658	796	1,454	1,846	3,300	2,315	567	342	6,524
Legacy derivatives	(3)	53	50	207	258	-	0	-	258
Badwill	-	-	-	-	-	-	-	(2)	(2)
Profit before tax	655	849	1,504	2,054	3,558	2,315	567	340	6,780
Of which transactions between the business areas	434	146	580	(341)	239	(49)	(346)	157	-
Average allocated business capital	5,673	15,391	21,064	15,311	36,374	16,206	1,061	9,393	63,034
Business profit as % of average business capital ²	11.6	5.2	6.9	12.1	9.1	14.3	53.4		10.4
BALANCE SHEET									
Assets									
Mortgage loans etc at fair value	175,097	223,750	398,846	256,764	655,611	683,846	11,174	-	1,350,630
Reverse repurchase lending								37,271	37,271
Loans and advances at amortised cost	11,287	23,779	35,066	32,355	67,420	-	3,561	164	71,146
Assets by business area	186,384	247,529	433,912	289,119	723,031	683,846	14,735	37,436	1,459,047
Unallocated assets									206,712
Total assets									1,665,759
Liabilities and equity									
Repo deposits								9,874	9,874
Bank deposits and other payables at amortised cost	38,938	24,645	63,582	8,843	72,425	-	14,649	1,195	88,269
Liabilities by business area	38,938	24,645	63,582	8,843	72,425	-	14,649	11,069	98,143
Unallocated liabilities									1,477,861
Equity									89,754
Total liabilities and equity									1,665,759

¹ The item comprises contributions and discounts relating to Nykredit's benefits programmes, see "Alternative performance measures".

² In the determination of "Business profit as % of average business capital", the business profit corresponds to profit for accounting purposes less interest expenses for Additional Tier 1 capital.

Geographical markets

Income from international lending came to DKK 570 million (2019: DKK 540 million). The international loan portfolio totalled DKK 70 billion at end-2020 (2019: DKK 65 billion). The international loan portfolio comprises loans and advances in Sweden, Spain, France and Germany.

Nykredit Group

3. BUSINESS AREAS (CONTINUED)

	Personal Banking	Business Banking	Total Retail	Corporates & Institutions	Total Banking	Totalkredit Partners	Wealth Management	Group Items	Total
RESULTS									
2019									
Results by business area									
Net interest income	1,872	2,763	4,635	1,695	6,330	2,879	129	6	9,344
Net fee income	714	726	1,440	630	2,070	657	36	(24)	2,739
Wealth management income	346	143	490	124	614	-	984	12	1,610
Net interest from capitalisation	(66)	(151)	(217)	(119)	(336)	(182)	(9)	175	(352)
Net income relating to customer benefits programmes ¹	-	-	-	-	-	0	-	(358)	(358)
Trading, investment portfolio and other income	20	176	196	330	526	24	23	1,099	1,672
Income	2,887	3,658	6,544	2,660	9,204	3,378	1,163	910	14,655
Costs	2,074	1,140	3,215	628	3,843	651	666	186	5,346
Business profit before impairment charges	812	2,517	3,329	2,032	5,361	2,726	497	724	9,308
Impairment charges for loans and advances	248	667	915	132	1,047	(69)	11	5	994
Business profit	564	1,850	2,414	1,900	4,314	2,796	486	719	8,314
Legacy derivatives	(1)	(92)	(92)	(21)	(113)	-	0	-	(112)
Badwill	-	-	-	-	-	-	-	564	564
Profit before tax	564	1,759	2,322	1,879	4,201	2,796	487	1,284	8,766
Of which transactions between the business areas	355	66	420	(298)	122	(36)	(416)	330	-
Average allocated business capital	5,683	16,902	22,585	12,965	35,550	13,630	1,015	7,885	58,081
Business profit as % of average business capital ²	9.9	10.9	10.7	14.7	12.1	20.5	47.9		13.9
BALANCE SHEET									
Assets									
Mortgage loans etc at fair value	177,837	224,340	402,176	242,865	645,042	632,786	9,542	-	1,287,370
Reverse repurchase lending								48,749	48,749
Loans and advances at amortised cost	11,686	23,938	35,623	25,794	61,418	-	3,943	106	65,466
Assets by business area	189,522	248,277	437,800	268,659	706,459	632,786	13,484	48,854	1,401,584
Unallocated assets									208,734
Total assets									1,610,319
Liabilities and equity									
Repo deposits								15,281	15,281
Bank deposits and other payables at amortised cost	35,379	21,059	56,438	9,495	65,933	-	16,121	3,496	85,549
Liabilities by business area	35,379	21,059	56,438	9,495	65,933	-	16,121	18,777	100,831
Unallocated liabilities									1,425,122
Equity									84,366
Total liabilities and equity									1,610,319

¹ The item comprises contributions and discounts relating to Nykredit's benefits programmes, see "Alternative performance measures".

² In the determination of "Business profit as % of average business capital", the business profit corresponds to profit for accounting purposes less interest expenses for Additional Tier 1 capital.

Nykredit Group

4. RECONCILIATION OF INTERNAL AND REGULATORY INCOME STATEMENT

	2020			2019		
	Earnings presentation in Management Commentary	Reclassification	Income statement	Earnings presentation in Management Commentary	Reclassification	Income statement
Net interest income	9,780	1,457	11,237	9,344	1,693	11,038
Dividend on equities etc		50	50		169	169
Fee and commission income, net	2,367	(2,299)	68	2,739	(3,171)	(433)
Net interest and fee income		(792)	11,355		(1,309)	10,774
Wealth management income	1,950	(1,950)	-	1,610	(1,610)	-
Net interest from capitalisation	(421)	421	-	(352)	352	-
Net income relating to customer benefits programmes	(203)	203	-	(358)	358	-
Trading, investment portfolio and other income	1,097	(1,097)	-	1,672	(1,672)	-
Value adjustments		2,050	2,050		2,130	2,130
Other operating income		1,409	1,409		2,198	2,198
Total income	14,569			14,655		
Costs	5,773	(1)	5,771	5,346	-	5,346
Business profit before impairment charges	8,796			9,308		
Impairment charges for loans and advances etc	2,272	0	2,272	994	-	994
Profit from investments in associates		8	8		5	5
Business profit	6,524			8,314		
Legacy derivatives	258	(258)	-	(112)	112	-
Badwill	(2)	2	-	564	(563)	1
Profit before tax	6,780	-	6,780	8,766	-	8,766

Note 4 combines the earnings presentation in the Management Commentary (internal presentation), including the presentation of the financial highlights and the business areas, and the formal income statement of the Financial Statements.

The most important difference is that all income is recognised in three main items in the internal presentation: "Income", including sub-items, and "Legacy derivatives" as well as "Badwill". The sum of these items thus corresponds to "Net interest and fee income", "Value adjustments" and "Other operating income" and "Profit from investments in associates and Group enterprises" in the income statement of the Financial Statements. The column "Reclassification" thus comprises only differences between the internal presentation and the income statement with respect to these items.

"Costs" in the internal presentation corresponds to total costs recognised in the Financial Statements: "Staff and administrative expenses", "Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets" and "Other operating expenses".

"Impairment charges for loans and advances etc" corresponds to the presentation in the income statement.

The internal presentation is based on the same recognition and measurement principles as the IFRS-based Financial Statements. Thus, "profit before tax" is unchanged.

NOTES

DKK million

Nykredit Group	2020	2019
5. INCOME		
Revenue from contracts with customers (IFRS 15) by business area		
Retail	632	749
Corporates & Institutions	341	314
Total Banking	973	1,063
Totalkredit Partners	829	943
Wealth Management	1,949	1,541
Group Items	64	76
Total	3,815	3,623

The allocation of fees to business divisions shows the business divisions where fees are included on initial recognition. These fees, together with other income, are subsequently reallocated to the business divisions serving the customers on a net basis, see note 3.

Nykredit's revenue primarily consists of net income recognised in items governed by the accounting standards IFRS 9 "Financial Instruments" and IFRS 16 "Leases". Fees and transaction costs that are integral to the effective interest rate of an instrument are covered by IFRS 9. The same applies to fees relating to financial instruments measured at fair value.

Revenue recognised according to IFRS 15 partly includes fees from guarantees and other commitments (off-balance sheet items) as well as net revenue from Nykredit Markets, Asset Management and custody transactions, where revenue is recognised pursuant to the contractual provisions of the underlying agreements or price lists. Generally, business activities do not imply contract assets or liabilities for accounting purposes.

Revenue comprised by IFRS 15 mainly relates to:

- Fees in connection with deposits, lending and guarantee activities, consisting of fixed fees and/or determined as a percentage of the amount borrowed or the guarantee amount. Lending activities comprise eg mortgage lending. Fees are recognised at the time of the transaction or at fixed payment dates.
- Custody fees are based on a percentage of the size of the individual custody account balance and/or fixed fees. Fees are recognised at fixed payment dates in accordance with contractual provisions or price lists.
- Revenue from Nykredit Markets activities comprises trading in financial instruments and is recognised simultaneously with the transaction. Revenue in connection with eg Capital Markets transactions is recognised at the time of delivery of the service and when Nykredit's obligation has been settled.
- Revenue from wealth management activities comprises Nykredit's business within asset and wealth management, including private banking and pension activities. Revenue is recognised as the services are performed and delivered to the customers. Revenue is determined as a percentage of assets under management and administration or in the form of transaction fees.

Revenue from specific custody and Asset Management activities is determined based on the price movements of the underlying contracts, and therefore earnings cannot be finally calculated until at a specified, agreed date, but not later than at the end of the financial year.

Recognition of revenue is not impacted by special conditions which may significantly impact the size thereof or cash flows. Nykredit has no IFRS 15 obligations in the form of buybacks or guarantees etc.

Nykredit Group

6. NET INTEREST INCOME ETC AND VALUE ADJUSTMENTS

2020	Interest income	Interest expenses	Net interest income	Dividend on equities	Value adjustments	Total
Financial portfolios at amortised cost						
Receivables from and payables to credit institutions and central banks	(47)	61	(107)	-	-	(107)
Lending and deposits	1,989	(117)	2,106	-	3	2,109
Repo transactions and reverse repurchase lending	(169)	(87)	(82)	-	-	(82)
Bonds	(0)	-	(0)	-	-	(0)
Subordinated debt	-	358	(358)	-	-	(358)
Other financial instruments	141	116	25	-	-	25
Total	1,914	331	1,583	-	3	1,586
Financial portfolios at fair value and financial instruments at fair value						
Mortgage loans and bonds in issue ¹	21,658	12,204	9,454	-	18	9,472
- of which administration margin income	9,338	-	9,338	-	-	9,338
Bonds	324	-	324	-	708	1,032
Equities etc	-	-	-	50	362	412
Derivative financial instruments	(124)	-	(124)	-	723	600
Total	21,859	12,204	9,654	50	1,811	11,515
Foreign currency translation adjustment					236	236
Net interest income etc and value adjustments	23,772	12,535	11,237	50	2,050	13,337
Negative interest income	727	727	-			
Negative interest expenses	950	950	-			
Total	25,449	14,212	11,237			
KundeKroner and ErhvervsKroner discounts are offset against interest income and for the period amounted to	1,439					
2019						
Financial portfolios at amortised cost						
Receivables from and payables to credit institutions and central banks	(9)	93	(102)	-	-	(102)
Lending and deposits	1,943	(51)	1,994	-	8	2,003
Repo transactions and reverse repurchase lending	(235)	(98)	(138)	-	-	(138)
Subordinated debt	-	359	(359)	-	-	(359)
Other financial instruments	161	111	50	-	-	50
Total	1,860	414	1,446	-	8	1,454
Financial portfolios at fair value and financial instruments at fair value						
Mortgage loans and bonds in issue ¹	23,042	13,815	9,227	-	8	9,236
- of which administration margin income	8,971	-	8,971	-	-	8,971
Bonds	394	-	394	-	1,069	1,463
Equities etc	-	-	-	169	1,205	1,374
Derivative financial instruments	(29)	-	(29)	-	(246)	(275)
Total	23,407	13,815	9,592	169	2,036	11,797
Foreign currency translation adjustment					85	85
Net interest income etc and value adjustments	25,266	14,229	11,038	169	2,130	13,336
Negative interest income	822	822	-			
Negative interest expenses	939	939	-			
Total	27,027	15,990	11,038			
KundeKroner and ErhvervsKroner discounts are offset against interest income and for the period amounted to	1,328					

¹ Recognised at fair value under the fair value option.

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
	7. INTEREST INCOME		
-	- Receivables from credit institutions and central banks	(64)	(28)
-	- Loans, advances and other receivables	14,158	15,797
-	- Administration margin income	9,338	8,971
	Bonds		
-	- self-issued covered bonds (SDOs, ROs)	186	154
-	- other covered bonds	134	256
-	- government bonds	49	17
-	- other bonds	219	124
	Derivative financial instruments		
-	- foreign exchange contracts	50	45
-	- interest rate contracts and active contracts	(174)	(74)
0	0 Other interest income	141	161
0	0 Total	24,036	25,424
-	- Set-off of interest from self-issued bonds – note 8	(264)	(158)
0	0 Total	23,772	25,266
0	- Negative interest income	727	822
0	- Negative interest expenses	950	939
0	0 Total interest income	25,449	27,027
-	- Of which interest income based on the effective interest method	2,016	1,932
	Of which interest income from reverse repurchase lending entered as:		
-	- Receivables from credit institutions and central banks	(17)	(18)
-	- Loans, advances and other receivables	(165)	(217)
	Of total interest income:		
-	- Interest income accrued on impaired financial assets measured at amortised cost	41	42
-	- Interest income accrued on fixed-rate bank loans	74	80
-	- Interest income from finance leases	143	143
	Interest income accrued on bank loans subject to stage 3 impairment totalled DKK 41 million (2019: DKK 42 million). 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.		
	8. INTEREST EXPENSES		
0	0 Credit institutions and central banks	46	90
-	- Deposits and other payables	(189)	(146)
-	- Bonds in issue	12,468	13,972
-	- Subordinated debt	358	359
-	- Other interest expenses	116	111
0	0 Total	12,799	14,387
-	- Set-off of interest from self-issued bonds – note 7	(264)	(158)
0	0 Total	12,535	14,229
0	- Negative interest expenses	950	939
0	- Negative interest income	727	822
0	0 Total interest expenses	14,212	15,990
-	- Of which interest expenses relating to lease liabilities	6	6
	Of which interest expenses from repo transactions entered as:		
-	- Credit institutions and central banks	(13)	(3)
-	- Deposits and other payables	(73)	(95)

NOTES

DKK million

Nykredit A/S		Nykredit Group		
2019	2020		2020	2019
14. STAFF AND ADMINISTRATIVE EXPENSES				
10	5	Remuneration of Board of Directors and Executive Board	61	61
(2)	1	Staff expenses	3,357	3,116
12	5	Other administrative expenses	1,884	1,673
20	11	Total	5,302	4,850
Remuneration of Board of Directors and Executive Board				
Board of Directors				
5	5	Fees etc	9	10
Executive Board				
-	-	Base salaries	41	39
-	-	Pension	6	3
5	-	Variable remuneration	4	9
10	5	Total	61	61

Terms and conditions applying to the Board of Directors

The 14 members of the Board of Directors receive fixed fees and a refund of any costs incurred in connection with board meetings.

Fees paid to the Board of Directors

2020	Nykredit A/S	Nykredit Realkredit A/S	Nykredit A/S Nykredit Realkredit A/S	Nykredit Group	Forenet Kredit f.m.b.a. ¹	Forenet Kredit Group ¹
Fees (DKK '000)	Fees paid to the Board of Directors	Fees paid to the Board of Directors	Joint Committees	Total	Fees paid to the Board of Directors	Total
Merete Helene Eldrup	786	379	274	1,438	-	1,438
Steffen Kragh	212	102	50	364	-	364
Nina Smith	571	275	101	947	195	1,142
Helge Leiro Baastad	286	138	177	600	-	600
Olav Bredgaard Brusen	286	138	51	474	-	474
Michael Demstiz	286	138	177	600	146	746
Per W. Hallgren	286	138	456	879	105	984
Marlene Helle Holm	71	34	-	105	-	105
Jørgen Høholt	215	104	295	614	-	614
Hans-Ole Jochumsen	286	138	177	600	-	600
Vibeke Krag	286	138	177	600	105	705
Allan Kristiansen ²	286	138	-	423	-	423
Ann-Mari Lundbæk Lauritsen	215	-	-	215	-	215
Lasse Nyby ²	286	-	-	286	-	286
Claus Erik Petersen ²	286	-	-	286	-	286
Inge Sand	286	138	-	423	-	423
Kristina Andersen Skiöld	215	104	-	319	-	319
Leif Brian Vinther	71	34	-	105	-	105
Total	5,210	2,131	1,934	9,274	551	9,826

¹ As Forenet Kredit and the Nykredit Group are consolidated companies and due to the requirement pursuant to the Danish Financial Business Act, information regarding total fees paid to the Board of Directors of the Nykredit Group and the Forenet Kredit Group is included.

² In addition, Allan Kristiansen has received a fee as staff-elected member of the Board of Directors of Nykredit Bank A/S of DKK 60 thousand. Claus E. Petersen and Lasse Nyby have moreover received fees as members of the Board of Directors of Totalkredit A/S of DKK 75 thousand and DKK 50 thousand, respectively.

Nykredit Group

14. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)**Annual fees, end-2020**

Fees paid to the Board of Directors	Independent member	Member	Deputy Chairman	Chairman
Nykredit Realkredit A/S		139	278	417
Nykredit A/S		289	578	867
Forenet Kredit	195	195	195	195

Fees paid to Board Committee members	Board Audit Committee	Board Risk Committee	Board Nomination Committee	Board Remuneration Committee
Chairman	268	268	102	102
Other members	179	179	51	51

For the Board Audit and Board Risk Committees specifically, fees are reduced by DKK 50 thousand if directors join both committees. Members of the Committee of Representatives of Forenet Kredit f.m.b.a. receive fees of DKK 30 thousand.

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.

Fees paid to the Board of Directors

2019	Nykredit A/S	Nykredit Realkredit A/S	Nykredit A/S Nykredit Realkredit A/S	Nykredit Group	Forenet Kredit f.m.b.a. ¹	Forenet Kredit Group ¹
Fees (DKK '000)	Fees paid to the Board of Directors	Fees paid to the Board of Directors	Joint Committees	Total	Fees paid to the Board of Directors	Total
Steffen Kragh	837	404	200	1,441	-	1,441
Merete Helene Eldrup	558	269	456	1,283	-	1,283
Nina Smith	558	269	100	927	195	1,122
Helge Leiro Baastad	279	135	163	576	-	576
Olav Bredgaard Brusén	279	135	25	439	75	514
Michael Demstiz	279	135	163	576	130	706
Per W. Hallgren	279	135	356	770	75	845
Marlene Helle Holm	279	135	-	414	-	414
Hans-Ole Jochumsen	279	135	163	576	-	576
Vibeke Krag	279	135	163	576	75	651
Allan Kristiansen ²	279	135	-	414	-	414
Lasse Nyby ²	279	-	-	279	-	279
Claus Erik Petersen ²	279	-	-	279	-	279
Inge Sand	279	135	-	414	75	489
Leif Brian Vinther	279	135	25	439	75	514
Total	5,301	2,287	1,813	9,400	700	10,100

¹ As Forenet Kredit and the Nykredit Group are consolidated companies and due to the requirement pursuant to the Danish Financial Business Act, information regarding total fees paid to the Board of Directors of the Nykredit Group and the Forenet Kredit Group is included.

² In addition, Allan Kristiansen has received a fee as staff-elected member of the Board of Directors of Nykredit Bank A/S of DKK 60 thousand. Claus E. Petersen and Lasse Nyby have moreover received fees as members of the Board of Directors of Totalkredit A/S of DKK 150 thousand and DKK 100 thousand, respectively.

Nykredit Group

14. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)

2020

Remuneration of the Executive Board	Michael Rasmussen	Anders Jensen	David Hellemann	Tonny Thierry Andersen	Total
Contractual remuneration (salary and pension contribution) ¹	17,027	10,023	10,023	10,023	47,096
Various benefits ²	20	24	13	8	64

¹ Members of the Executive Board receive contractual remuneration comprising a fixed salary, pension contributions and a company car. In addition to his contractual remuneration, Michael Rasmussen received a retention fee of DKK 2,825 thousand in 2020.

² In addition to the ordinary salary the members of the Executive Board may receive various benefits.

Members of the Executive Board receive fixed salaries covering all directorships and executive positions in Nykredit A/S as well as Group enterprises and associates. Retention agreements have previously been concluded with Michael Rasmussen, Anders Jensen and David Hellemann, see the table below. Agreements with Anders Jensen and David Hellemann lapsed in 2020.

In 2020 the members of the Executive Board received a contractual remuneration raise. At the same time, termination notices on the part of the members of the Executive Board were extended from 6 to 12 months, and the agreements pertaining to retention fees were amended to the effect that no retention fee or bonus may be earned for 2020 or going forward.

Retention and termination benefits	Michael Rasmussen	Anders Jensen	David Hellemann	Tonny Thierry Andersen
Retention terms ^{1,2}	1 year's salary excl pensions	8 mths' salary excl pensions	8 mths' salary excl pensions	
Termination benefit	17 mths	6 mths	6 mths	6 mths
Notice of termination by the member of the Executive Board	12 mths	12 mths	12 mths	12 mths
Notice of termination by Nykredit	12 mths	12 mths	12 mths	12 mths

¹ Nykredit A/S has entered into a retention agreement with Michael Rasmussen, Group Chief Executive. At 31 December 2019, the retention payment earned was DKK 11.3 million, payable over a 5-year period with the first payment in 2020. A retention payment of DKK 0 million for Michael Rasmussen (2019: DKK 5.1 million) was charged to the income statement in 2020.

² Nykredit Realkredit A/S has entered into retention agreements with each of Group Managing Directors Anders Jensen and David Hellemann. The retention payments, which equal 8 months' salary excluding pension contributions, are payable on 1 January 2021 if Anders Jensen or David Hellemann have not resigned their positions or are not in breach of their contractual duties on the payment date. Provisions are made for the retention payment during the vesting period. No provisions were made for retention fee for Anders Jensen and David Hellemann in 2020 (2019: DKK 2.1 million and DKK 2.1 million), as the agreement on retention fees has been amended, see above.

Group Managing Directors will retire in the month they attain the age of 70 at the latest.

Nykredit Group

2019

Remuneration of the Executive Board	Michael Rasmussen	Kim Duus ⁴	Søren Holm ⁴	Anders Jensen	David Hellemann	Tonny Thierry Andersen ³	Total
Contractual remuneration (salary and pension contribution) ¹	13,915	3,263	3,263	8,213	8,213	5,704	42,571
Various benefits ²	18	6	6	22	10	4	67

¹ Members of the Executive Board receive contractual remuneration comprising a fixed salary, pension contributions and a company car.

² In addition to the ordinary salary the members of the Executive Board may receive various benefits.

³ Tonny Thierry Andersen joined the Executive Board on 1 June 2019.

⁴ Kim Duus and Søren Holm resigned from the Executive Board at 30 June 2019.

Kim Duus and Søren Holm left their positions at end-June 2019. Following termination, they will receive 60% of their fixed salaries for five years as from 1 July 2019, as agreed under their contracts.

NOTES

Nykredit A/S				DKK million	
				Nykredit Group	
2019	2020	2020	2019		
14. STAFF AND ADMINISTRATIVE EXPENSES (CONTINUED)					
Staff expenses					
-	-	- Salaries	2,623	2,438	
-	-	- Pensions	276	266	
(2)	1	Payroll tax	431	388	
-	-	- Other social security expenses	27	23	
(2)	1	Total	3,357	3,116	
-	-	In addition to the Board of Directors and Executive Board, Nykredit has designated the following number (average) of staff whose activities significantly affect Nykredit's risk profile (material risk takers). The average number:	211	220	
Details of Nykredit's remuneration policy appear from page 36 of the Management Commentary under Remuneration and at nykredit.com.					
Remuneration of material risk takers is included in "Staff expenses" and breaks down into:					
-	-	- Base salaries	293	265	
-	-	- Variable remuneration	68	78	
-	-	Total	361	343	
Material risk takers are only offered 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 determined during the first quarter of the following financial year.					
Number of staff					
-	-	- Average number of staff for the financial year, full-time equivalent	3,799	3,515	
Fees to auditor appointed by the General Meeting					
0	1	Deloitte	13	15	
Total fees include:					
0	0	Statutory audit of the Financial Statements	8	8	
0	0	Other assurance engagements	3	2	
-	-	- Tax advice	0	1	
0	1	Other services	2	4	
0	1	Total	13	15	

Fees for non-auditing services provided by Deloitte Chartered Accountant Company to the Group concern advice relating to IT platform and general accounting, regulatory and tax advice.

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
15. DEPRECIATION, AMORTISATION AND IMPAIRMENT CHARGES FOR PROPERTY, PLANT AND EQUIPMENT AS WELL AS INTANGIBLE ASSETS			
Intangible assets			
-	-	81	75
-	-	-	12
Property, plant and equipment			
-	-	54	49
-	-	1	8
-	-	-	-
Leased properties			
-	-	157	162
-	-	294	305

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16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP)**16 a. Impairment charges for loans, advances and receivables etc**

	Loans and advances at fair value	Loans and advances at fair value	Loans and advances at amortised cost	Loans and advances at amortised cost	Credit institutions	Credit institutions	Guarantees etc ²	Guarantees etc ²	Total	Total
Total impairment provisions	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Balance, 1 January	5,365	5,025	2,526	2,767	28	21	137	117	8,056	7,930
New impairment provisions as a result of additions and change in credit risk	3,600	2,721	1,482	936	4	7	174	86	5,261	3,750
Releases as a result of redemptions and change in credit risk	2,004	2,091	964	799	10	0	70	67	3,049	2,957
Impairment provisions written off	293	329	82	434	-	-	-	0	375	762
Other adjustments and interest from impaired facilities	-	51	51	56	-	-	-	0	51	107
Transferred to "Impairment provisions for properties acquired by foreclosure"	17	13	-	-	-	-	-	-	17	13
Total impairment provisions	6,652	5,365	3,012	2,526	22	28	241	137	9,928	8,056
Earnings impact										
Change in impairment provisions for loans and advances (stages 1-3)	1,596	630	518	137	(6)	7	104	20	2,212	794
Write-offs for the year, not previously written down for impairment	347	473	22	115	-	-	-	-	369	588
Recoveries on claims previously written off	(89)	(98)	(52)	(36)	-	-	-	-	(141)	(134)
Total	1,855	1,005	488	217	(6)	7	104	20	2,441	1,248
Value adjustment of assets in temporary possession	(22)	(45)	-	-	-	-	-	-	(22)	(45)
Value adjustment of claims previously written off	25	(19)	(13)	(26)	-	-	-	-	12	(45)
Losses offset, in accordance with partnership agreement ¹	(159)	(164)	-	-	-	-	-	-	(159)	(164)
Earnings impact	1,699	777	475	191	(6)	7	104	20	2,272	994

¹ According to the partnership agreement with the partner banks Totalkredit A/S has a right of set-off against commission in connection with write-offs on lending.

The contractual amounts outstanding on financial assets written off in 2020 and still sought to be recovered totalled DKK 604 million at 31 December 2020 (2019: DKK 913 million).

Of total impairment provisions for mortgage lending determined under IFRS 9, 33% or DKK 2.2 billion was attributable to customers who are in serious financial difficulty but not in arrears. Of total impairment provisions for mortgage lending determined under IFRS 9, 2% or DKK 0.2 billion was attributable to customers who have gone bankrupt, are undergoing bankruptcy proceedings or compulsory dissolution, or who are deceased.

Of total impairment provisions for bank lending determined under IFRS 9, 6% or DKK 0.1 billion was attributable to customers who have gone bankrupt, are undergoing bankruptcy proceedings or compulsory dissolution, or who are deceased.

Loans are impaired if a customer is deemed to be in serious financial difficulty, or forbearance has been granted as a result of financial difficulty. When assessing whether loans are impaired, factors such as non-performance of contractual obligations and personal circumstances such as divorce, unemployment or long-term illness are also taken into consideration.

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16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 b. Total impairment provisions by stage**

2020	Loans and advances at fair value			Loans and advances at amortised cost			Guarantees etc			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Total, beginning of year	1,591	1,233	2,541	425	199	1,930	52	38	46	8,056
Transfer to stage 1	297	(200)	(97)	124	(86)	(38)	12	(12)	(0)	-
Transfer to stage 2	(111)	418	(307)	(46)	211	(164)	(4)	9	(5)	-
Transfer to stage 3	(13)	(265)	278	(11)	(22)	33	(1)	(5)	5	-
Impairment provisions for new loans and advances (additions)	82	204	211	30	58	121	12	12	5	737
Additions as a result of change in credit risk	731	1,408	964	209	412	656	32	75	37	4,524
Releases as a result of change in credit risk	827	558	620	279	188	507	35	14	21	3,049
Previously written down for impairment, now written off	-	-	309	0	0	82	-	-	-	392
Other adjustments and interest from impaired facilities	-	-	-	-	-	51	-	-	-	51
Total impairment provisions, year-end	1,751	2,241	2,661	450	584	2,001	70	104	67	9,928
Total, year-end		6,652			3,034			241		9,928
Impairment provisions, year-end, are moreover attributable to:										
Credit institutions				22	-	-				22
Earnings impact, 2020	(14)	1,054	556	(41)	282	270	10	73	21	2,212

2019	Loans and advances at fair value			Loans and advances at amortised cost			Guarantees etc			Total
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Total, beginning of year	953	1,626	2,447	326	187	2,274	36	29	53	7,930
Transfer to stage 1	515	(457)	(58)	110	(53)	(56)	17	(6)	(11)	-
Transfer to stage 2	(27)	200	(174)	(12)	133	(121)	(5)	9	(5)	-
Transfer to stage 3	(4)	(182)	187	(3)	(20)	22	(0)	(1)	2	-
Impairment provisions for new loans and advances (additions)	257	75	143	61	8	37	8	6	6	602
Additions as a result of change in credit risk	721	623	902	163	108	565	23	19	23	3,148
Releases as a result of change in credit risk	849	657	584	221	165	414	27	18	22	2,957
Previously written down for impairment, now written off	-	-	341	-	-	434	-	-	0	775
Other adjustments and interest from impaired facilities	22	9	20	-	-	56	-	-	-	107
Total impairment provisions, year-end	1,589	1,235	2,542	425	199	1,930	52	38	46	8,056
Total, year-end		5,365			2,554			137		8,056
Impairment provisions, year-end, are moreover attributable to:										
Credit institutions				28	-	-				28
Earnings impact, 2019	129	40	461	4	(48)	188	5	8	7	794

The principles of impairment are described in detail in the accounting policies (note 1) of the Annual Report for 2020.

Stage 1 covers loans and advances etc without significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the expected credit losses over a period of 12 months for loans and advances etc at amortised cost. For loans and advances at fair value the initial impairment was calculated at DKK 0.

Stage 2 covers loans and advances etc with significant increase in credit risk since initial recognition. For this category, impairment provisions are made corresponding to the expected credit losses over the asset's maturity.

Stage 3 covers loans and advances etc that are credit impaired, and which have been subject to individual provisioning on the specific assumption that the customers will default on their loans.

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16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 c. Loans, advances and guarantees etc by stage**

2020	Stage 1	Stage 2	Stage 3	Total
Loans and advances at fair value, gross				
Loans and advances at fair value, gross	1,291,075	52,110	14,392	1,357,577
Total impairment provisions, year-end	1,751	2,241	2,661	6,652
Value, year-end	1,289,324	49,869	11,732	1,350,925
Loans and advances at amortised cost excluding credit institutions, gross				
Loans and advances at amortised cost excluding credit institutions, gross	96,628	12,201	2,951	111,781
Total impairment provisions, year-end	428	584	2,001	3,012
Value, year-end	96,200	11,618	950	108,768
Guarantees etc				
Guarantees etc	21,698	3,275	231	25,205
Total impairment provisions, year-end	70	104	67	241
Value, year-end	21,628	3,171	164	24,963
2019				
	Stage 1	Stage 2	Stage 3	Total
Loans and advances at fair value, gross				
Loans and advances at fair value, gross	1,246,256	35,597	11,123	1,292,975
Total impairment provisions, year-end	1,589	1,235	2,542	5,365
Value, year-end	1,244,667	34,362	8,581	1,287,610
Loans and advances at amortised cost excluding credit institutions, gross				
Loans and advances at amortised cost excluding credit institutions, gross	109,982	4,574	2,560	117,116
Total impairment provisions, year-end	396	199	1,930	2,526
Value, year-end	109,586	4,374	630	114,590
Guarantees etc				
Guarantees etc	30,021	1,094	241	31,356
Total impairment provisions, year-end	52	38	46	137
Value, year-end	29,969	1,056	195	31,219

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16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 d. Loans and advances at fair value, gross, by stage**

2020	Stage 1	Stage 2	Stage 3	Total
Gross lending etc, 1 January 2020	1,246,256	35,597	11,123	1,292,975
Transfer to stage 1	3,316	(3,292)	(25)	-
Transfer to stage 2	(5,040)	5,747	(707)	-
Transfer to stage 3	(531)	(1,590)	2,121	-
Other movements ¹	47,074	15,648	1,880	64,602
Total, 31 December 2020	1,291,075	52,110	14,392	1,357,577
Total provisions	1,751	2,241	2,661	6,652
Carrying amount	1,289,324	49,869	11,732	1,350,925
2019	Stage 1	Stage 2	Stage 3	Total
Gross lending etc, 1 January 2019	1,154,152	34,769	10,079	1,199,000
Transfer to stage 1	7,169	(6,974)	(194)	-
Transfer to stage 2	(14,495)	14,914	(420)	-
Transfer to stage 3	(1,845)	(1,217)	3,062	-
Other movements ¹	80,856	(7,674)	(1,886)	71,296
Total, 31 December 2019	1,225,837	33,817	10,642	1,270,296
LR Realkredit A/S, total	20,419	1,779	481	22,679
Total provisions	1,589	1,235	2,542	5,365
Carrying amount	1,244,667	34,362	8,581	1,287,610

¹ "Other movements" consists of new loans and advances as well as loans and advances redeemed in the period.

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16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 d. Loans and advances at amortised cost excluding credit institutions, gross, by stage**

2020	Stage 1	Stage 2	Stage 3	Total
Gross lending etc, 1 January 2020	109,982	4,574	2,560	117,116
Transfer to stage 1	1,659	(1,567)	(92)	-
Transfer to stage 2	(8,820)	8,955	(135)	-
Transfer to stage 3	(342)	(265)	607	-
Other movements ¹	(5,851)	505	11	(5,336)
Total, 31 December 2020	96,628	12,201	2,951	111,781
Total provisions	428	584	2,001	3,012
Carrying amount	96,200	11,618	950	108,768
2019	Stage 1	Stage 2	Stage 3	Total
Gross lending etc, 1 January 2019	94,216	3,853	3,009	101,078
Transfer to stage 1	1,112	(1,003)	(109)	-
Transfer to stage 2	(2,223)	2,293	(71)	-
Transfer to stage 3	(296)	(329)	625	-
Other movements ¹	17,173	(240)	(895)	16,038
Total, 31 December 2019	109,982	4,574	2,560	117,116
Total provisions	396	199	1,930	2,526
Carrying amount	109,586	4,374	630	114,590

¹ "Other movements" consists of new loans and advances as well as loans and advances redeemed in the period.

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16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 d. Gross guarantees by stage**

2020	Stage 1	Stage 2	Stage 3	Total
Gross guarantees etc, 1 January 2020	30,021	1,094	241	31,356
Transfer to stage 1	374	(371)	(3)	-
Transfer to stage 2	(1,622)	1,636	(14)	-
Transfer to stage 3	(58)	(68)	126	-
Other movements ¹	(7,017)	984	(118)	(6,152)
Total, 31 December 2020	21,698	3,275	231	25,205
Total provisions	70	104	67	241
Carrying amount	21,628	3,171	164	24,963
2019	Stage 1	Stage 2	Stage 3	Total
Gross guarantees etc, 1 January 2019	39,923	481	218	40,622
Transfer to stage 1	304	(265)	(39)	-
Transfer to stage 2	(441)	455	(14)	-
Transfer to stage 3	(77)	(62)	140	-
Other movements ¹	(9,687)	485	(64)	(9,266)
Total, 31 December 2019	30,021	1,094	241	31,356
Total provisions	52	38	46	137
Carrying amount	29,969	1,056	195	31,219

¹ "Other movements" consists of new guarantees as well as guarantees terminated in the period

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16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)**16 e. Financial assets, gross, by stage**

2020	Financial assets, gross				of which financial assets excluding impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets at fair value	1,291,075	52,110	14,392	1,357,577	-	-	-	-
Financial assets at amortised cost	96,628	12,201	2,951	111,781	37,271	-	-	37,271
Balances with credit institutions	27,543	-	-	27,543	-	-	-	-
Guarantees	21,698	3,275	231	25,205	-	-	-	-
Bank loan commitments	8,297	-	-	8,297	-	-	-	-
Mortgage loan commitments	7,178	-	-	7,178	7,178	-	-	7,178
Total, 31 December 2020	1,452,419	67,587	17,574	1,537,580	44,450	-	-	44,450

2019	Financial assets, gross				of which financial assets excluding impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets at fair value	1,246,256	35,597	11,123	1,292,975	-	-	-	-
Financial assets at amortised cost	109,982	4,574	2,560	117,116	48,749	-	-	48,749
Balances with credit institutions	11,524	-	-	11,524	-	-	-	-
Guarantees	5,419	1,094	241	6,754	-	-	-	-
Bank loan commitments	24,602	-	-	24,602	-	-	-	-
Mortgage loan commitments	10,244	-	-	10,244	10,244	-	-	10,244
Total, 31 December 2019	1,408,027	41,265	13,924	1,463,215	58,993	-	-	58,993

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16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)

16 f. Mortgage loans at fair value by rating category

2020 Rating category	Mortgage lending, gross			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
10	335,968	1,038	-	250	18	-
9	299,500	2,786	-	322	48	-
8	266,686	3,395	-	344	68	-
7	178,213	4,563	-	280	119	-
6	99,023	3,799	-	183	135	-
5	52,435	3,611	-	156	115	-
4	29,299	5,109	-	84	175	-
3	22,488	6,643	-	95	238	-
2	5,604	5,167	-	30	224	-
1	1,858	5,289	-	5	334	-
0	-	3,652	-	1	233	-
Exposures in default	-	7,059	14,392	0	533	2,661
Total	1,291,075	52,110	14,392	1,751	2,241	2,661

2019 Rating category	Mortgage lending, gross			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
10	295,099	336	-	225	3	-
9	253,194	386	-	217	6	-
8	232,173	700	-	232	19	-
7	183,627	488	-	229	27	-
6	126,043	1,045	-	188	21	-
5	59,918	1,244	-	138	18	-
4	33,041	1,836	-	76	15	-
3	21,689	2,311	-	56	16	-
2	18,075	4,374	-	94	237	-
1	2,976	4,603	-	112	251	-
0	-	7,023	-	-	188	-
Exposures in default	-	9,471	10,642	-	423	2,521
Total	1,225,837	33,817	10,642	1,569	1,224	2,521
LR Realkredit A/S, total	20,419	1,779	481	22	9	20
Total	1,246,256	35,597	11,123	1,591	1,233	2,541

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16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)

16 f. Bank lending at amortised cost by rating category

2020 Rating category	Bank loans and advances, gross			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
10	17,381	530	-	69	16	-
9	20,703	1,196	-	67	44	-
8	8,023	1,384	-	54	44	-
7	9,844	2,436	-	76	84	-
6	24,362	2,215	-	50	93	-
5	9,285	1,171	-	59	54	-
4	1,864	1,102	-	30	64	-
3	3,497	609	-	14	34	-
2	1,489	830	-	7	44	-
1	179	518	-	1	68	-
0	-	78	-	-	19	-
Exposures in default	-	132	2,600	-	20	2,001
Total	96,628	12,201	2,600	428	584	2,001

2019 Rating category	Bank loans and advances, gross			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
10	14,670	44	-	44	1	-
9	25,405	70	-	45	4	-
8	10,773	141	-	51	4	-
7	9,243	131	-	53	4	-
6	30,865	428	-	65	7	-
5	9,663	651	-	49	16	-
4	3,187	673	-	34	19	-
3	2,573	447	-	13	15	-
2	3,061	1,019	-	26	43	-
1	165	804	-	17	62	-
0	-	68	-	-	15	-
Exposures in default	-	98	2,560	-	8	1,930
Total	109,607	4,574	2,560	396	199	1,930

16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)

16 g. Mortgage lending and total impairment provisions by property category

2020	Mortgage lending			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Owner-occupied dwellings	826,048	25,339	4,001	602	1,078	946
Private rental	111,884	5,080	1,280	223	274	269
Industry and trades	23,126	612	158	32	25	27
Office and retail	118,305	7,245	1,833	339	251	361
Agricultural property	74,820	9,196	5,049	489	460	779
Public housing	81,350	1,321	145	3	11	13
Cooperative housing	35,661	1,435	1,114	41	94	191
Other	19,880	1,884	812	21	48	75
Fair value	1,291,075	52,110	14,392	1,751	2,241	2,661

2019	Mortgage lending			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Owner-occupied dwellings	784,130	18,745	3,414	720	816	897
Private rental	104,857	2,282	959	175	58	234
Industry and trades	23,281	537	183	25	11	51
Office and retail	115,800	3,845	1,479	161	74	343
Agricultural property	79,695	6,522	3,293	374	221	655
Public housing	70,244	588	145	47	2	42
Cooperative housing	34,301	987	1,072	52	35	252
Other	13,529	311	98	16	6	48
Fair value	1,225,837	33,817	10,642	1,569	1,224	2,521
LR Realkredit A/S, total	20,419	1,779	481	22	9	20
Total	1,246,256	35,597	11,123	1,591	1,233	2,541

16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (GROUP) (CONTINUED)

16 h. Bank loans, advances and guarantees etc and total impairment provisions by sector

2020	Bank loans, advances and guarantees			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Public sector	867	3	-	4	0	-
Agriculture, hunting, forestry and fishing	3,017	416	182	14	19	151
Manufacturing, mining and quarrying	7,638	1,986	550	47	65	303
Energy supply	6,686	435	14	20	10	10
Construction	2,272	348	209	21	17	160
Trade	7,015	1,954	272	87	102	264
Transport, accommodation and food service activities	5,906	1,375	96	50	51	83
Information and communication	2,731	565	73	17	11	78
Finance and insurance	42,075	1,133	139	19	71	55
Real estate	13,511	3,172	479	86	163	347
Other	6,978	1,535	267	47	83	224
Total business customers	97,831	12,918	2,280	407	592	1,675
Personal customers	24,383	2,556	551	87	96	393
Total	123,081	15,477	2,831	498	688	2,068
- of which intercompany guarantees	20,639	-	-			
2019	Bank loans, advances and guarantees			Total impairment provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Public sector	766	-	-	1	-	-
Agriculture, hunting, forestry and fishing	3,864	335	161	20	14	130
Manufacturing, mining and quarrying	8,039	678	489	47	29	210
Energy supply	2,817	50	20	13	2	15
Construction	3,420	278	223	17	13	168
Trade	7,573	258	335	39	14	282
Transport, accommodation and food service activities	5,534	252	92	23	5	72
Information and communication	3,395	66	75	16	4	82
Finance and insurance	54,202	516	106	39	27	56
Real estate	13,434	810	494	79	37	357
Other	9,319	613	275	43	36	188
Total business customers	111,597	3,856	2,270	334	179	1,559
Personal customers	32,020	1,811	531	114	59	417
Total	144,383	5,668	2,801	449	238	1,976
- of which intercompany guarantees	29,358	-	-			

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
16. IMPAIRMENT CHARGES FOR LOANS, ADVANCES AND RECEIVABLES ETC (CONTINUED)			
16 i. Impairment provisions for properties acquired by foreclosure			
-	- Impairment provisions, beginning of year	41	88
-	- Transfer from impairment provisions for loans and advances	17	13
-	- Impairment provisions for the period	22	17
-	- Impairment provisions reversed	44	62
-	- Impairment provisions written off	5	14
-	- Impairment provisions, year-end	31	41
Impairment provisions for properties acquired by foreclosure have been offset against "Assets in temporary possession".			
17. PROFIT FROM INVESTMENTS IN ASSOCIATES AND GROUP ENTERPRISES			
-	- Profit from investments in associates	8	5
7,210	7,210 Profit from investments in Group enterprises	-	-
7,210	5,429 Total	8	5
18. TAX			
18 a. Tax on profit for the year			
Tax on profit for the year has been calculated as follows:			
(3)	(7) Current tax	1,124	1,280
(2)	4 Deferred tax	(18)	62
(0)	- Adjustment of tax relating to previous years	(17)	8
-	- Adjustment of deferred tax relating to previous years	27	(10)
(5)	(2) Tax	1,116	1,340
Tax on profit for the year can be specified as follows:			
1,026	1,192 Calculated 22% tax on profit before tax	1,492	1,929
Tax effect of:			
(1,030)	(1,194) Non-taxable income	(466)	(676)
-	- Non-deductible expenses and other adjustments	108	90
(0)	- Adjustment of tax relating to previous years	(18)	(3)
(5)	(2) Total	1,116	1,340
22.0	22.0 Current tax rates, %	22.0	22.0
22.1	22.1 Permanent deviations	5.5	6.7
(0.1)	(0.1) Effective tax rate, %	16.5	15.3
Permanent deviations are attributable to investments in Group enterprises and associates, equities, badwill as well as contributions from Forenet Kredit f.m.b.a.			
18 b. Payroll tax			
In addition to corporation tax, the Nykredit Group has paid a payroll tax. The payroll tax is included in "Staff expenses", see note 14.			
		431	388

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
		19. RECEIVABLES FROM CREDIT INSTITUTIONS AND CENTRAL BANKS	
-	- Receivables from central banks	36,037	40,889
21	- Receivables from credit institutions	4,795	8,038
-	- Reverse repurchase lending to central banks	-	-
-	- Reverse repurchase lending to credit institutions	2,383	3,486
21	- Total	43,215	52,413
-	of which certificates of deposit serving as collateral security to the Danish central bank and foreign clearing centres of a total market value of	8,768	23,044
	Receivables from credit institutions and central banks by time-to-maturity		
-	- On demand	5,413	9,066
-	- Up to 3 months	37,802	43,310
-	- Over 3 months and up to 1 year	-	16
-	- Total	43,215	52,392
	20. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE		
-	- Mortgage loans	1,350,630	1,287,370
-	- Arrears and outlays	295	240
-	- Total	1,350,925	1,287,610
-	- Of which genuine purchase and resale transactions	-	-
	20 a. Mortgage loans		
-	- Balance, beginning of year, nominal value	1,262,689	1,171,449
-	- Additions from LR Realkredit A/S	-	21,877
-	- New loans	298,845	404,162
-	- Indexation	135	156
-	- Foreign currency translation adjustment	830	(393)
-	- Ordinary principal payments	(32,299)	(28,412)
-	- Prepayments and extraordinary principal payments	(208,714)	(306,151)
-	- Balance, year-end, nominal value	1,321,486	1,262,689
-	- Loans transferred relating to properties in temporary possession	(20)	(7)
-	- Total	1,321,465	1,262,681
-	- Adjustment for interest rate risk etc	35,695	29,889
	Adjustment for credit risk and discounts		
-	- Impairments	(6,530)	(5,200)
-	- Balance, year-end, fair value	1,350,630	1,287,370

NOTES

DKK million

Nykredit A/S		Nykredit Group	
2019	2020	2020	2019
20. LOANS, ADVANCES AND OTHER RECEIVABLES AT FAIR VALUE (CONTINUED)			
As collateral for loans and advances, Nykredit has received mortgages over real estate and:			
-	- Supplementary guarantees totalling	105,515	97,887
-	- Interim loan guarantees totalling	26,954	23,903
-	- Mortgage registration guarantees etc totalling	30,901	58,209
Mortgage loans at nominal value by property category:			
Loans and advances as %, year-end			
-	- Owner-occupied housing	60	59
-	- Holiday homes	3	3
-	- Public housing	8	9
-	- Private residential rental properties	9	9
-	- Industry and trades properties	2	2
-	- Office and retail properties	9	9
-	- Agricultural properties etc	7	7
-	- Properties used for social, cultural or educational purposes	2	2
-	- Total	100	100
For more details on mortgage lending by loan type and property category, please refer to page 37 of the Management Commentary.			
20 b. Arrears and outlays			
-	- Arrears before impairment provisions	374	350
-	- Outlays before impairment provisions	43	55
-	- Individual impairment provisions for arrears and outlays	(122)	(165)
-	- Total	295	240
Mortgage loans, arrears and outlays as well as other loans and advances by time-to-maturity			
-	- Up to 3 months	10,517	11,385
-	- Over 3 months and up to 1 year	30,482	33,488
-	- Over 1 year and up to 5 years	190,189	181,478
-	- Over 5 years	1,119,737	1,061,258
-	- Total	1,350,925	1,287,610
The breakdown by time-to-maturity is based on mortgage loans at fair value, arrears and outlays as well as other loans and advances after impairment provisions.			

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
21. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST			
-	- Bank lending	74,152	67,992
-	- Mortgage lending	10	10
-	- Reverse repurchase lending	37,271	48,749
-	- Other loans and advances	342	366
-	- Balance, year-end	111,774	117,116
Adjustment for credit risk			
-	- Impairment provisions	(3,012)	(2,526)
-	- Balance after impairment provisions, year-end	108,762	114,590
-	- Set-off of "Other loans and advances" against "Bonds in issue at amortised cost" – note 34	-	-
-	- Total	108,762	114,590
<p>The Nykredit 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 expected interest rate developments.</p> <p>The bank loan portfolio has been fair value adjusted through profit or loss as a result of the use of hedge accounting.</p>			
-	- Of total loans and advances, fixed-rate bank loans represent	189	569
-	- Market value of fixed-rate loans	195	577

NOTES

DKK million

Nykredit A/S		Nykredit Group	
2019	2020	2020	2019
21. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (CONTINUED)			
Loans, advances and other receivables at amortised cost by time-to-maturity			
-	- On demand	6,327	8,989
-	- Up to 3 months	50,232	56,012
-	- Over 3 months and up to 1 year	12,623	11,492
-	- Over 1 year and up to 5 years	30,791	27,136
-	- Over 5 years	8,788	10,961
-	- Total	108,762	114,590
The breakdown by time-to-maturity is based on loans and advances after impairment and after set-off of self-issued securities.			
21 a. Bank loans and advances			
Non-accrual loans or loans carrying a reduced interest rate			
-	- Non-accrual loans	17	65
-	- Loans carrying a reduced interest rate	3	2
Bank loans, advances and guarantee debtors by sector			
%	% Loans and advances as %, year-end	%	%
-	- Public sector	1	1
Business customers			
-	- Agriculture, hunting, forestry and fishing	2	3
-	- Manufacturing, mining and quarrying	7	6
-	- Energy supply	5	2
-	- Construction	2	2
-	- Trade	6	5
-	- Transport, accommodation and food service activities	5	4
-	- Information and communication	2	2
-	- Finance and insurance	31	36
-	- Real estate	12	9
-	- Other	6	7
-	- Total business customers	81	78
-	- Personal customers	19	22
-	- Total	100	100
The sector distribution is based on the official Danish activity codes.			

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
	21. LOANS, ADVANCES AND OTHER RECEIVABLES AT AMORTISED COST (CONTINUED)		
	21 a. Bank loans and advances (continued)		
	Finance leases		
	Of total loans and advances at amortised cost, finance leases represent		
-	- Balance, beginning of year	5,915	5,521
-	- Additions	2,619	2,850
-	- Disposals	(2,614)	(2,456)
-	- Balance, year-end	5,921	5,915
-	- Impairment provisions for finance leases represent	86	86
	Finance leases by time-to-maturity		
-	- Up to 3 months	618	625
-	- Over 3 months and up to 1 year	1,308	1,321
-	- Over 1 year and up to 5 years	3,768	3,774
-	- Over 5 years	226	194
-	- Total	5,921	5,915
	Where loans and advances under finance leases are concerned, amortised cost represents their fair value. The leases comprise equipment as well as real estate. 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 13 years for leased properties.		
	Gross investments in finance leases		
	Gross investments in finance leases by time-to-maturity		
-	- Up to 1 year	1,991	1,998
-	- Over 1 year and up to 5 years	3,946	3,947
-	- Over 5 years	506	477
-	- Total	6,443	6,422
-	- Non-earned income	523	507
	22. BONDS AT FAIR VALUE		
-	- Self-issued SDOs	63,466	93,305
-	- Self-issued ROs	27,847	16,437
-	- Self-issued corporate bonds	174	178
-	- Self-issued senior debt	8,312	310
-	- Other covered bonds	91,554	95,718
-	- Government bonds	9,929	8,564
-	- Other bonds	4,611	4,273
-	- Total	205,892	218,786
-	- Set-off of self-issued SDOs against "Bonds in issue at fair value" – note 33	(63,456)	(93,295)
-	- Set-off of self-issued SDOs against "Bonds in issue at amortised cost" – note 34	(10)	(10)
-	- Set-off of self-issued ROs against "Bonds in issue at fair value" – note 33	(27,847)	(16,437)
-	- Set-off of self-issued corporate bonds against "Bonds in issue at amortised cost" – note 34	(174)	(178)
-	- Set-off of self-issued senior debt against "Bonds in issue at fair value" – note 33	(8,004)	-
-	- Set-off of self-issued senior unsecured debt against "Bonds in issue at fair value" – note 33	-	-
-	- Set-off of self-issued senior unsecured debt against "Bonds in issue at amortised cost" – note 34	(308)	(310)
-	- Total	106,094	108,555

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
	22. BONDS AT FAIR VALUE (CONTINUED)		
	Of bonds at fair value before set-off of self-issued bonds:		
-	As collateral security for the Danish central bank and foreign clearing centres, bonds and certificates of deposit have been deposited of a total market value of	8,095	7,918
	The deposits were made on an arm's length basis in connection with clearing and settlement of securities and foreign exchange trades. The deposits are adjusted on a daily basis and generally have a repayment term of very few days.		
	Collateral security was provided on an arm's length basis.		
	As the majority – around DKK 106 billion – 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 one year. Of the bond portfolio, bonds of approximately DKK 16 billion are expected to have a maturity of up to five years.		
	23. EQUITIES ETC		
-	- Equities measured at fair value through profit or loss	7,046	7,135
-	- Total	7,046	7,135
	23 a. Equities measured at fair value through profit or loss		
-	- Listed on Nasdaq Copenhagen	2,695	2,677
-	- Listed on other stock exchanges	1,093	1,388
-	- Unlisted equities carried at fair value	3,257	3,070
-	- Total	7,046	7,135
	24. INVESTMENTS IN ASSOCIATES		
-	- Cost, beginning of year	16	12
-	- Additions	2	4
-	- Disposals	(1)	-
-	- Cost, year-end	17	16
-	- Revaluations and impairment charges, beginning of year	27	26
-	- Profit	8	2
-	- Dividend	(11)	(2)
-	- Reversal of revaluations and impairment	(1)	-
-	- Revaluations and impairment charges, year-end	22	27
-	- Balance, year-end	40	43

NOTES

DKK million

Nykredit A/S		Nykredit Group	
2019	2020	2020	2019
25. INVESTMENTS IN GROUP ENTERPRISES			
18,181	18,181		
-	-	-	-
-	-	-	-
18,181	18,181	-	-
57,925	62,362	-	-
7,210	5,429	-	-
(2,800)	-	-	-
27	(46)	-	-
62,362	67,745	-	-
80,543	85,926	-	-
-	-	-	-
-	-	-	-
-	-	2,165	1,550
-	-	2,165	1,550

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
	26. INTANGIBLE ASSETS		
-	- Goodwill	1,770	1,699
-	- Fixed-term rights	5	7
-	- Software	183	212
-	- Development projects in progress	195	101
-	- Customer relationships	138	162
-	- Total	2,291	2,181
	26 a. Goodwill		
-	- Cost, beginning of year	1,699	14
-	- Adjustment of cost, beginning of 2020/additions 2019	70	1,686
-	- Cost, year-end	1,770	1,699
-	- Balance, year-end	1,770	1,699
	<p>Goodwill of DKK 1,770 million is allocated to the business area Wealth Management (Nykredit Group level) as the underlying cash flows are principally generated by this business area. Internal financial reporting is made at Nykredit Group level to the Management, which also monitors the value of goodwill.</p> <p>Expected cash flows included in the value calculation and impairment test are based on a 5-year budget period that reflects existing budgets and the short-term earnings outlook as well as a subsequent terminal period where growth rates are kept at approximately 2%. The development in the budget period is based on the development over the past few years and includes expected intake of new customers, increased volumes of existing customers and value increases of existing portfolios. Fees are generally unchanged in the period. Costs have been projected using an expected price index number. The effect thereof has been partly offset by synergies resulting from acquisition. The value of Sparinvest has indefinite useful life which can be maintained for an indefinite period, as Sparinvest is a well-established brand which has existed for decades. The discounting is unchanged compared with 2019 and still based on a return requirement of 11%, or 8.5% after tax. The determination is based on an analysis of the equity market's return requirements for financial undertakings, and it has subsequently been reduced by about 1 percentage point as most activities are investment management and portfolio administration, which generally have lower risk profiles. This corresponds to the return requirement, which formed the basis for the investment in Sparinvest.</p> <p>The recoverable amount is calculated as the present value of the expected cash flows from the unit to which allocation of goodwill is made.</p> <p>Expected cash flows included in the value calculation and impairment test are based on a 5-year budget period that reflects existing budgets and the short-term earnings outlook as well as a subsequent terminal period where growth rates are kept at approximately 2% until the end of the terminal period. The discounting is based on a return requirement of 11%, or 8.5% after tax. This corresponds to the return requirement, which formed the basis for the investment in Sparinvest. An increased return requirement of 1 percentage point would not lead to impairment.</p>		

NOTES

DKK million

Nykredit A/S				Nykredit Group	
2019	2020			2020	2019
26. INTANGIBLE ASSETS (CONTINUED)					
26 a. Goodwill (continued)					
The impairment test is based on the following premises:					
		2020	2019		
	Acquired goodwill	1,770	1,699		
	Required rate of return before tax, %	11			
	Average annual business growth in the budget period, %	6			
	Fixed annual business growth in the terminal period, %	2			
If average annual growth in the budget period declines by 1.0 percentage point, this will not lead to impairment. An increased return requirement of 1 percentage point will not lead to impairment.					
26 b. Customer relationships					
-	- Cost, beginning of year			170	-
-	- Additions			-	170
-	- Cost, year-end			170	170
-	- Amortisation and impairment, beginning of year			(8)	-
-	- Amortisation for the year			(24)	(8)
-	- Amortisation and impairment, year-end			(32)	(8)
-	- Balance, year-end			138	162
Customer relationships etc are amortised over 3-13 years.					
-	- Residual amortisation period at 31 December (average number of years)			6	7

Customer relationships relating to the investment in Sparinvest have been determined at DKK 170 million, which is amortised over 7 years. The value relates to the distribution network and administration and asset management activities.

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
	27. LAND AND BUILDINGS		
-	- Owner-occupied properties	57	74
-	- Property under construction	0	0
-	- Leased properties	540	662
-	- Total	598	736
	27 a. Owner-occupied properties		
-	- Cost, beginning of year	82	82
-	- Additions, including improvements	0	3
-	- Disposals	(17)	(3)
-	- Cost, year-end	65	82
-	- Revaluations, beginning of year	2	2
-	- Additions for the year recognised in "Other comprehensive income"	0	0
-	- Reversal of revaluations	-	-
-	- Revaluations, year-end	2	2
-	- Depreciation and impairment, beginning of year	10	6
-	- Depreciation for the year	1	1
-	- Impairment for the year	0	3
-	- Reversal of depreciation and impairment	(1)	(0)
-	- Depreciation and impairment, year-end	10	10
-	- Balance, year-end	57	74
-	- Owner-occupied properties are depreciated over a period of 20-50 years.		
-	- Residual depreciation period at 31 December (average number of years)	12	11
	The latest revaluation of owner-occupied properties was made at end-2019.		
	The valuations were carried out by an internal valuer based on the return method. In 2019 the required rate of return ranged between 6.0% and 7.5% (6.6% on average) depending on the nature, location and state of repair of the owner-occupied property.		
-	- If no revaluations had been made, the carrying amount of owner-occupied properties would have been:	59	83
	27 b. Property under construction		
-	- Cost, beginning of year	0	7
-	- Additions, including improvements	0	-
-	- Disposals	0	7
-	- Cost, year-end	0	0

NOTES

DKK million

Nykredit A/S		Nykredit Group	
2019	2018	2020	2019
27. LAND AND BUILDINGS (CONTINUED)			
27 c. Leased properties			
-	-	824	-
	- Cost, beginning of year		
-	- Additions, see IFRS 16	40	800
-	- Additions	(4)	24
-	- Cost, year-end	860	824
Depreciation and impairment			
-	- Depreciation and impairment, beginning of year	162	-
-	- Depreciation for the year	158	162
-	- Impairment for the year	-	-
-	- Depreciation and impairment, year-end	320	162
-	- Balance, year-end	540	662

Leased assets concern properties from which Nykredit operates (owner-occupied properties). IFRS 16 was implemented in 2019, and additions for the year have mainly been calculated based on the present value of the remaining lease payments, excluding VAT and any services. Property taxes payable by Nykredit are also excluded from the lease value.

The discount rate is based on Nykredit's lending rate, which is determined on the basis of a swap rate with a term matching the remaining lease term plus a Nykredit-specific credit spread. The total interest rate ranges between 0.55% for ultra short-term contracts and 1.11% for long-term contracts. For leases which have been terminated, the determination is based on the period until the end of the lease term, while the remaining portfolio has an average remaining term of about 7 years based on an estimate of the period in which Nykredit expects to occupy the properties.

The leases include, for example, income from sublet parking spaces, which came in at DKK 4 million.

Moreover, the Group has a number of minor non-capitalised leases. Discounted lease payments amounted to about DKK 6 million and about DKK 3 million in 2020.

Nykredit has entered into a lease of new owner-occupied properties in the Copenhagen (Nordhavn) expected to be ready in 2023. The leases concluded have 15-year lease terms. The annual expense is expected to amount to about DKK 48 million excluding VAT. This amount is subject to rental price indexation.

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
	28. OTHER PROPERTY, PLANT AND EQUIPMENT		
-	- Cost, beginning of year	705	620
-	- Additions relating to acquisition of subsidiary	-	1
-	- Additions	84	95
-	- Disposals	(2)	(10)
-	- Cost, year-end	787	705
-	- Depreciation and impairment, beginning of year	550	512
-	- Additions relating to acquisition of subsidiary	-	-
-	- Depreciation for the year	49	42
-	- Impairments	1	5
-	- Reversal of depreciation and impairment	(1)	(9)
-	- Depreciation and impairment, year-end	599	550
-	- Balance, year-end	188	156
4	4 Other assets are depreciated over 4-15 years. Residual depreciation period at 31 December (average number of years)	4	4
	29. ASSETS IN TEMPORARY POSSESSION		
-	- Properties acquired by foreclosure for sale	22	32
-	- Total	22	32
	If the Group acquires a mortgaged property through a forced sale by public auction to reduce its loss on the exposure in default, the Group will seek to divest the mortgaged property at the highest obtainable price within 12 months. The assets are recognised in Group Items in the segment financial statements.		
	30. OTHER ASSETS		
-	- Interest and commission receivable	2,054	2,515
-	- Positive market value of derivative financial instruments etc	22,364	21,500
-	- Defined benefit plans	337	353
-	- Other	4,244	4,342
-	- Total	28,998	28,710
	30 a. Defined benefit plans		
	The majority of the Group's pension plans are defined contribution plans. The contributions are charged against income on a current basis.		
	The Group's defined benefit plans are funded through contributions from Nykredit Realkredit A/S into the pension fund Nykredits Afviklingspensionskasse, which acts in the members' interests by investing the contributions made to cover the pension obligations.		
	Due to the excess coverage of the pension fund, Nykredit Realkredit A/S has not made any contributions since 2009. The pension fund is subject to Danish legislation on company pension funds. The scheme is closed to new members and covers staff employed before 1972.		
-	- Present value of defined benefit plans	(404)	(426)
-	- Fair value of plan assets	741	779
-	- Net assets, year-end	337	353
-	- Pension costs/income relating to defined benefit plans recognised in "Staff and administrative expenses" in the income statement	9	3
-	- Pension costs/income relating to defined benefit plans recognised in "Actuarial gains/losses on defined benefit plans" in "Other comprehensive income"	(15)	28

NOTES

DKK million

Nykredit A/S		Nykredit Group	
2019	2020	2020	2019
	30 b. Finance leases		
	The subsidiary Nykredit Mægler has entered into a number of leases that have been subleased to the Company's franchisees, which use the leases to carry on estate agency business.		
	The leases are sublet to the franchisees on the same terms as Nykredit Mægler's head lease. The leases are therefore categorised as finance leases.		
	The leases, which are determined at portfolio level, have average lease terms of seven years. As to recognition and discounting the same principles are applied as described in note 27c to which reference is made.		
	The related lease liabilities (note 36. "Other liabilities") nominally correspond to the size and terms of the assets.		
-	- Additions for the year (initial recognition)	307	-
-	- Disposals for the year	42	-
-	- Total, year-end	264	-
-	- Impairments	-	-
	By remaining term		
-	- Up to 3 months	11	-
-	- Over 3 months and up to 1 year	32	-
-	- Over 1 year and up to 5 years	176	-
-	- Over 5 years	45	-
-	- Total, year-end	264	-
-	- Interest income:	3	-
-	- Interest expenses:	3	-
-	- Rent paid or collected	46	-
	Gross investments		
-	- Up to 3 months	11	-
-	- Over 3 months and up to 1 year	34	-
-	- Over 1 year and up to 5 years	183	-
-	- Over 5 years	46	-
-	- Total, year-end	275	-
-	- Non-earned income	10	-

NOTES

DKK million

Nykredit A/S		Nykredit Group	
2019	2020	2020	2019
33. BONDS IN ISSUE AT FAIR VALUE (CONTINUED)			
<p>The yield spread between government bonds and ROs/SDOs tightened in 2020, causing an increase in the fair value of issued bonds of about DKK 6 billion (2019: a fall of about DKK 16 billion), which is attributable to Nykredit's own credit risk. Since 2007 spread tightening between government bonds and ROs/SDOs has resulted in a fair value increase of about DKK 8 billion (2019: a decrease of about DKK 4 billion), which is attributable to Nykredit's own credit risk.</p> <p>Equity and profit/loss have not been affected by the changes in fair value for ROs and SDOs, as the value of mortgage lending has changed correspondingly.</p> <p>The determination allows for both maturity and nominal holding, but is to some extent based on estimates.</p>			
33 a. ROs			
-	- ROs at nominal value	138,260	152,406
-	- Fair value adjustment	9,525	10,357
-	- ROs at fair value	147,786	162,763
-	- Self-issued ROs, see note 23	(27,847)	(16,437)
-	- Total outstanding ROs at fair value	119,939	146,326
-	- Of which pre-issuance	769	320
-	- ROs redeemed and maturing at next creditor payment date	4,441	7,447
33 b. SDOs			
-	- SDOs at nominal value	1,282,909	1,262,714
-	- Fair value adjustment	26,290	19,534
-	- SDOs at fair value	1,309,199	1,282,248
-	- Self-issued SDOs, see note 23	(63,456)	(93,295)
-	- Total outstanding SDOs at fair value	1,245,743	1,188,954
-	- Of which pre-issuance	654	6,836
-	- SDOs redeemed and maturing at next creditor payment date	78,479	121,423
33 c. Senior secured debt			
-	- Senior secured debt at nominal value	8,856	934
-	- Fair value adjustment	175	201
-	- Senior secured debt at fair value	9,031	1,135
-	- Self-issued senior secured debt, see note 23	(8,004)	-
-	- Total outstanding senior secured debt at fair value	1,027	1,135
-	- Senior secured debt maturing at next creditor payment date	-	-

NOTES

DKK million

Nykredit A/S		Nykredit Group	
2019	2020	2020	2019
33. BONDS IN ISSUE AT FAIR VALUE (CONTINUED)			
Bonds in issue at fair value by time-to-maturity			
-	- Up to 3 months	59,597	101,010
-	- Over 3 months and up to 1 year	159,032	152,676
-	- Over 1 year and up to 5 years	546,275	563,199
-	- Over 5 years	601,805	519,529
-	- Total	1,366,709	1,336,414
Bonds in issue by time-to-maturity are stated at fair value after set-off against self-issued bonds.			
34. BONDS IN ISSUE AT AMORTISED COST			
-	- Corporate bonds	5,574	3,959
-	- SDOs	10	11
-	- Senior unsecured debt	47,230	30,306
-	- Other securities	45	33
-	- Total	52,859	34,308
-	- Self-issued corporate bonds, see note 22	(174)	(178)
-	- Self-issued SDOs, see note 22	(10)	(10)
-	- Self-issued senior unsecured debt at amortised cost	(308)	(310)
-	- Total outstanding bonds in issue at amortised cost	52,368	33,810
Bonds in issue at amortised cost by time-to-maturity			
-	- Up to 3 months	3,127	2,670
-	- Over 3 months and up to 1 year	2,274	337
-	- Over 1 year and up to 5 years	30,146	26,547
-	- Over 5 years	16,821	4,255
-	- Total	52,368	33,810
Bonds in issue by time-to-maturity are stated at amortised cost after set-off against self-issued bonds.			
34 a. Corporate bonds			
Issues			
-	- EMTN issues*	689	774
-	- ECP issues*	4,885	3,185
-	- Total	5,574	3,959

* Listed on Nasdaq Copenhagen or the Luxembourg Stock Exchange.

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
35. OTHER NON-DERIVATIVE FINANCIAL LIABILITIES AT FAIR VALUE			
-	-	9,723	4,523
-	-	9,723	4,523
Other non-derivative financial liabilities by time-to-maturity			
-	-	1	192
-	-	1,502	1,649
-	-	8,220	2,683
-	-	9,723	4,523
36. OTHER LIABILITIES			
-	-	7,053	7,252
-	-	12,024	13,057
16	12	3,541	4,095
16	12	22,618	24,404
The following lease payments are recognised in "Other":			
-	-	162	154
-	-	364	476
-	-	5	41
-	-	530	671

Moreover, payment of lease liabilities totalling DKK 264 million in 2020 have been recognised in "Other" relating to finance leasing (note 30). The lease liabilities concern rent etc related to assets, see notes 27 c and 30 b.

NOTES

DKK million

Nykredit A/S		Nykredit Group	
2019	2020	2020	2019
37. CURRENT TAX ASSETS AND LIABILITIES			
Current tax			
6	3	177	302
-	-	-	(20)
-	-	0	(0)
3	7	(1,124)	(1,280)
-	-	-	-
-	-	-	4
0	-	(37)	(8)
(6)	(3)	1,002	1,180
3	7	18	177
Current tax recognised in the balance sheet:			
3	7	93	255
-	-	74	78
3	7	18	177
38. PROVISIONS FOR DEFERRED TAX/DEFERRED TAX ASSETS			
Deferred tax			
9	10	(264)	(203)
-	-	(36)	2
-	-	-	-
2	(4)	(9)	(62)
-	-	-	(6)
-	-	7	(3)
-	-	55	10
10	6	(246)	(264)
Deferred tax recognised in the balance sheet			
10	6	149	126
-	-	395	389
10	6	(246)	(264)
Deferred tax relates to:			
-	-	(143)	(182)
-	-	1	1
-	-	(109)	(67)
-	-	4	13
-	-	(62)	0
-	-	(2)	(5)
-	-	67	71
10	6	73	95
-	-	(76)	(189)
10	6	(246)	(264)
Deferred tax not recognised in the balance sheet			
-	-	84	83
-	-	84	83
The asset has not been recognised, as it is not likely to crystallise in the near future.			

NOTES

DKK million

Nykredit A/S		Nykredit Group	
2019	2020	2020	2019
39. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS			
-	- Balance, beginning of year	62	130
-	- Additions relating to acquisition of subsidiary	-	4
-	- Utilised for the year	(139)	(4)
-	- Provisions for the year	142	(21)
-	- Reversal of unutilised amounts	(19)	(46)
-	- Balance, year-end	47	62
40. REPAYABLE RESERVES IN PRE-1972 SERIES			
-	- Balance, beginning of year	34	47
-	- Utilised for the year	(3)	(15)
-	- Adjustment for the year as a result of changes to the discount rate and discount period	0	2
-	- Balance, year-end	32	34
<p>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.</p>			
41. PROVISIONS FOR LOSSES UNDER GUARANTEES			
-	- Balance, beginning of year	137	117
-	- Provisions for the year	174	86
-	- Reversal of unutilised amounts	(70)	(67)
-	- Disposals for the year	-	-
-	- Balance, year-end	241	137
42. OTHER PROVISIONS			
-	- Balance, beginning of year	515	100
-	- Utilised for the year	(15)	(32)
-	- Provisions for the year	(206)	447
-	- Adjustment for the year as a result of changes to the discount rate and discount period	(0)	(0)
-	- Other provisions	-	(2)
-	- Balance, year-end	293	515
-	- Balance, year-end	293	515

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
	43. SUBORDINATED DEBT		
	Subordinated debt consists of financial liabilities in the form of subordinate loan capital and Additional Tier 1 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 Nykredit's own funds etc in accordance with the EU's Capital Requirements Regulation.		
	Subordinate loan capital		
	Nominally EUR 600 million. The loan matures on 3 June 2036, but may be redeemed at par (100) from 3 June 2021. The loan carries a fixed interest rate of 4.0% pa up to 3 June 2021, after which date the interest rate will be fixed every five years. If the Common Equity Tier 1 capital ratio of Nykredit Realkredit, the Nykredit Realkredit Group or the Nykredit Group falls below 7%, the loan will be written down	4,486	4,555
-	-		
	Nominally EUR 800 million. The loan matures on 17 November 2027, but may be redeemed at par (100) from 17 November 2022. The loan carries a fixed interest rate of 2.75% pa up to 17 November 2022, after which date the interest rate will be fixed for the next five years	6,037	6,087
-	-		
	Nominally EUR 50 million. The loan matures on 28 October 2030. The loan carries a fixed interest rate of 4% pa for the first two years after issuance. In the remaining loan term, the interest rate will be fixed every six months	372	373
-	-		
	Total subordinate loan capital	10,896	11,016
-	-		
	Portfolio of self-issued bonds	(3)	(12)
-	-		
	Total subordinated debt	10,893	11,004
-	-		
	Subordinated debt that may be included in own funds	6,935	7,189
-	-		
	Hedge accounting		
	The exposure to fair value changes in the price of the bonds as a result of changes in market rates is hedged. The Nykredit Group has countered this risk by entering into interest rate swaps:		
-	-		
	Market value of interest rate swaps of EUR 50 million (nominal)	-	0
-	-		
	Market value of interest rate swaps of EUR 600 million (nominal)	25	82
-	-		
	Market value of interest rate swaps of EUR 800 million (nominal)	94	124
-	-		
	Market value of subordinate loan capital of EUR 50 million (nominal)	400	413
-	-		
	Market value of subordinate loan capital of EUR 600 million (nominal)	4,526	4,720
-	-		
	Market value of subordinate loan capital of EUR 800 million (nominal)	6,213	6,337
-	-		
	Total	11,258	11,675

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
	44. OFF-BALANCE SHEET ITEMS		
	Guarantees and warranties provided, irrevocable credit commitments and similar obligations not recognised in the balance sheets are presented below.		
-	- Contingent liabilities	9,121	6,616
-	- Other commitments	20,762	28,206
-	- Total	29,883	34,822
	44 a. Contingent liabilities		
-	- Financial guarantees	245	322
-	- Registration and refinancing guarantees	36	64
-	- Other contingent liabilities	8,840	6,230
-	- Total	9,121	6,616
	"Other contingent liabilities" chiefly comprises purchase price and payment guarantees.		
	Contingent liabilities by remaining terms		
-	- Up to 1 year	5,520	3,981
-	- Over 1 year and up to 5 years	1,524	1,373
-	- Over 5 years	2,077	1,262
-	- Total	9,121	6,616
	Remaining terms are partly based on estimates as not all guarantees have a fixed term and as it may depend on delays in registration etc.		
	44 b. Other commitments		
-	- Irrevocable credit commitments	19,957	26,897
-	- Other	805	1,309
-	- Total	20,762	28,206

"Other" under "Other commitments" comprises obligations to and charges in favour of securities depositaries as well as investment commitments to private equity funds.

44. OFF-BALANCE SHEET ITEMS (CONTINUED)

Additional contingent liabilities

Owing to its size and business scope, the Nykredit 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 Group's financial position.

Nykredit participates in the mandatory Danish deposit guarantee scheme. A new scheme was introduced in 2015, as the Danish Guarantee Fund took over the activities and assets of the Danish Guarantee Fund for Depositors and Investors on 1 June 2015. The purpose of the Danish Guarantee Fund is to provide cover for depositors and investors of failing institutions included in the Fund's scheme. The scheme includes both natural and legal persons, and deposits are covered by an amount equivalent to EUR 100,000 per depositor and EUR 20,000 per investor.

Nykredit also participates in the Danish Resolution Fund scheme, which is a resolution finance scheme that was also established on 1 June 2015. The Danish Resolution Fund is funded by annual contributions from participating banks, mortgage lenders and investment companies and, as from 31 December 2024, the assets of the scheme must make up 1% of the sector's covered deposits.

Participating institutions make annual contributions to cover any losses incurred by the Danish Resolution Fund in connection with the resolution of failing institutions.

Bankernes EDB Central (BEC) is an IT provider of Nykredit Bank. According to BEC's articles of association, Nykredit Bank may terminate its membership of BEC giving five years' notice to expire at the end of a financial year. Should the membership terminate otherwise for reasons related to Nykredit Bank, compensation will be payable to BEC as defined in BEC's articles of association. If a bank merges and ceases being an independent bank, the BEC membership terminates without notice but a transitional scheme may apply.

Nykredit A/S is jointly taxed with Forenet Kredit as the administration company. Pursuant to the Danish Corporation Tax Act, the Company is liable for income taxes etc payable by the jointly taxed companies and for any obligations to withhold tax at source on interest, royalties and dividends of these companies.

Nykredit Realkredit A/S is liable for the obligations of the pension fund Nykredits Afviklingspensionskasse (CVR no 24 25 62 19).

45. RELATED PARTY TRANSACTIONS AND BALANCES

Forenet Kredit, Group enterprises and associates of Nykredit Realkredit A/S as stated in the Group structure as well as Nykredit A/S's Board of Directors, Executive Board and related parties thereof are regarded as related parties.

No unusual related party transactions occurred in 2020.

The companies have entered into various intercompany agreements as a natural part of the Group's day-to-day operations. The agreements typically involve financing, provision of 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, cost reimbursement or profit split basis.

Significant related party transactions prevailing/entered into in 2020 include:

Agreements between Nykredit Realkredit A/S and Totalkredit A/S

As part of the Group's joint funding activities, Nykredit Realkredit A/S has funded mortgage loans granted by its subsidiary Totalkredit A/S on an ongoing basis.

Totalkredit A/S funds its lending by issuing a master bond for each capital centre with Nykredit Realkredit A/S as the only creditor. The master bond constitutes security for Nykredit Realkredit A/S's issuance of covered bonds (ROs and SDOs) and serves to ensure that Totalkredit A/S transfers all payments to bondholders under the loans and advances granted by Totalkredit A/S to Nykredit Realkredit A/S, not later than at the same time as Nykredit Realkredit A/S makes payments to bondholders. The bondholders therefore enjoy the same security as if the Totalkredit loans had been granted directly from Nykredit Realkredit A/S's own balance sheet.

Nykredit Realkredit A/S has granted loans, see section 15 of the Danish Mortgage-Credit Loans and Mortgage-Credit Bonds etc. Act, to Totalkredit A/S serving as supplementary collateral in Totalkredit A/S's capital centres. The loans amounted to DKK 0.9 billion as at 31 December 2020. The loans constitute secondary preferential claims and rank after the master bond in respect of the assets in Totalkredit A/S's capital centres.

An agreement has been made to hedge market risk relating to collateral, including investments, in Totalkredit's capital centres.

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 business partners, including commission payments).

Nykredit Realkredit A/S has granted loans of DKK 2.0 billion to Totalkredit A/S in the form of subordinated debt and DKK 4.0 billion in the form of Additional Tier 1 capital.

Agreements between Nykredit Realkredit A/S and Nykredit Bank A/S

Framework agreement on the terms for financial transactions relating to loans and deposits in the securities and money market areas etc.

Nykredit Realkredit has granted loans of DKK 2.0 billion to Nykredit Bank A/S in the form of Tier 2 capital.

In Q3/2019, Nykredit Realkredit made an equity contribution of DKK 2 billion to Nykredit Bank A/S.

Agreements between Nykredit Realkredit A/S and other Group companies

Nykredit Realkredit A/S has transferred equities of a total fair value of DKK 500 million to Ejendomsselskabet Kalvebod 1. Of this amount, DKK 414 million has been contributed as new equity.

45. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	Transactions with subsidiaries		Transactions with parents		Transactions with associates		Transactions with the Board of Directors		Transactions with the Executive Board		Related parties of the Executive Board and Board of Directors	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Nykredit Group												
Income statement												
Interest income	-	-	-	-	(0)	(0)	-	-	-	-	-	-
Interest expenses	-	-	-	-	-	-	0	1	0	0	0	0
Staff and administrative expenses	-	-	-	-	-	-	-	-	-	-	-	-
Balance sheet items												
Loans, advances and other receivables at fair value	-	-	-	-	-	-	29	26	15	6	8	4
Loans, advances and other receivables at amortised cost	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other payables	-	-	-	-	1	1	11	25	14	18	2	2
Nykredit A/S												
Balance sheet items												
Receivables from credit institutions and central banks	-	21	-	-	-	-	-	-	-	-	-	-
Payables to credit institutions and central banks	9	6	-	-	-	-	-	-	-	-	-	-

The facilities of related parties were granted on standard business terms. Rates applying to ordinary loans range between 2% and 12.5% (2019: between 2.00% and 13.50%), and deposit rates were around 0% to 1.1% (2019: 0.00% to 1.06%).

Facilities granted to the Executive Board, Boards of Directors or related parties thereof have not given rise to stage 2 or stage 3 impairments.

46. FAIR VALUE DISCLOSURES

Valuation principles

Financial instruments are measured at fair value or amortised cost in the balance sheet. The tables in notes 46 a. and 46 b. show the fair values of all instruments compared with the carrying amounts at which the instruments are recognised in the balance sheet.

Financial instruments measured at fair value

The Group's fair value assets and liabilities are generally measured based on publicly listed prices or market terms in active markets on the balance sheet date. If an asset or liability measured at fair value has both a purchase and a sales price, the mean value is used as a basis for measurement. The measurement is the value at which a financial asset may be traded, or the amount at which a financial liability may be settled, between two independent and willing parties.

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 valuation 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.

Valuation techniques are generally applied to OTC derivatives and unlisted assets and liabilities.

Unlisted equities are measured at fair value using valuation methods according to which the fair value is estimated as the price of an asset traded between independent parties or based on the company's equity value, if the equity value is assumed equal to the fair value of the instrument.

Financial instruments measured at amortised cost

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:

- For loans, advances and receivables as well as deposits and other payables 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 assets and financial liabilities measured at amortised cost has been determined using generally accepted valuation methods.
- The credit risk of fixed-rate financial assets (loans and advances) has been assessed in relation to other loans, advances and receivables.
- The fair value of assets and liabilities without a fixed term has been assumed to be the value disburseable at the balance sheet date.
- The fair value of bonds in issue is measured based on valuation techniques, taking into account comparable transactions and observable inputs such as yield curves, at which Nykredit might launch issues.

Note 46 a shows the fair value of the financial instruments measured at amortised cost and the instances where the fair value does not correspond to the carrying amount.

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 marketplace.

Bonds at fair value are recognised at listed prices if external prices have been updated within the past two trading days prior to the balance sheet date. If no listed prices have been observed during this time span, the portfolio is recognised at observable inputs.

Observable inputs

When an instrument is not traded in an active market, measurement is based on the most recent listed price in an inactive market, the price of comparable transactions or generally accepted valuation techniques based on, for instance, 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. Unlisted derivatives generally belong to this category.

Bonds not traded in the past two trading days belong to this category. The valuation is based on the most recent observed price, and adjustments are made for subsequent changes in market conditions, eg by including transactions in similar instruments (matrix pricing). Redeemed bonds are transferred to this category, as there is no access to official prices in active markets.

Further, the valuation of derivatives implies the use of Credit Valuation Adjustment (CVA), thus including counterparty credit risk in the valuation. The CVA of derivatives with positive market value is primarily based on external credit curves such as Itraxx Main, but also on internal data as regards customers without impairment in the lowest rating categories, as there are no external curves suitable for the calculation of credit risk on these customers. Finally, calculations are made to simulate future exposures to interest rate swaps. Calculations entailing increased CVA are included in the value adjustment.

Furthermore, a Funding Valuation Adjustment (FVA) for the valuation of derivatives is used. FVA allows for Nykredit's future funding costs incurred by derivatives transactions where clients have not provided sufficient collateral. Nykredit has used a funding curve for this calculation, which is assessed on the basis of objective prices of Danish SIFI banks' traded bonds. This calculation is made on the basis of a discount curve method.

FVA may involve both a funding benefit and a funding cost, but for Nykredit, the net FVA adjustment will be a funding cost resulting from customers' insufficient or lacking provision of collateral. Debit Valuation Adjustment (DVA) is now a sub-element of the FVA adjustment.

Net value adjustment due to CVA, DVA and FVA amounted to DKK 496 million at 31 December 2020 (end-2019: DKK 527 million).

Upon entering into derivatives contracts, further provisions are made in the form of a so-called minimum margin for liquidity and credit risk and return on capital etc. The minimum margin is amortised at the valuation of derivatives over their times-to-maturity. At 31 December 2020, the non-amortised minimum margin amounted to DKK 119 million (end-2019: DKK 135 million). With regard to liquidity and credit risk, these amounts have been included above in the net adjustment of FVA and CVA; DKK 161 million at end-2020 (end-2019: DKK 182 million). Finally, in some instances further value adjustment based on management judgement is made if the models are not deemed to take into account all known risks, including eg legal risks.

In some cases, 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 discounting techniques.

Unobservable inputs

When it is not possible to measure financial instruments at fair value based on prices in active markets or observable inputs, measurement is based on own assumptions and extrapolations etc. Where possible and appropriate, measurement is based on actual transactions adjusted for differences in eg the liquidity, credit spreads and maturities etc of the instruments. The Group's unlisted equities are generally classified under this heading, and valuation is based on the IPEV Valuation Guidelines.

The positive market values of a number of interest rate swaps with customers in the lowest rating categories have been adjusted for increased credit risk based on additional CVA. The adjustment uses for instance the statistical data applied by the Bank to calculate expected credit losses on loans and advances at amortised cost. Interest rate swaps which have been fair value adjusted to DKK 0 (after deduction for collateral) due to the creditworthiness of the counterparty are also included in the category "Unobservable inputs".

Following value adjustment, the fair value came to DKK 37 million at 31 December 2020 (2019: DKK 1,033 million). Credit value adjustments came to DKK 1,843 million at 31 December 2020 (2019: DKK 2,301 million).

The interest rate risk on these interest rate swaps is hedged in all material respects. However, interest rate fluctuations may impact results to the extent that the market value must be adjusted due to increased counterparty credit risk. A 0.1 percentage point change in interest rate levels will impact the fair value by +/- DKK 79 million.

However, financial assets measured on the basis of unobservable inputs account for a very limited part of total financial assets at fair value. At 31 December 2020, the proportion was thus 0.2% (2019: 0.3%). The proportion of financial liabilities was 0.0% (2019: 0.0%).

Valuation, notably of instruments classified as unobservable inputs, is subject to some uncertainty. Of total assets and liabilities, DKK 3.3 billion (2019: DKK 4.1 billion) belonged to this category.

Assuming that an actual market price will deviate by +/-10% from the calculated fair value, the earnings impact will be DKK 329 million at 31 December 2020 (0.37% of equity at 31 December 2020). The earnings impact for 2019 was estimated at DKK 412 million (0.49% of equity at 31 December 2019).

Transfers between categories

Transfers between the categories Listed prices, Observable inputs and Unobservable inputs are made when an instrument is classified differently on the balance sheet date than at the beginning of the financial year. The value transferred to another category corresponds to the fair value at the beginning of the year. With respect to interest rate swaps that have been fair value adjusted to DKK 0 due to credit risk adjustment, separate calculations are made at the end of each month.

In 2020 and 2019, transfers between the categories Observable inputs and Unobservable inputs mainly resulted from changes to the ratings (credit risk) of counterparties and primarily concerned interest rate swaps, as regards financial instruments with positive market value.

Transfers between the categories Listed prices and Observable inputs mainly result from bonds that are reclassified either due to traded volume or the number of days between last transaction and the time of determination. In 2020 financial assets of DKK 10.8 billion were transferred from Listed prices to Observable inputs and DKK 7.6 billion from Observable inputs to Listed prices. Financial liabilities of DKK 0.0 billion were transferred from Listed prices to Observable inputs and DKK 0.0 billion from Observable inputs to Listed prices.

Redeemed bonds (usually comprised by Listed prices) are transferred to Unobservable inputs on the last day before the coupon date, as there is no access to official prices in active markets. At 31 December 2020, the amount was DKK 1.2 billion (end-2019: DKK 0.6 billion).

No transfers were made between the categories Listed prices and Unobservable inputs.

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46. FAIR VALUE DISCLOSURES (CONTINUED)**46 a. Fair value disclosures of assets and liabilities recognised at amortised cost**

2020	Carrying amount	Fair value	Balance	Fair value calculated on the basis of		
				Listed prices	Observable inputs	Unobservable inputs
Assets						
Loans, advances and other receivables at amortised cost	108,768	108,944	176	-	10	108,934
Total	108,768	108,944	176	-	10	108,934
Liabilities						
Bonds in issue at amortised cost	52,368	53,098	(730)	-	53,053	45
Subordinated debt	10,893	11,229	(337)	-	11,229	-
Total	63,260	64,327	(1,067)	-	64,282	45
Transfer from assets			176			
Total balance			(891)			
2019						
Assets						
Loans, advances and other receivables at amortised cost	114,591	114,782	191	-	10	114,772
Total	114,591	114,782	191	-	10	114,772
Liabilities						
Bonds in issue at amortised cost	33,809	34,012	(202)	-	33,978	34
Subordinated debt	11,004	11,663	(659)	-	11,675	(12)
Total	44,813	45,675	(862)	-	45,653	22
Transfer from assets			191			
Total balance			(671)			

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46. FAIR VALUE DISCLOSURES (CONTINUED)**46 b. Fair value of assets and liabilities recognised at fair value (IFRS hierarchy)****31 December 2020**

	Listed prices	Observable inputs	Unobservable inputs	Total fair value
Financial assets:				
- bonds at fair value	21,810	84,284	-	106,094
- equities etc	3,847	-	3,199	7,046
- positive fair value of derivative financial instruments	35	22,292	37	22,364
- mortgage loans, arrears and outlays ³	-	1,350,925	-	1,350,925
- owner-occupied properties	-	-	58	58
- investment properties	-	-	0	0
Total	25,692	1,457,501	3,293	1,486,486
Percentage	1.7	98.1	0.2	100.0

Financial liabilities:

- other non-derivative financial liabilities at fair value	3,115	6,607	-	9,723
- negative fair value of derivative financial instruments	36	11,988	-	12,024
- bonds in issue at fair value ³	1,366,699	10	-	1,366,709
Total	1,369,850	18,605	-	1,388,455
Percentage	98.7	1.3	-	100.0

Assets and liabilities measured on the basis of unobservable inputs

	Real estate	Bonds	Equities	Derivatives	Total
Fair value, beginning of year, assets	75	2	3,014	1,033	4,124
Value adjustment recognised through profit or loss	4	-	252	(385)	(129)
Purchases for the year	0	-	147	-	147
Sales for the year	(22)	(2)	(215)	(117)	(355)
Transferred from Listed prices and Observable inputs ¹	-	-	1	373	375
Transferred to Listed prices and Observable inputs ²	-	-	-	(868)	(868)
Reclassification to "Other assets"	-	-	-	-	-
Fair value, year-end, assets	58	0	3,199	37	3,293

¹ Transfers from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.² Transfers to Observable inputs from Unobservable inputs principally consist of interest rate swaps for which individual adjustment for increased credit risk is no longer required.³ Recognised at fair value under the fair value option.

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46. FAIR VALUE DISCLOSURES (CONTINUED)**46 b. Fair value of assets and liabilities recognised at fair value (IFRS hierarchy)
(continued)****31 December 2019**

Financial assets:	Listed prices	Observable inputs	Unobservable inputs	Total fair value
- bonds at fair value	30,488	78,065	2	108,555
- equities etc	4,121	-	3,014	7,135
- positive fair value of derivative financial instruments	45	20,422	1,033	21,500
- mortgage loans, arrears and outlays ³	-	1,287,610	-	1,287,610
- owner-occupied properties	-	-	75	75
Total	34,655	1,386,096	4,124	1,424,874
Percentage	2.4	97.3	0.3	100

Financial liabilities:

- other non-derivative financial liabilities at fair value	2,052	2,472	-	4,523
- negative fair value of derivative financial instruments	42	13,016	-	13,057
- bonds in issue at fair value ³	1,323,953	12,461	-	1,336,414
Total	1,326,047	27,948	-	1,353,995
Percentage	97.9	2.1	-	100

Assets and liabilities measured on the basis of unobservable inputs

	Real estate	Bonds	Equities	Derivatives	Total
Fair value, beginning of year, assets	86	65	2,956	1,495	4,601
Value adjustment recognised through profit or loss	(3)	1	248	(119)	127
Purchases for the year	3	-	200	-	203
Sales for the year	(3)	(64)	(391)	(162)	(619)
Transferred from Listed prices and Observable inputs ¹	-	-	-	388	388
Transferred to Listed prices and Observable inputs ²	-	-	-	(569)	(569)
Reclassification to "Other assets"	(7)	-	-	-	(7)
Fair value, year-end, assets	75	2	3,014	1,033	4,124

¹ Transfers from Observable inputs to Unobservable inputs consist of interest rate swaps individually adjusted for increased credit risk.² Transfers to Observable inputs from Unobservable inputs principally consist of interest rate swaps for which individual adjustment for increased credit risk is no longer required.³ Recognised at fair value under the fair value option.

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47. OFFSETTING

	Gross amounts	Financial instruments offset	Carrying amount after offsetting	Further offsetting, master netting agreements	Collateral	Net amounts
2020						
Financial assets:						
Derivatives with a positive fair value	40,197	17,833	22,364	8,873	2,840	10,651
Reverse repo transactions	42,747	3,093	39,654	-	39,621	33
Total	82,944	20,926	62,018	8,873	42,461	10,684
Financial liabilities:						
Derivatives with a negative fair value	29,857	17,833	12,024	8,873	2,708	443
Repo transactions	16,153	3,093	13,060	-	13,048	12
Total	46,009	20,926	25,084	8,873	15,756	455
2019						
Financial assets:						
Derivatives with a positive fair value	34,945	13,445	21,500	8,247	3,047	10,206
Reverse repo transactions	54,372	2,137	52,235	-	52,157	78
Total	89,317	15,582	73,735	8,247	55,204	10,284
Financial liabilities:						
Derivatives with a negative fair value	26,502	13,445	13,057	8,247	4,626	184
Repo transactions	19,715	2,137	17,578	-	17,525	53
Total	46,217	15,582	30,635	8,247	22,151	237

In the balance sheet, reverse repo transactions are classified as receivables from credit institutions or loans, advances and other receivables at amortised cost. In the balance sheet, repo transactions are classified as payables to credit institutions as well as deposits and other payables,

Financial assets and liabilities are offset and the net amount reported when the Group and the counterparty have a legally enforceable right of set-off and have agreed to settle on a net basis or to realise the asset and settle the liability.

Positive and negative fair values of derivative financial instruments with the same counterparty are offset if it has been agreed to settle contractual payments on a net basis when cash payments are made or collateral is provided on a daily basis in case of fair value changes. The Group's netting of positive and negative fair values of derivative financial instruments may be cleared through LCH (CCP clearing).

Furthermore, netting is carried out in accordance with enforceable master netting agreements. Master netting agreements and similar agreements entitle parties to offset in the event of default, which further reduces the exposure to a defaulting counterparty but does not meet the conditions for accounting offsetting in the balance sheet.

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48. 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		
2020								
Foreign exchange contracts								
Forward contracts/futures, purchased	(821)	(106)	(8)	-	144	1,079	(936)	56,817
Forward contracts/futures, sold	750	106	8	-	991	126	864	54,419
Swaps	-	61	9	27	160	63	98	5,479
Options, purchased	2	2	0	-	5	-	5	183
Options, written	(3)	(2)	(0)	-	0	5	(5)	184
Interest rate contracts								
Forward contracts/futures, purchased	32	2	-	-	40	7	34	13,917
Forward contracts/futures, sold	(20)	(0)	-	-	9	29	(20)	59,373
Forward rate agreements, purchased	(0)	0	-	-	0	0	(0)	10,551
Forward rate agreements, sold	0	(0)	-	-	0	0	0	10,836
Swaps	(26)	123	113	10,043	20,881	10,628	10,254	819,579
Options, purchased	6	0	3	67	104	28	76	27,095
Options, written	-	(29)	(0)	(16)	-	45	(45)	13,688
Equity contracts								
Forward contracts/futures, purchased	0	-	-	-	0	0	0	9
Forward contracts/futures, sold	11	-	-	-	12	1	11	32
Swaps	-	-	-	-	-	-	-	-
Options, purchased	-	-	-	-	-	-	-	-
Options, written	(0)	-	-	-	-	0	(0)	-
Unsettled spot transactions	5	-	-	-	17	11	5	28,241
Total	(62)	156	125	10,122	22,363	12,024	10,339	

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48. 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		
2019								
Foreign exchange contracts								
Forward contracts/futures, purchased	(169)	15	(11)	-	102	268	(165)	54,956
Forward contracts/futures, sold	161	(9)	12	-	268	104	164	49,962
Swaps	-	-	85	34	219	100	119	5,598
Options, purchased	0	1	1	-	2	0	2	218
Options, written	(0)	(1)	(1)	-	0	2	(2)	217
Interest rate contracts								
Forward contracts/futures, purchased	(23)	2	-	-	18	38	(21)	40,274
Forward contracts/futures, sold	15	1	-	-	43	27	16	99,652
Forward rate agreements, purchased	7	2	-	-	9	0	9	26,514
Forward rate agreements, sold	(8)	(2)	-	-	0	10	(10)	26,764
Swaps	(3)	(34)	717	7,570	20,613	12,362	8,250	723,428
Options, purchased	-	0	9	86	119	24	96	32,317
Options, written	-	(0)	(62)	(11)	-	73	(73)	15,759
Equity contracts								
Forward contracts/futures, purchased	0	-	-	-	0	0	0	1
Forward contracts/futures, sold	11	-	-	-	11	0	11	18
Unsettled spot transactions	48	-	-	-	96	48	48	43,891
Total	39	(25)	750	7,679	21,500	13,057	8,444	

NOTES

Nykredit A/S		DKK million	
		2020	2019
2019	2020	Nykredit Group	
2019	2020	2020	2019
		49. REPO TRANSACTIONS AND REVERSE REPURCHASE LENDING	
		The Nykredit Group applies repo transactions and reverse repurchase lending in its day-to-day business operations. All transactions were entered into using bonds as the underlying asset.	
		Of the asset items below, reverse repurchase lending represents:	
-	- Receivables from credit institutions and central banks	2,383	3,486
-	- Bonds received as collateral but not offset against the balance	(2,380)	(3,457)
-	- Total less collateral	3	29
-	- Loans, advances and other receivables, gross	40,364	50,886
-	- Netting	(3,093)	(2,137)
-	- Loans, advances and other receivables etc, net	37,271	48,749
-	- Bonds received as collateral but not offset against the balance ¹	(37,241)	(48,700)
-	- Total less collateral	30	49
-	- ¹ Of which self-issued bonds	16,791	3,752
		Of the liability items below, repo transactions represent:	
-	- Payables to credit institutions and central banks	3,186	2,297
-	- Bonds provided as collateral	3,182	2,287
-	- Deposits and other payables, gross	12,967	17,418
-	- Netting	(3,093)	(2,137)
-	- Other non-derivative financial liabilities etc, net	9,874	15,281
-	- Bonds provided as collateral ¹	9,866	15,238
-	- Total less collateral	8	43
-	- ¹ Of which self-issued bonds	5,189	5,648

50. RISK MANAGEMENT

Risk profile

The business activities and the management of the investment portfolio involve credit, market, liquidity and operational risks, including IT and compliance risks.

As Nykredit mainly provides mortgage loans against mortgages on real estate, Nykredit's primary risk is credit risk. Nykredit's mortgage lending is governed by the balance principle, which provides limits to the financial risks Nykredit may assume in relation to lending and funding. This means that Nykredit incurs generally limited interest rate risk, foreign exchange risk and liquidity risk on its mortgage lending and the underlying funding. Liquidity and market risks are further reduced by the Danish act regulating refinancing risk, which provides for the refinancing of mortgage loans in special situations.

Credit, market and operational risks are mitigated by having adequate capital. Liquidity risk is mitigated by having a sufficient stock of liquid assets.

Nykredit publishes a report annually entitled Risk and Capital Management, available at nykredit.com/riskandcapitalmanagement. It describes Nykredit's risk and capital management in detail and contains a wide selection of risk key figures in accordance with the disclosure requirements of the Capital Requirements Regulation (CRR). The report is not audited.

Credit risk

Credit risk reflects the risk of loss resulting from Nykredit's customers and counterparties defaulting on their payment obligations.

Credit risk is managed in accordance with the credit policy. The credit policy is reviewed and adopted by the Boards of Directors and is based on the Nykredit Group's strategy and the aim that customers should perceive Nykredit as a reliable and qualified financial partner. Building long-term, financially sound customer relationships is an integral part of Nykredit's strategy. The credit policy lays down the Group's risk appetite.

All credit applications are assessed against the credit policy by financially trained staff. Specifically, they assess the willingness and ability of customers to meet their obligations to Nykredit and Totalkredit. The assessment is based on an overall evaluation of the customer's financial circumstances and other risk elements against Nykredit's total exposure to the customer. The assessment of a customer's creditworthiness is the core element, supported by any security provided, including mortgages on real estate.

Totalkredit's mortgage lending is based on a strategic alliance with about 49 Danish local and regional banks undertaking the distribution of Totalkredit loans, customer advisory services, credit assessments and case processing. Totalkredit loans are subject always to final approval by Totalkredit.

The credit policy ensures that credit is granted in accordance with the risk appetite determined by the Board of Directors and the Totalkredit concept and with Danish mortgage legislation, the Danish Financial Business Act, good business practice and any other relevant rules and regulations.

The aggregate credit granting by the Group companies is undertaken within the credit policy limits for large exposures as well as limits for portfolio distribution by industry, geography and other risk types.

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

Nykredit has five regional credit units that process business customers' credit applications that exceed the authority assigned to the customer centres. Applications exceeding the authority of the regional credit units are processed centrally by Group Credits, unless they involve exposures requiring escalation to the Credits Committee, the Executive Boards or the Boards of Directors.

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

Which level of the credit approval hierarchy determines a mortgage loan application in Totalkredit depends on the value of the property serving as security for the loan. As regards credit applications of business customers of Totalkredit, the level is determined by the size of the exposure, in the same way as for customers of Nykredit.

Customers are divided into ordinary exposures and weak exposures, where weak exposures are identified on the basis of the customers' ratings and ability to meet their payment obligations. All weak exposures are reviewed at least once a year. Banking exposures are reviewed quarterly. As a minimum, the review must include an assessment of whether the customer rating is appropriate, and it must be checked that the strategy designed for the customer is adhered to.

The largest exposures are presented to the Boards of Directors of the Group companies for approval/granting or briefing on a current basis. The Boards of Directors are also presented with the largest exposures as part of the annual asset review, and they are briefed quarterly on the levels of write-offs and impairments.

Credit models

Nykredit uses internal ratings-based (IRB) models in its risk management and for the determination of the capital requirement for credit risk for the greater part of the loan portfolio. The determination of credit risk is based on three key parameters: Probability of Default (PD), expected Loss Given Default (LGD) and expected Exposure at Default (EAD). These three key parameters are referred to as risk parameters. Nykredit estimates risk parameters on the basis of Nykredit's default and loss history.

Modelling principles

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

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

Elements of credit risk determination

PD	Probability of Default (PD) is the probability of a customer defaulting on an obligation to Nykredit.
LGD	Loss Given Default (LGD) is the expected loss rate of an exposure in case of the customer's default.
EAD	Exposure at Default (EAD) is the total estimated exposure to a customer in DKK at the time of default, including any drawn part of a credit commitment.
REA	Risk Exposure Amount (REA) is credit exposures factoring in the risk relating to the individual customer. REA is calculated by risk-weighting credit exposures. The risk weighting is calculated on the basis of PD and LGD levels.
Default	<p><i>Applicable as at 31 December 2020:</i></p> <p>An exposure is considered to be in default when a mortgage customer's payment of a significant amount is 75 days past due or at the time when Nykredit Bank sends a third reminder. Exposures subject to impairment under certain circumstances or write-off are also considered in default. This applies to customers classified in stage 3 and some customers classified in stage 2 in accordance with the rules of IFRS 9. Moreover, exposures for which a direct loss has been incurred are also considered in default.</p>

Applicable from 1 January 2021:

With effect from 1 January 2021, Nykredit has updated its definition of exposures in default and defined, for both mortgage and bank exposures, a number of events that make it unlikely that a customer will be able to pay its credit obligations without realisation of collateral. The main ones are: events leading to IFRS 9 stage 3, bankruptcy, distressed restructuring and significant arrears/overdrafts (90 days past due)

Probability of Default (PD)

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

The PDs of individual customers are translated into ratings from 0 to 10, 10 being the highest rating. Exposures in default are placed in a category of their own, outside the rating scale. The individual rating categories have been defined

based on fixed PD ranges, which means that, in periods of high business activity, a high rating will be assigned to relatively more customers, while the opposite will apply during an economic downturn.

A rating reflects the customer's financial position and creditworthiness, and besides being included in the determination of capital requirements, the customer rating is also a key element of any customer assessment.

Loss Given Default (LGD)

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

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

For the determination of capital requirements, LGDs are calibrated to reflect losses during a severe economic downturn.

Exposure at Default (EAD)

Nykredit estimates an EAD for all exposures relating to a customer, reflecting the total expected exposure to the customer at the time of default, including any additional drawn parts of approved credit commitments. The latter is factored in using conversion factors (CF).

Model validation and reliability

Nykredit continuously develops and improves its credit risk models, including internal models for calculation of impairment under IFRS 9. Focus is on achieving models that are accurate and yield consistent and stable parameters.

The Group Risk Committee and a number of control units are responsible for monitoring and managing the Group's model risks. This includes assessing all models, model changes and results of model validation. The overall validation conclusions are reported to the Group Risk Committee, Executive Boards, the Board Risk Committee as well as Boards of Directors.

Rating scale and limit values

Rating category	PD floor	PD ceiling
10	0.00%	0.15%
9	0.15%	0.25%
8	0.25%	0.40%
7	0.40%	0.60%
6	0.60%	0.90%
5	0.90%	1.30%
4	1.30%	2.00%
3	2.00%	3.00%
2	3.00%	7.00%
1	7.00%	25.00%
0	25.00%	<100.00%
Exposures in default	100.00%	100.00%

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Nykredit Group

Credit exposure

The Nykredit Realkredit Group's maximum credit exposure constitutes DKK 1,683 billion. The credit exposure primarily arises from mortgage loans (loans, advances and other receivables at fair value), which amount to DKK 1,351 billion.

Loans and advances by rating category, property type and sector

87.3% of Nykredit's mortgage and bank customers make timely payments, while possessing solid financial strength. Exposures to these customers are considered "ordinary exposures" (ratings 6-10).

Overall, 9.4% of Nykredit's exposures are considered "ordinary exposures with minor signs of weakness" (ratings 3-5). These customers also make timely payments, but their financial strength is lower than that of "ordinary exposures".

The rest of Nykredit's exposures are weak exposures (ratings 0-2) and exposures in default, making up 1.6% of exposures.

Weak exposures are exposures where customers:

- have not made timely payments
- have a negative net worth or negative equity
- have low or negative earnings
- have objective evidence of credit impairment.

Mortgage loans were primarily granted for the financing of private residential housing, comprising 64.7% of total lending. The portfolio of business loans mainly comprises loans to the private residential rental (37.9% of the total portfolio of business loans), office and retail (30.8%) and agricultural sectors (22.0%).

Bank lending mainly comprises loans to business customers, which account for 85% of total lending, and loans to personal customers, accounting for 15%.

Large exposures

Nykredit has no large exposures to non-financial counterparties that exceed 10% of eligible capital. Nykredit's largest exposure to a non-financial counterparty amounted to DKK 7.6 billion at end-2020, equivalent to 8% of eligible capital.

Nykredit's 20 largest exposures to non-financial counterparties totalled DKK 84.2 billion before deductions according to the rules on large exposures, equivalent to 101% of eligible capital at end-2020 (determined according to the CRR). At end-2019 the 20 largest exposures to non-financial counterparties represented 100% of eligible capital. The vast majority of these exposures are mortgage loans with underlying security.

Nykredit has 27 non-financial counterparties the exposure to which represents over 2% of eligible capital (large exposures). The majority of these have good ratings.

DKK million

Nykredit Group

	2020	2019
Credit exposure		
The Group's maximum credit exposure comprises selected balance sheet and off-balance sheet items.		
Total credit exposure		
Balance sheet items	Net	Net
Demand deposits with central banks	15,614	6,582
Receivables from credit institutions and central banks	43,215	52,413
Loans, advances and other receivables at fair value	1,350,925	1,287,610
Loans, advances and other receivables at amortised cost	108,762	114,590
Bonds at fair value	106,094	108,555
Other assets	29,218	28,926
Off-balance sheet items		
Contingent liabilities	9,121	6,616
Irrevocable credit commitments	19,957	24,115
Total	1,682,905	1,629,406

50. RISK MANAGEMENT (CONTINUED)**Mortgage lending by property and rating category, nominal value**

The rating illustrates the customer's ability to pay, but not the probability of loss. Substantial security is usually provided for mortgage loans, which mitigates or minimises the risk of loss – regardless of customer ratings.

2020								
Rating category	Owner-occupied dwellings	Private rental	Industry and trades	Office and retail	Agricultural property	Public housing	Other	Total
10	274,439	16,710	11,950	13,195	3,098	9,996	403	329,791
9	230,920	17,515	3,100	27,484	9,160	6,127	1,536	295,842
8	131,530	30,245	3,498	32,773	15,533	37,629	9,403	260,611
7	81,094	33,209	2,805	22,401	14,853	18,370	4,153	176,885
6	50,825	24,480	693	9,866	11,430	1,990	1,116	100,398
5	24,391	10,919	508	7,548	9,426	374	666	53,832
4	14,536	7,608	340	3,013	4,470	569	3,174	33,711
3	7,626	5,609	265	4,425	10,329	158	94	28,506
2	6,683	993	200	838	1,768	22	13	10,518
1	4,262	648	74	340	951	18	695	6,988
0	1,043	324	49	642	1,167	259	64	3,547
Exposures in default	8,536	2,850	183	2,554	5,749	119	836	20,828
Total	835,886	151,109	23,665	125,079	87,934	75,632	22,153	1,321,458

2019								
Rating category	Owner-occupied dwellings	Private rental	Industry and trades	Office and retail	Agricultural property	Public housing	Other	Total
10	243,553	16,110	13,211	10,628	2,272	4,726	225	290,725
9	209,661	10,691	2,281	13,415	6,510	4,843	2,165	249,566
8	127,003	22,937	2,598	26,616	9,888	30,634	6,217	225,892
7	82,766	31,207	1,574	29,372	12,205	18,913	2,961	178,997
6	53,511	29,103	2,136	21,819	14,528	2,453	1,287	124,838
5	27,601	12,956	716	4,690	10,238	415	496	57,112
4	15,237	6,882	335	3,298	8,181	127	200	34,259
3	9,037	6,511	109	3,294	4,288	234	66	23,539
2	7,208	1,407	249	1,656	11,518	43	25	22,105
1	4,587	618	76	447	1,469	172	36	7,407
0	1,270	797	255	1,213	3,160	131	74	6,901
Exposures in default	8,948	3,151	251	2,244	4,607	144	126	19,470
Total	790,381	142,369	23,791	118,693	88,864	62,836	13,876	1,240,811
LR Realkredit A/S, total	-	-	-	-	-	-	-	21,877
Total	790,381	142,369	23,791	118,693	88,864	62,836	13,876	1,262,689

50. RISK MANAGEMENT (CONTINUED)**Bank lending and reverse repurchase lending by sector and rating category at amortised cost determined before impairments**

The rating illustrates the customer's ability to pay, but not the probability of loss.

Rating category	Manufactur-	Credit and	Property	Transport,	Other	Personal	Total
	ing and		management	trade			
	construction	finance	and trade etc	and accom-	public	customers	
				modation			
10	7,094	3,846	1,368	2,964	1,640	999	17,911
9	2,433	11,633	1,848	3,439	1,718	826	21,899
8	1,717	838	2,080	2,028	1,697	1,047	9,407
7	2,153	798	2,471	2,912	3,017	931	12,280
6	1,850	16,001	2,442	1,286	2,150	2,848	26,577
5	698	4,504	726	1,187	1,718	1,625	10,457
4	353	9	698	588	259	1,059	2,966
3	97	2,687	253	128	482	457	4,106
2	432	1,128	136	137	345	141	2,319
1	46	238	94	66	94	158	697
0	16	15	6	19	14	9	78
Exposures in default	725	229	520	330	462	467	2,732
Total	17,615	41,926	12,643	15,083	13,595	10,568	111,429

Rating category	Manufactur-	Credit and	Property	Transport,	Other trade	Personal	Total
	ing and		management	trade			
	construction	finance	and trade etc	modation	and public	customers	
10	2,379	7,143	888	1,621	1,688	995	14,714
9	1,513	17,129	1,747	3,230	1,055	800	25,475
8	1,982	848	1,862	2,476	2,655	1,092	10,914
7	1,697	670	2,045	1,462	2,335	1,164	9,374
6	2,283	19,646	1,890	1,830	3,226	2,419	31,293
5	670	5,002	1,050	934	947	1,711	10,314
4	814	209	389	194	787	1,468	3,860
3	110	1,960	145	88	191	526	3,020
2	1,956	814	224	206	624	257	4,080
1	79	310	92	37	297	154	969
0	14	7	3	15	20	8	68
Exposures in default	706	77	528	405	484	458	2,659
Total	14,203	53,815	10,862	12,499	14,309	11,052	116,741

NOTES

Nykredit Group

Risk exposure amount for credit risk

Nykredit's total REA for credit risk excluding counterparty risk was DKK 305 billion at end-2020 (2019: DKK 296 billion) and has risen compared with 2019. The rise is chiefly attributable to increased lending.

REA for credit risk is mainly calculated using the IRB approach and primarily comprises exposures to business and personal customers. REA calculated using the standardised approach primarily comprises credit institution and sovereign exposures.

Nykredit Group

Risk exposure amount – credit risk

DKK million	2020	2019
Standardised approach	21,216	21,788
IRB approach	259,514	271,223
Assets with no counterparty	24,219	3,272
Total credit risk exposure	304,949	296,285

Security

Nykredit's main type of security provided for loans is mortgages on real estate. The security value is reassessed regularly relative to market trends.

In addition to mortgages on real estate, Nykredit accepts guarantees issued by public authorities or banks as security for loans. Guarantees issued by public authorities mitigate credit risk – mainly relating to mortgage lending for public housing. Mortgage lending guaranteed by public authorities amounted to DKK 48 billion at end-2020 (2019: DKK 44 billion).

The bank guarantees comprise guarantees for the registration of mortgages free from any adverse endorsements barring registration, guarantees for interim loans in connection with new building and loss guarantees.

Totalkredit and the partner banks share the risk on loans arranged via the individual partner banks, which provide security by way of a right of set-off and guarantees to Totalkredit. This security provides an incentive for the partner banks to carry out a thorough and comprehensive assessment of customer creditworthiness and the property value. 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.

Statutory LTV limits for mortgage lending by property category

Owner-occupied dwellings for all-year habitation	80 ¹
Private cooperative housing	80 ¹
Private residential rental properties	80 ¹
Public housing	80 ¹
Youth housing	80 ¹
Senior housing	80 ¹
Properties used for social, cultural or educational purposes	60 ¹
Holiday homes	75 ¹
Agricultural and forestry properties, market gardens, etc ²	60 ¹
Office and retail properties	60 ¹
Industry and trades properties	60 ¹
Utilities	60 ¹
Other properties – including undeveloped land	40 ¹

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

² The LTV limit may be extended up to 70% against additional security for the part in excess of 60%.

	2020				2019			
	Public sector	Personal customers	Business customers	Total	Public sector	Personal customers	Business customers	Total
Bank lending								
Unsecured lending	589	3,684	41,840	46,112	208	39,432	4,761	44,401
Lending secured by way of legal charge or other collateral security:								
Fully secured	261	2,805	42,114	45,180	296	51,426	2,621	54,343
Partially secured	20	4,106	16,010	20,137	149	14,132	3,716	17,998
Total lending before impairment	870	10,595	99,964	111,429	653	104,990	11,098	116,741

DKK million

NOTES

Nykredit Group

Loan-to-value ratios (LTVs)

The LTV ratio expresses the debt outstanding relative to the property value. 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. After disbursement of a loan, the LTV ratio will change with the amortisation of the loan and/or as a result of changes in the market value of the property or the underlying covered bonds.

Nykredit closely monitors the development in LTV ratios. To ensure sustainable credit and capital policies in the long term, scenario analyses and stress tests are used to assess the effect of significant price decreases in the housing market.

At end-2020, the LTV level of the Group's total loan portfolio was 61.3% (2019: DKK 61.8%), down 0.5 percentage points on end-2019. The table "Debt outstanding relative to estimated property values" shows the LTVs of Nykredit's mortgage lending by property type.

Nykredit Group

Debt outstanding relative to estimated property values

DKK million	LTV (loan-to-value) ²						Total	LTV average, %
	0-40	40-60	60-80	80-90	90-100	>100		
Owner-occupied dwellings	541,752	201,931	108,426	6,445	1,291	1,111	860,957	66.4
Private rental ¹	102,804	32,912	12,879	868	363	359	150,185	60.7
Industry and trades	19,258	3,452	130	14	12	26	22,891	45.9
Office and retail	94,088	25,195	2,294	210	98	101	121,986	52.3
Agricultural property	59,340	20,461	6,570	526	202	276	87,376	61.2
Public housing	-	-	-	-	-	-	72,442	-
Other	10,855	2,295	801	29	17	36	14,033	51.8
Total 2020	828,097	286,246	131,100	8,093	1,983	1,909	1,329,870	61.3
Total 2019	799,585	277,911	125,465	7,963	2,708	2,845	1,287,370	61.8

¹ Including cooperative housing

² Determined as the top part of the debt outstanding relative to estimated property values.

Note: The figures are actual LTV ratios including any co-financed costs. Public authority guarantees reduce the credit risk relating to subsidised housing, which forms part of lending to the public housing segment. For this reason, LTVs of public housing offer no relevant risk data and have been excluded. 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%.

Nykredit Group

Debt outstanding relative to estimated property values

%	LTV (loan-to-value) ²					
	0-40	40-60	60-80	80-90	90-100	>100
Owner-occupied dwellings	62.9	23.5	12.6	0.7	0.1	0.1
Private rental ¹	68.5	21.9	8.6	0.6	0.2	0.2
Industry and trades	84.1	15.1	0.6	0.1	0.1	0.1
Office and retail	77.1	20.7	1.9	0.2	0.1	0.1
Agricultural property	67.9	23.4	7.5	0.6	0.2	0.3
Public housing	-	-	-	-	-	-
Other	77.3	16.4	5.7	0.2	0.1	0.3
Total 2020	65.9	22.8	10.4	0.6	0.2	0.2
Total 2019	65.7	22.8	10.3	0.7	0.2	0.2

¹ Including cooperative housing

² Determined as the top part of the debt outstanding relative to estimated property values.

Note: The figures are actual LTV ratios including any co-financed costs. Public authority guarantees reduce the credit risk relating to subsidised housing, which forms part of lending to the public housing segment. For this reason, LTVs of public housing offer no relevant risk data and have been excluded. 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%.

Counterparty risk

Nykredit applies financial instruments, such as interest rate derivatives and repurchase agreements (repo transactions), for serving customers. Liquidity and market risks are also managed using financial instruments.

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

In some cases, a counterparty is unable to meet its payment obligations. This gives rise to counterparty risk. Nykredit mitigates its counterparty risk through financial netting agreements as well as agreements on financial collateral. The contractual framework is based on market standards such as ISDA or GMRA agreements. Nykredit uses central counterparties (CCPs) for professional derivatives clearing. Interest rate swaps, FRAs and repo transactions are cleared through CCPs.

The counterparty risk exposure is affected by the market value of the financial instruments and the probability of non-payment by customers. Thus, counterparty risk involves both market and credit risk.

The calculated value adjustment of derivatives is recognised in the Financial Statements. The value adjustment is thus affected by several factors, including the level of long-term interest rates, credit spreads, funding spreads, the maturities of the contracts as well as customers' creditworthiness.

REA for counterparty risk was DKK 18.7 billion at end-2020. Of this amount, derivatives represented DKK 17.0 billion and repo transactions DKK 1.0 billion. The remaining DKK 0.7 billion related to Credit Valuation Adjustment (CVA) and default fund contributions (CCP).

Value adjustment of derivatives

Nykredit makes fair value adjustments of derivatives in accordance with the International Financial Reporting Standards (IFRS), which includes both Credit and Funding Valuation Adjustment (CVA and FVA) for accounting purposes. This includes individual value adjustments of customers showing objective evidence of credit impairment, CVA based on customers' current credit quality as well as management judgement.

The Danish FSA has encouraged the adoption of a prudent approach to the assessment of customers with swap contracts. This means that Nykredit's swap contracts with customers showing objective evidence of credit impairment are value adjusted in full. Objective evidence of credit impairment includes customers in default and customers with rating 0. Customers with rating 0 still make timely payments to Nykredit.

Market risk

Nykredit assumes various market risks through its business activities. Market risk is the risk of loss as a result of movements in financial markets and includes interest rate, yield spread, foreign exchange, equity price and volatility risks.

All Nykredit's market risk positions are assigned to the trading book or the banking book, depending on the purpose of the relevant position. Portfolios with positions held for trading are placed in the trading book and mainly consist of covered bonds and credit bonds. Positions forming part of Nykredit's lending business and other business-related assets, which primarily consist of investments in a number of regional banks with which Nykredit has business relationships, are placed in the banking book.

In determining REA for market risk, Nykredit uses a combination of market risk models and the standardised approach, and the risk exposures are furthermore divided into general risk and specific risk. General risk means risk affecting financial markets in general, and specific risk is the risk related to one individual issuer of securities. In addition, the banking book comprises small holdings of corporate bonds and short-dated bonds from the liquidity portfolio.

Nykredit's market risk relates mainly to the management of equity and liquidity reserves. In addition, Nykredit Bank and Nykredit Realkredit incur market risk when trading bonds, swaps and other financial products. Investments are mainly made in Danish and European covered bonds as well as government bonds. Moreover, investments are made in credit bonds issued by financial undertakings.

Nykredit's market risk is determined for two purposes:

- Day-to-day management of all positions involving market risk
- Determination of REA for market risk for use in the determination of Nykredit's capital adequacy.

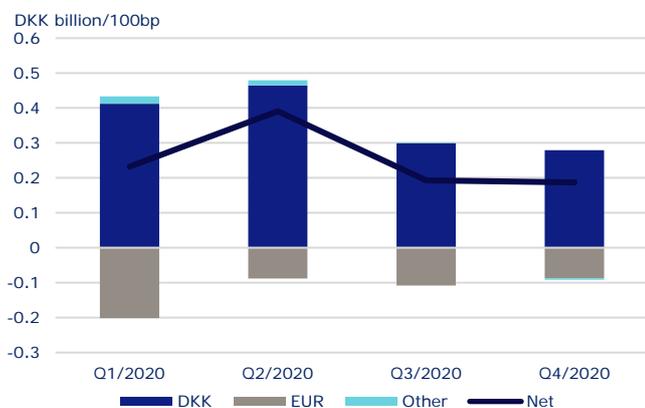
Market risk is generally managed based on the Board of Directors' market risk policy and the accompanying guidelines, which include specific limits to the different types of risk in the trading as well as the banking book.

The main principle of the policy is that the probability of losses from market risk exposures exceeding Nykredit's expected quarterly results must be low. This is monitored daily, for instance by measuring budgeted quarterly results against the estimated losses of a number of stress scenarios that may, with some probability, occur in the trading book or the banking book.

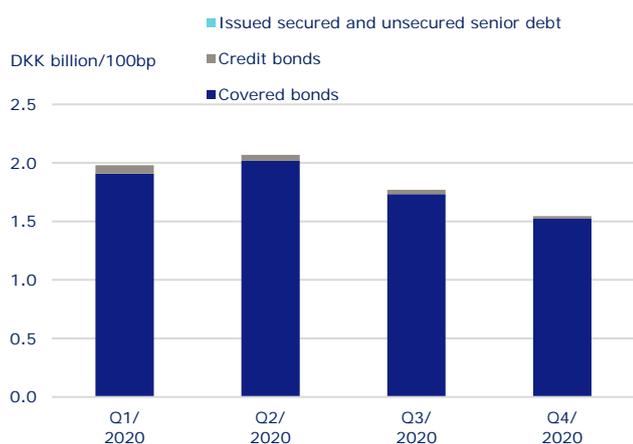
In addition to the market risk policy, Nykredit's Board of Directors has laid down guidelines for market risk in the trading and banking books, respectively, which are used in day-to-day market risk management. In accordance with these guidelines, the Executive Board delegates specific limits for the different types of market risk to the Group companies through the Asset/Liability Committee (ALCO).

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

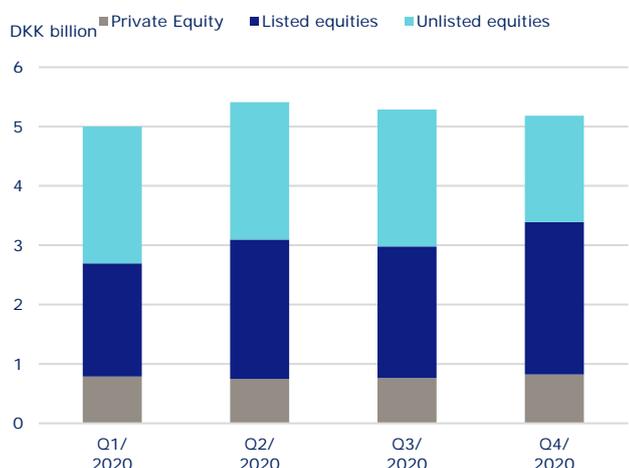
Nykredit Group
Interest rate risk, trading book



Nykredit Group
Yield spread risk, trading book



Nykredit Group
Market value of equity portfolios



Day-to-day market risk management

Nykredit's day-to-day determination, management and reporting of market risk take place by combining statistical models, stress tests, key figures and various subjective assessments.

Traditional risk measures, such as interest rate, yield spread, equity price, foreign exchange and volatility risks, are monitored using sensitivity tests. They are used to calculate the effect on the value of a portfolio in case of changing market conditions. This could be a rise or fall in interest rates, yield spreads, equity prices or volatilities. Calculations are only made for one type of risk at a time.

Traditional risk measures do not indicate how likely a particular event is to occur, but exclusively how much the event, viewed in isolation, would affect the value of a portfolio. In the day-to-day management of the market risk of Nykredit's trading book, Nykredit therefore uses Value-at-Risk models for calculating one overall risk metric covering most of the trading book positions. Value-at-Risk captures Nykredit's maximum potential losses in one day at a probability of 99%. The model allows for the effect and probability of several risks occurring at the same time.

Interest rate risk

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

Nykredit's interest rate exposure was DKK 365 million at end-2020, of which DKK 187 million in the trading book and DKK 178 million in the banking book.

Yield spread risk

Yield spread risk is the risk of loss as a result of spreads between individual bonds and general interest rate levels widening by 1 percentage point. In historical terms, spread widening of 1 percentage point is less frequent than a general interest rate rise of 1 percentage point.

At end-2020 the yield spread risk on the Group's total portfolio of covered bonds was DKK 2.5 billion. Of this amount, the yield spread risk was DKK 1.0 billion in the trading book and DKK 1.3 billion in the banking book. The yield spread risk was DKK 0.02 billion on the credit bond portfolio.

Equity price risk

Equity price risk is the risk of loss as a result of changes in equity prices, and it is expressed by the aggregate market value of Nykredit's equity portfolios. The Group's equity price exposure including private equity portfolios amounted to DKK 5.4 billion at end-2020.

The aggregate equity price risk includes both the trading book and the banking book, the latter containing sizeable strategic equity and private equity positions. The equity price exposure was DKK 0.2 billion in the trading book and DKK 5.2 billion in the banking book.

Other market risks

Besides the market risks addressed above, Nykredit is exposed to foreign exchange risk and volatility risk in relation to equity, foreign exchange and interest-bearing instruments, such as options. These risks only make up a minor amount of the total market risk exposure.

Nykredit hedges its foreign exchange risk and only has minor tactical foreign exchange positions held to achieve a gain. Therefore, the Group had only minor positions in currencies other than EUR in 2020.

Nykredit's volatility risk mainly relates to investments in, for example, callable covered bonds with embedded call options, as these bonds may be prepaid. Yield expectations will affect the market value and may in consequence lead to gains as well as losses. However, the risk is limited and stems mainly from the portfolio of Danish callable covered bonds, but also from other interest rate and equity derivatives.

Risk exposure amount for market risk

Nykredit Realkredit A/S and Nykredit Bank A/S have the approval of the Danish FSA to apply their individual VaR models in determining REA for general market risk in their trading books. The confidence level of the VaR models is 99%, and the time horizon for calculating statutory REA is 10 days. The model results are backtested on a daily basis against actual realised returns on the trading portfolios to ensure that the model results are reliable and correct at any time.

The VaR models are based on historical financial market data on relevant risk factors. As the current conditions in financial markets do not always correspond to the historical conditions (for instance during a financial crisis), the additional REA resulting from stressed VaR is added to the REA resulting from the current VaR.

The total REA for market risk is determined as the sum of the different risk measures, comprising general risk from the VaR model, specific risk and general risk under the standardised approach. Nykredit's total REA from VaR amounted to DKK 30.2 billion at end-2020, of which stressed VaR amounted to DKK 17.3 billion. Total REA for market risk came to DKK 40.1 billion at end-2020.

Nykredit Group

Risk exposure amount – market risk

DKK million	2020	2019
Internal models (VaR)	30,215	16,937
Standardised approach	9,913	12,398
Settlement risk	-	-
Total market risk exposure	40,128	29,335

Liquidity risk

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

The composition of liquidity and funding is much affected by regulatory requirements and rating criteria. Nykredit therefore has a strong focus on existing and future requirements, including the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Minimum Requirement for own funds and Eligible Liabilities (MREL), Additional Loss-Absorbing Capacity (ALAC), debt buffer and Supervisory Diamond benchmarks.

To mitigate its liquidity risks, Nykredit has a stock of liquid assets ensuring that Nykredit has a sizeable liquidity buffer for cash flows driven by customer behaviour, loan arrears, current costs and maturing market funding. In addition, the stock of liquid assets ensures Nykredit's compliance with statutory liquidity requirements, including the LCR, and the requirement of Danish mortgage legislation for supplementary collateral in case of falling property prices in connection with covered bond (SDO) issuance, and fulfilment of credit rating agencies' criteria as a precondition for maintaining the high ratings.

Nykredit's liquid assets are mainly placed in liquid Danish and other European government and covered bonds. These securities are eligible as collateral in the repo market and with central banks and are directly applicable for raising liquidity.

Liquidity policy and liquidity management guidelines

Nykredit's Board of Directors lays down a liquidity policy that defines Nykredit's overall risk appetite, liquidity risk profile and funding structure.

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

In addition to the liquidity policy, Nykredit's Board of Directors has laid down guidelines on the day-to-day liquidity management. In accordance with the guidelines provided by the Board of Directors, the Executive Board delegates limits for liquidity management to the Group companies through the Asset/Liability Committee (ALCO).

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

Nykredit annually prepares a report on the Internal Liquidity Adequacy Assessment Process (ILAAP), which is submitted to the Boards of Directors of Nykredit Realkredit, Totalkredit and Nykredit Bank for their approval and to the Danish FSA for its assessment.

The Board of Directors and Nykredit's Asset/Liability Committee oversee the liquidity of the Group companies. The individual Group companies manage the day-to-day liquidity risk.

The Board of Directors has considered and approved the liquidity contingency plan for responding to situations such as a liquidity crisis or situations where Nykredit is unable to comply with the liquidity policy and the liquidity management guidelines laid down by the Board of Directors. The liquidity contingency plan must be endorsed by the Asset/Liability Committee, which also decides whether to initiate the plan. The liquidity contingency plan is considered and approved by the Board of Directors at least once a year.

Liquidity Coverage Ratio (LCR)

The regulatory LCR requirement is used to assess Nykredit's short-term liquidity risk. The LCR reflects the ratio of liquid assets to net cash outflows over a 30-day period and must be at least 100%. Under this requirement, Nykredit must hold an adequate stock of liquid assets to withstand a liquidity stress for a period of 30 days.

At end-2020, Nykredit's LCR was 771% and the excess liquidity coverage was DKK 93.4 billion. The aggregate LCR of Nykredit's mortgage banks was 5,064%, while Nykredit Bank's LCR was 178%.

Liquid assets used to comply with the requirement of supplementary collateral in Nykredit Realkredit and Totalkredit are considered to be encumbered and consequently ineligible for the purpose of LCR determination.

The Danish FSA has granted Nykredit permission not to include mortgage lending in the calculation of LCR for Nykredit Realkredit and Totalkredit. The permission was motivated by the fact that match funding limits liquidity risk in relation to mortgage lending and its funding. The condition for the permission is that Nykredit must comply with a minimum LCR requirement. This means that the stock of liquid assets must make up at least 2.5% of Nykredit Realkredit's and Totalkredit's total mortgage lending. At end-2020, liquid assets eligible for meeting the minimum requirement amounted to 4.3%, or DKK 56.9 billion.

The Danish FSA has introduced an additional liquidity requirement concerning foreign currencies. Under this requirement, Danish SIFIs must meet an LCR-like requirement in respect of selected significant currencies except for SEK and NOK. This is in addition to the regulatory LCR requirement, which applies at aggregate level across all currencies. The currency requirement contributes to ensuring a suitable currency match between liquid assets and cash flows. This requirement, which for Nykredit only concerns EUR, applies to the Nykredit Realkredit Group. The LCR in foreign currencies must be 100% or more. At end-2020, Nykredit's LCR in EUR was 422%.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk also includes conduct, IT, legal and model risks.

Nykredit is continuously working to create a risk culture where awareness of operational risk is a natural part of everyday work. The objective is to support and develop an organisation where mitigation and management of operational risks are an integral part of both day-to-day operations and long-term planning.

Given its nature and characteristics, operational risk is best mitigated and managed in the first line of defence through the day-to-day business conduct. The responsibility for the day-to-day management of operational risks is therefore decentralised and rests with the local managements of the individual business divisions. Operational risk management activities are coordinated centrally in the second line of defence to ensure coherence and consistency across the Group.

As part of operational risk management, Nykredit is continuously working on identifying significant operational risks. Operational risks are mapped by each business division identifying and assessing its own significant risks on an ongoing basis. Nykredit's risk control function holds quarterly risk meetings with selected business divisions for the purpose of reviewing the divisions' operational risk and it is assessed whether the risks are adequately managed through controls and other risk-mitigating actions.

Moreover, all operational risk events including operational risk gain events, potential operational loss/gain events and events that did not lead to a loss/gain (near-miss events) are systematically recorded, categorised and reported for the purpose of identifying loss sources and building experience for sharing across the organisation.

Nykredit has outsourced the operation of IT systems, and appropriate processes have been established for follow-up and reporting from suppliers. Furthermore, the IT security area is monitored constantly, and Nykredit participates actively in a wide Danish and international network on IT security through Finance Denmark. An IT security policy has been prepared as well as emergency response plans and business contingency plans.

Capital requirement for operational risk

Nykredit determines the capital requirement for operational risk using the basic indicator approach. This means that the capital requirement is calculated as 15% of average gross earnings of the past three years. REA for operational risk was DKK 28.1 billion throughout 2020.

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51. HEDGE ACCOUNTING

The interest rate risk etc relating to fixed-rate assets and liabilities has been hedged on a current basis. The hedge comprises the following items:

	Nykredit A/S			Nykredit Group		
	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes Accumulated	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes Accumulated
2020						
Assets						
Loans, advances and other receivables at amortised cost (interest rate risk)	-	-	-	189	195	6
Bonds at amortised cost	-	-	-	635	636	1
Liabilities						
Deposits and other payables (interest rate and equity price risk)	-	-	-	112	131	(19)
Bonds in issue at amortised cost (interest rate risk)	-	-	-	42,825	43,050	(225)
Subordinated debt (interest rate risk)	-	-	-	10,404	10,524	(119)
Derivative financial instruments						
Interest rate swaps, loans, advances and other receivables (net)	-	-	-	112	20	20
Interest rate swaps, bonds at amortised cost	-	-	-	83	(1)	(1)
Interest rate swaps, loans and advances as well as deposits and other payables (net)	-	-	-	572	(6)	(6)
Interest rate swaps, bonds in issue at amortised cost	-	-	-	42,859	226	226
Interest rate swaps, subordinated debt	-	-	-	10,415	119	119
Gain/loss for the year on hedging instruments					38	
Gain/loss for the year on hedged items					(42)	
Net gain/loss through profit or loss (ineffectiveness for the year)					(4)	
Maturity	Up to 1 year	1-5 years	Over 5 years	Up to 1 year	1-5 years	Over 5 years
Swaps hedging interest rate risk of financial assets	-	-	-	-	2	17
Swaps hedging interest rate risk of financial liabilities	-	-	-	37	195	106

Interest rate swaps and credit derivatives are included in the balance sheet items "Other assets" (positive market value) or "Other liabilities" (negative market value).

It is Nykredit's strategy to apply derivative financial instruments to hedge the interest rate risk of fixed-rate financial assets and liabilities, except for the interest rate risk of short-term loans, advances and deposits and to hedge close to 100%. This enables the Group to manage the level of its aggregate interest rate sensitivity taking into consideration the expected interest rate development. Thus, cash flows have been changed from a fixed interest payment to a variable interest payment. The average fixed rate of derivatives hedging financial assets and liabilities, respectively, is 0.4% or 1.1%.

The financial assets and liabilities that qualify as eligible hedged items are monitored on a current basis. These items may be included either as individual items or portfolios of assets and liabilities. Both are used for hedge accounting. Nykredit Bank's fixed-rate loans and fixed-rate deposits are grouped into portfolios. These include portfolios of loans, advances, deposits and other payables of a uniform risk level and are hedged using derivative financial instruments with similar characteristics (such as interest rate). For bonds in issue measured at amortised cost in Nykredit Realkredit A/S, hedging is carried out at the time of issuance using interest rate swaps with the same interest rate and maturity profile.

Hedge effectiveness is monitored regularly. Effectiveness tests monitor that movements in market values of the hedged item and the hedging instrument are within a range of 80-125%. The most significant hedges (bonds in issue and subordinated debt) are nearly 100% effective. The hedges are not generally changed, but if the effectiveness test indicates undesired ineffectiveness or that a better hedge may be attained, hedge adjustments are made. Ineffectiveness may typically arise in periods when market values are very low compared with the size of the portfolios. Moreover, ineffectiveness may arise in case of eg unexpected market movements or in case a counterparty terminates or prepays a hedged financial instrument. In this case, the swap portfolio hedging the deposits and loans and advances in question will be adjusted. Changes at the swap counterparty may also lead to some ineffectiveness.

According to reporting provisions, loans, advances and deposits must generally be measured at amortised cost, while derivative financial instruments are measured at fair value. To obtain accounting symmetry between hedging and hedged transactions, adjustment for accounting purposes of the financial assets and liabilities that form part of an effective hedge accounting has been allowed. The fair value adjustment exclusively concerns the hedged part (eg the interest rate exposure). Reference is made to notes 47 and 48 which show offsetting and maturities relating to derivative financial instruments as well as "Hedge accounting" in accounting policies.

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51. HEDGE ACCOUNTING (CONTINUED)

	Nykredit A/S			Nykredit Group		
	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes Accumulated	Nominal/ amortised value	Carrying amount	Fair value adjustment for account- ing purposes Accumulated
2019						
Assets						
Loans, advances and other receivables at amortised cost (interest rate risk)	-	-	-	569	577	8
Liabilities						
Deposits and other payables (interest rate and equity price risk)	-	-	-	112	133	(21)
Bonds in issue at amortised cost (interest rate risk)	-	-	-	28,213	28,163	50
Subordinated debt (interest rate risk)	-	-	-	10,437	10,642	(205)
Derivative financial instruments						
Interest rate swaps, loans, advances and other receivables (net)	-	-	-	112	22	22
Interest rate swaps, loans and advances as well as deposits and other payables (net)	-	-	-	584	(8)	(8)
Interest rate swaps, bonds in issue at amortised cost	-	-	-	28,247	(46)	(46)
Interest rate swaps, subordinated debt	-	-	-	10,458	205	205
Gain/loss for the year on hedging instruments		-			(26)	
Gain/loss for the year on hedged items		-			25	
Net gain/loss through profit or loss (ineffectiveness for the year)		-			(1)	

51. HEDGE ACCOUNTING (CONTINUED)

Interest Rate Benchmark Reform (amendment to IFRS 9, IAS 39 and IFRS 7)

Following the interest rate benchmark reform (IBOR reform), interest rate fixing of several financial products will in the short term be based on new risk-free reference rates (for instance the Euro Short-Term Rate, €STR), replacing the current IBOR rates. There is continued uncertainty about how and when the transition to the new reference rates will unfold, including the extent to which the current benchmarks will be supported, possibly in a changed form.

LIBOR for example is currently expected to be phased out after 2021. The current EONIA reference rate will also be replaced by a new euro reference rate, €STR. The transition will take effect during an implementation period running from October 2019 to 1 January 2022. The market has yet to move from EONIA to €STR on a large scale, but as clearinghouses switched to €STR in July 2020, more and more banks are likely to transition to the new benchmark. Nykredit has set up a working group to assess for instance, how and when the transition should be effected. In 2019 several trading systems were adapted to handle the new rate.

The reform is likely to impact the financial sector in Denmark as well as internationally. IBOR is often used to set the rates of various loans, including consumer, business and mortgage loans. Furthermore, IBOR is frequently used in derivatives contracts. As such IBOR is an important element of the operations of financial undertakings, including determination of market risk, valuation of assets as well as liquidity and risk management etc.

The reform is expected to prompt a certain change to the yield spread between instruments linked to the current IBOR rate and the new reference rates. To Nykredit this change will, among other things, lead to differences in the valuation of instruments based on IBOR rates and the new reference rates.

The IASB has subsequently amended a number of standards to ease the accounting transition to new interest rate benchmarks.

The table shows the volume of derivatives used by Nykredit for hedge accounting. No hedging relationships have been established for cash flows or investments in foreign entities.

The amendment (to IFRS 9, IAS 39 and IFRS 7) aims at reducing potential accounting challenges, as the transition to new benchmarks could increase the difference in the valuation of the hedged or the hedging instrument, respectively, indicating that the hedging relationship falls outside the criteria of the effectiveness test (80%-125%). Under the amendments, the effectiveness test may be performed assuming that the benchmark and cash flows are unchanged, and the test is in principle based on previously applicable reference rates. The relaxation covers the period in which the timing of transition or actual switch to new benchmarks is uncertain. The amendment will not give rise to additional changes to the effectiveness test.

The test is conducted as an IASB project in two phases in which phase I consists of the above changes. The most important elements of phase II relate to "modifications", "hedge accounting" as well as "disclosure obligations" on any new financial risks resulting from the IBOR reform.

Nykredit has started identifying the products likely to be affected by the interest rate benchmark reform, including the economic impact and influence on Nykredit's trading systems and operational risks etc in order to build a solid basis for decision for the transitional period. Our focus has also been on the contractual basis of the current contracts as well as preparation of information material for staff and customers to ensure a documented and transparent transition. The transition is currently not expected to significantly impact Nykredit's profit (loss).

DKK million

51. HEDGE ACCOUNTING (CONTINUED)

Hedging derivative	Nominal value	Carrying amount, assets	Carrying amount, liabilities	P&L effect (hedge ineffectiveness)
Interest rate swaps, end-2020				
Cibor	336			
Euribor	52,913			
Libor	792			
Total 2020	54,041	831	53,705	(4)
Total 2019	39,401	577	38,904	(1)
Swaps: Carrying amount by time-to-maturity		2020	2019	
Up to 1 year		37	4	
Over 1 year and up to 5 years		196	158	
Over 5 years		125	(28)	
Total		358	134	

Nykredit Group

52. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	Financial items at amortised cost 2020	Financial items at fair value 2020	Financial items at amortised cost 2019	Financial items at fair value 2019
Assets				
Cash balances and receivables from credit institutions and central banks	59,361	-	59,623	-
Loans, advances and other receivables at fair value ¹	-	1,350,925	-	1,287,610
Loans and advances etc	108,762	-	114,590	-
Bonds	-	106,094	-	108,555
Positive market value of derivatives	-	22,363	-	21,500
Interest and administration margin income etc receivable	-	-	178	2,336
Total	168,123	1,479,382	174,391	1,420,001
Liabilities				
Payables to credit institutions and central banks	14,611	-	13,914	-
Deposits and other payables	97,987	-	100,656	-
Bonds in issue at fair value ²	-	1,366,709	-	1,336,414
Bonds in issue at amortised cost	52,368	-	33,810	-
Other non-derivative financial liabilities at fair value	-	9,723	-	4,523
Subordinated debt	10,893	-	11,004	-
Negative market value of derivatives	-	12,024	-	13,057
Interest etc payable	-	-	243	7,009
Total	175,859	1,388,455	159,627	1,361,003

¹ Loans, advances and other receivables at fair value include mortgage lending measured at fair value using the fair value option.

² Bonds in issue at fair value include bonds in issue funding mortgage lending. Bonds in issue are measured at fair value using the fair value option.

NOTES

Nykredit A/S		DKK million	
		Nykredit Group	
2019	2020	2020	2019
53. CURRENCY EXPOSURE			
By main currency, net			
-	- USD	6	(1)
-	- GBP	1	0
-	- SEK	3	12
-	- NOK	1	3
-	- CHF	(0)	(4)
-	- CAD	(1)	(1)
-	- JPY	(0)	(1)
-	- EUR	210	347
-	- Other	4	3
-	- Total	224	359
-	- Exchange Rate Indicator 1	12	367

Exchange Rate Indicator 1 is determined as the sum of the highest numerical value of assets (long position) or net payables. Exchange Rate Indicator 1 shows the overall foreign exchange risk.

Nykredit Group

54. ACQUISITION OF GROUP ENTERPRISE

	Adjusted balance sheet on 30 August 2019
Sparinvest Holdings SE	
Assets	
Cash balances and receivables from credit institutions	321
Bonds	39
Equities	57
Intangible assets	178
Owner-occupied properties, including leased properties	25
Other property, plant and equipment	5
Other assets and prepayments etc	248
Total assets	873
Liabilities	
Other payables	199
Provisions	2
Total liabilities	201
Equity (net assets)	673
Minority interests' share of equity (24.77%)	166
Equity excluding minority interests (Nykredit Bank's share)	506
Cash purchase price including previous holdings of 0.2%	2,192
Goodwill calculated at end-2019	1,686
Adjustment of purchase price, beginning of 2020	71
Goodwill at end-2020	1,757

In 2019 the subsidiary Nykredit Bank A/S acquired 76% of the shares in Sparinvest Holdings SE, which subsequently became a subsidiary of the Nykredit Bank Group. At the time, goodwill was calculated at DKK 1,686 million.

The review in 2020 of net assets acquired, including determination of goodwill, called for a few adjustments relative to intangible assets and deferred tax. This resulted in an increase in goodwill of DKK 71 million.

This adjustment in itself has not affected comprehensive income for the year.

The purchase price was settled in cash. The Nykredit Group received DKK 321 million in cash in connection with the acquisition. The balance sheet corresponds to the balance sheet of Sparinvest Holdings SE as at 30 August 2019. A few adjustments were subsequently made; for example the equity portfolio was adjusted to fair value, while owner-occupied properties and other payables increased by DKK 24 million in relation to particularly leased properties in accordance with IFRS 16. To this should be added capitalisation of an intangible asset "customer relationships" at DKK 170 million as well as provisions for deferred tax of DKK 37 million. The value of goodwill is not deductible for tax purposes. The carrying amount of cash and cash equivalents, short-term receivables and payables is assumed to equal fair value.

Goodwill corresponding to the balance between the value of Nykredit's ownership interest in the company and purchase price has been allocated to Wealth Management, a business area of the Nykredit Group. Goodwill is tested for impairment once a year and is written down to the recoverable amount if lower than the carrying amount. The recoverable amount equals the present value of the estimated future cash flows from the cash flow-generating units to which allocation of goodwill is made.

Nykredit Group

54. ACQUISITION OF GROUP ENTERPRISE (CONTINUED)

	Adjusted balance sheet on 30 December 2019
LR Realkredit A/S	
Assets	
Cash balances and receivables from credit institutions	1,588
Loans, advances and other receivables	22,628
Bonds	3,120
Other property, plant and equipment	0
Other assets and prepayments etc	36
Total assets	27,373
Liabilities	
Bank loans etc	0
Bonds in issue	23,880
Other payables and deferred income	191
Total liabilities	24,071
Equity (net assets)	3,302
Cash purchase price	2,739
Badwill	(562)

The purchase price was settled in cash in 2019 and a readjustment of the purchase price of DKK 2 million was made in 2020. The Nykredit Group received DKK 1,588 million in cash in connection with the acquisition.

As from 30 December 2019 Nykredit Realkredit A/S has acquired 100% of the capital and voting rights and consequently obtained control of LR Realkredit A/S. The acquisition of LR Realkredit has increased the competitive power of Nykredit and also has a positive impact on Nykredit's capital position and equity from the recognition of about DKK 0.6 billion-worth of badwill, as the purchase price was lower than the equity value. The main reason is that a significant part of the company's equity comprises a non-distributable reserve fund (DKK 3.2 billion) that may be used to cover losses but cannot be distributed to the company's shareholders, which implies a lower valuation.

The pre-acquisition balance sheet is based on the balance sheet of LR Realkredit A/S as at 30 December 2019. Loans, advances and other receivables at fair value have been adjusted by DKK 146 million to DKK 22,628 million (nominal value: DKK 22,004 million). The carrying amount of cash and cash equivalents, short-term receivables as well as payables is assumed to equal the fair value. Badwill is the difference between the purchase price and net assets at fair value. Badwill of DKK 564 million was recognised in 2019 and a negative DKK 2 million in 2020 due to readjustment of the purchase price. Badwill is non-taxable.

Other than the impact of badwill, the Group's profit for 2019 was not impacted by the investment, as the investment was made with effect from 30 December 2019 and thus without an earnings impact (a loss of DKK 3 million after tax). LR Realkredit A/S recorded a profit of DKK 175 million for the full-year 2019. An expense of DKK 10 million for advisers retained by Nykredit has been charged to the income statement.

The balance between the value of Nykredit's ownership interest in the company and the purchase price has been calculated at a negative DKK 562 million (badwill) and recognised as income in Group Items, a business area. No intangible assets (for instance customer relationships and distribution network) have been identified in connection with the transaction, which must be recognised as assets according to the accounting rules.

55. EVENTS SINCE THE BALANCE SHEET DATE**Termination of guarantee agreement with partner banks**

Nykredit and Totalkredit have terminated an agreement from 2014 on additional security from the Totalkredit partner banks. The agreement was an addendum to the partnership agreement and means that the banks no longer have to provide a 6% guarantee covering the mortgage loans originated by them. As a result of Totalkredit and the Nykredit Group's strengthened capital position over the last few years, the need for external guarantees has been reduced.

Merger with LR Realkredit

LR Realkredit A/S was fully merged with Nykredit with effect from 1 January 2021 following approval by the Danish Ministry for Industry, Business and Financial Affairs and the Danish FSA of the merger between Nykredit Realkredit A/S and LR Realkredit in December 2020 and approval at the extraordinary general meeting of LR Realkredit A/S held on 25 January 2021 of the final resolution to merge the companies.

Nykredit has entered into an agreement to sell its Depository Services unit

Nykredit has entered into an agreement with Bank of New York Mellon to divest Nykredit's Depository Services unit and activities. As part of the agreement, the unit's nine staff members will transfer to Bank of New York Mellon. The agreement is subject to regulatory approvals, which are anticipated at end-October 2021.

No further events have occurred in the period up to the presentation of the Annual Report 2020 which materially affect the Group's financial position.

56. FINANCIAL RATIOS, DEFINITIONS

Financial ratios	Definition
Return on equity before tax, %	The sum of profit (loss) before tax divided by average equity.
Return on equity after tax, %	The sum of profit (loss) after tax divided by average equity.
Income:cost ratio	Total income divided by total costs less tax.
Foreign exchange position, %	Exchange Rate Indicator 1 at year-end divided by Tier 1 capital including Additional Tier 1 capital less deductions at year-end.
Loans and advances:equity (loan gearing)	The sum of loans and advances at fair value and loans and advances at amortised cost divided by equity at year-end.
Growth in loans and advances for the year, %	Loans and advances at nominal value at year-end divided by loans and advances at nominal value at the beginning of the year.
Impairment charges for the year, %	Provisions for loan impairment and guarantees for the year divided by the sum of loans and advances at fair value, arrears and outlays, loans and advances at amortised cost, guarantees and provisions at year-end.
Return on capital employed, %	Profit (loss) after tax for the year divided by total assets.
Financial ratios – capital and capital adequacy	
Total capital ratio, %	Own funds divided by the risk exposure amount.
Tier 1 capital ratio, %	Tier 1 capital (including Additional Tier 1 capital) divided by the risk exposure amount.
Common Equity Tier 1 capital ratio, %	Common Equity Tier 1 capital (excluding Additional Tier 1 capital) divided by the risk exposure amount.
Financial ratios are based on the Danish FSA's definitions and guidelines.	
Other financial ratios on page 5 and in note 3	
Profit (loss) for the year as % of business capital (ROAC) (return on allocated capital)	Profit (loss) for the year relative to business capital. Profit corresponds to net profit or loss less interest expenses for Additional Tier 1 capital, which is treated as dividend in the Financial Statements. Business capital corresponds to a capital target of 16% of the risk exposure amount and minority interests' share of profit (loss).
Profit (loss) for the year as % pa of average equity*	Profit (loss) for the year less interest expenses for Additional Tier 1 capital divided by average equity excluding Additional Tier 1 capital and minority interests.
Costs as % of income	Costs divided by income
Business profit (loss) as % pa of average equity*	Business profit (loss) divided by average equity

* Equity is calculated based on the five quarter average.

NOTES

DKK million

Nykredit Group	2020	2019	2018	2017	2016
57. FIVE-YEAR FINANCIAL HIGHLIGHTS					
SUMMARY INCOME STATEMENT					
Net interest income	11,237	11,038	10,869	11,485	11,470
Net fee income etc	118	(264)	(337)	(99)	(188)
Net interest and fee income	11,355	10,774	10,531	11,386	11,282
Value adjustments	2,050	2,130	724	3,620	775
Other operating income	1,409	2,198	1,057	501	589
Staff and administrative expenses	5,302	4,850	4,633	4,622	4,820
Depreciation, amortisation and impairment charges for property, plant and equipment as well as intangible assets	294	305	103	248	185
Other operating expenses	176	191	154	196	285
Impairment charges for loans, advances and receivables etc	2,272	994	380	379	680
Profit (loss) from investments in associates and Group enterprises	8	5	(9)	21	8
Profit before tax	6,780	8,766	7,033	10,081	6,683
Tax	1,116	1,340	1,242	2,025	1,326
Profit for the year	5,664	7,427	5,792	8,056	5,357
Value adjustment and reclassification of strategic equities against equity	-	0	0	(6)	331
SUMMARY BALANCE SHEET, YEAR-END					
	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Assets					
Cash balances and receivables from credit institutions and central banks	59,361	59,623	29,691	48,031	34,829
Mortgage loans at fair value	1,350,630	1,287,370	1,193,667	1,163,879	1,124,693
Bank loans excluding reverse repurchase lending	71,140	65,466	60,566	55,744	55,003
Bonds and equities etc	113,140	115,690	99,444	102,125	116,555
Remaining assets	71,488	82,171	64,608	56,967	69,530
Total assets	1,665,759	1,610,319	1,447,976	1,426,746	1,400,611
Liabilities and equity					
Payables to credit institutions and central banks	14,611	13,914	15,692	13,319	21,681
Deposits and other payables	97,987	100,656	93,164	75,914	65,414
Bonds in issue at fair value	1,366,709	1,336,414	1,196,229	1,179,093	1,152,383
Subordinated debt	10,893	11,004	11,011	10,942	11,078
Remaining liabilities	85,804	63,965	51,998	68,707	79,099
Equity	89,754	84,366	79,883	78,770	70,955
Total liabilities and equity	1,665,759	1,610,319	1,447,976	1,426,746	1,400,611
OFF-BALANCE SHEET ITEMS					
Contingent liabilities	9,121	6,616	5,913	7,055	6,694
Other commitments	20,762	28,206	16,948	8,443	6,934
FINANCIAL RATIOS¹					
Total capital ratio, %	22.9	22.4	23.5	23.9	21.9
Tier 1 capital ratio, %	20.7	20.1	21.6	21.3	19.5
Return on equity before tax, %	7.8	10.7	8.9	13.5	10.6
Return on equity after tax, %	6.5	9.0	7.2	10.7	8.5
Income:cost ratio	1.84	2.38	2.33	2.85	2.17
Foreign exchange position, %	0.0	0.5	0.0	0.3	0.3
Loans and advances:equity (loan gearing)	16.3	16.6	16.2	15.8	17.1
Growth in loans and advances for the year, %	4.9	7.8	3.9	2.4	(0.7)
Impairment charges for the year, %	0.15	0.07	0.03	0.03	0.06
Return on capital employed, %	0.34	0.46	0.40	0.56	0.38

¹ Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 56.

NOTES

DKK million

Nykredit A/S	2020	2019	2018	2017	2016
57. FIVE-YEAR FINANCIAL HIGHLIGHTS (CONTINUED)					
SUMMARY INCOME STATEMENT					
Net interest income	(0)	(0)	(0)	(0)	0
Net interest and fee income	(0)	(0)	(0)	(0)	0
Other operating income	-	-	1	-	-
Staff and administrative expenses	11	20	25	89	25
Profit from investments in associates	5,429	7,210	5,526	7,841	5,428
Profit before tax	5,418	7,190	5,502	7,752	5,403
Tax	(2)	(5)	(5)	(14)	(1)
Profit for the year	5,420	7,194	5,507	7,766	5,405
SUMMARY BALANCE SHEET, YEAR-END					
	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Assets					
Cash balances and receivables from credit institutions and central banks	-	21	28	-	1
Remaining assets	14	15	17	14	5
Investments in Group enterprises	85,926	80,543	76,106	75,082	67,194
Total assets	85,940	80,579	76,151	75,096	67,199
Liabilities and equity					
Payables to credit institutions and central banks	22	32	33	79	-
Remaining liabilities	12	16	8	13	7
Equity	85,906	80,532	76,111	75,005	67,192
Total liabilities and equity	85,940	80,579	76,151	75,096	67,199
OFF-BALANCE SHEET ITEMS					
Other commitments	-	-	-	-	-
FINANCIAL RATIOS¹					
Total capital ratio, %	26.2	25.7	26.0	25.5	27.0
Tier 1 capital ratio, %	26.2	25.7	26.0	25.5	27.0
Return on equity before tax, %	6.5	9.2	7.3	10.9	8.4
Return on equity after tax, %	6.5	9.2	7.3	10.9	8.4
Income:cost ratio	482.25	351.97	225.51	87.81	219.58
Return on capital employed, %	6.31	8.93	7.23	10.34	8.04

¹ Financial ratios are based on the Danish FSA's definitions and guidelines. Definitions appear from note 56.

Nykredit Group

58. GROUP STRUCTURE**Name and registered office**

	Ownership interest as %, 31 December 2020	Profit for 2020	Equity, 31 December 2020	Number of staff in 2020	Profit for 2019	Equity, 31 December 2019	Number of staff in 2019
Nykredit A/S, Copenhagen, h)	-	5,420	85,906	-	7,194	80,532	-
Nykredit Realkredit A/S, Copenhagen, a)	100	5,652	89,678	2,552	7,443	84,321	2,383
Totalkredit A/S, Copenhagen, a)	100	2,085	32,506	233	2,573	30,612	201
Nykredit Bank A/S, Copenhagen, b)	100	1,610	25,986	678	1,288	24,377	679
Nykredit Portefølje Administration A/S, Copenhagen, g)	100	192	1,271	125	191	1,079	120
Nykredit Leasing A/S, Gladsaxe, e)	100	82	939	58	102	858	58
Sparinvest Holdings SE, Luxembourg, h)	75	44	211	1	280	233	2
Nykredit Mægler A/S, Copenhagen, c)	100	96	169	31	69	138	31
LR Realkredit A/S, Copenhagen, a)	100	80	3,379	4	175	3,299	6
Kalvebod Ejendomme I A/S, Copenhagen, d)	100	31	586	-	25	556	-
Kirstinehøj 17 A/S, Copenhagen, d)	100	4	71	-	2	67	-
Ejendomsselskabet Kalvebod A/S, Copenhagen, h) (dissolved on 7 January 2021 with effect from 30 November 2020)	-	24	-	-	28	698	-
Kalvebod Ejendomme II A/S, Copenhagen, d) (dissolved)	100	6	-	-	3	138	-
Greve Main A/S, Copenhagen, d) (dissolved)	-	2	-	-	1	36	-

The Group structure only includes significant subsidiaries. Financial information is provided in the order in which the subsidiaries are recognised in the Consolidated Financial Statements.

All banks and mortgage providers subject to national financial supervisory authorities must comply with the statutory capital requirements. The capital requirements may limit intercompany facilities and dividend payments.

Geographical distribution of activities

Denmark: Names and activities appear from the Group structure above

Number of staff	Revenue ¹	Profit before tax	Tax	Government aid received
3,799	28,996	6,780	1,116	-

¹ For companies preparing financial statements in accordance with the Danish Financial Business Act, revenue is defined as interest, fee and commission income and other operating income.

- a) Mortgage bank
- b) Bank
- c) Estate agency business
- d) Property company
- e) Leasing business
- f) No activity
- g) Investment management company
- h) Holding company, no independent activities

Nykredit A/S is consolidated with Forenet Kredit f.m.b.a. for accounting purposes. The financial statements of Forenet Kredit f.m.b.a. (in Danish) and Nykredit Realkredit A/S are available from:

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

Nykredit Group

58. GROUP STRUCTURE (CONTINUED)	Ownership interest as %, 31 December 2020	Revenue 2019	Profit (loss) for 2019	Assets, 31 December 2019	Liabilities, 31 December 2019	Equity, 31 December 2019	Nykredit's share of profit (loss) for 2019	Nykredit's share of equity value, 31 December 2019	Profit (loss) for 2018	Equity, 31 December 2018
Name and registered office										
Associates¹										
Bolighed A/S, Copenhagen, a)	50	19	(0)	10	1	6	(0)	3	1	7
Boligsiden A/S, Copenhagen, a)	23	7	1	16	-	13	-	3	(1)	12
Komplementarselskabet Core Property Management A/S, Copenhagen, c)	20	2	2	15	11	16	-	3	5	24
Core Property Management P/S, Copenhagen, a)	20	121	32	86	-	63	6	13	21	45
E-nettet A/S, Copenhagen, b)	16	183	-	217	2	103	-	17	4	103
Jesper Nielsen Franchise giver A/S, d)	50	1	(1)	2	-	-	(0)	1	-	-
Young Money ApS a, e)	33	-	-	-	-	-	-	-	-	-

¹ Recognised on the basis of the latest annual reports or interim reports as at 30 September if annual reports are not available.

Nykredit holds less than 20% of the shares in E-nettet A/S, but still exercises significant influence over the financial and operational conditions of the company as it has a representative on the board of directors. Consequently, for accounting purposes the shareholding is treated as an associate.

- a) Property company
- b) IT provider
- c) Investment company
- d) Property company

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Group

FINANCIAL CALENDAR FOR 2021

11 February	Publication of Annual Reports 2020 and announcements of Financial Statements of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
24 March	Annual General Meeting of Totalkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
24 March	Annual General Meeting of Nykredit Bank A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
25 March	Annual General Meeting of Nykredit Realkredit A/S, Kalvebod Brygge 1-3, DK-1780 Copenhagen V.
6 May	Publication of Q1 Interim Report 2021 of the Nykredit Realkredit Group.
19 August	Publication of H1 Interim Reports 2021 of the Nykredit Realkredit Group, Totalkredit A/S and the Nykredit Bank Group.
4 November	Publication of Q1-Q3 Interim Report 2021 of the Nykredit Realkredit Group.

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Group

DIRECTORSHIPS AND EXECUTIVE POSITIONS

The Board of Directors and the Executive Board form the Nykredit Group's Management.

BOARD OF DIRECTORS

The Board of Directors meets monthly, except in July, and holds a strategy seminar once a year.

The Board members are elected for a term of one year. The latest election took place on 26 March 2020. Re-election is not subject to any restrictions.

Below, an account is given of the individual director's position, age, gender and years of service on the Board, meeting attendance, skills as well as directorships and executive positions in other Danish and foreign companies as well as major organisational responsibilities.

Merete Eldrup, Chairman*

Former Chief Executive Officer

Date of birth: 4 August 1963

Gender: Female

Joined the Board on 24 March 2010

Independent director

Board of Directors, meetings attended in 2020: 14/14

Chairman of the Board Nomination Committee, meetings attended in 2020: 4/4 – joined as Chairman on 1 April 2020

Member of the Board Audit Committee, meetings attended in 2020: 1/7**

Chairman of the Board Risk Committee, meetings attended in 2020: 1/7**

Chairman of the Board Remuneration Committee, meetings attended in 2020: 3/3 – joined as Chairman on 1 April 2020

Board expertise:

In-depth knowledge:

- Market conditions, customer relations and sales
- Organisation/HR and processes
- Politics, public administration and associations
- Risk management and credit matters
- Strategic matters
- Corporate governance
- Economics, finance and accounting

Expert knowledge:

- Digitisation, IT and processes
- Financial regulation

Chairman of:

Nykredit Realkredit A/S*
Københavns Universitet
Rockwool Fonden*

Deputy Chairman of:

Nykredit Realkredit A/S**
Rockwool Fonden**

Director of:

Egmont Fonden*
Egmont International Holding A/S*
Justitia
Kalaallit Airports International A/S
Rambøll Gruppen A/S

Member of the committee of representatives of:
Foreningen Realdania

Nina Smith, Deputy Chairman

Professor

Date of birth: 17 October 1955

Gender: Female

Joined the Board on 22 September 2004

Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Board of Directors, meetings attended in 2020: 14/14

Member of the Board Nomination Committee, meetings attended in 2020: 4/4

Member of the Board Remuneration Committee, meetings attended in 2020: 3/3

Board expertise:

In-depth knowledge:

- Financial regulation
- Capital markets, securities and funding
- Politics, public administration and associations
- Risk management and credit matters
- Strategic matters
- Economics, finance and accounting

Expert knowledge:

- Sector and real estate expertise

Professor at Institut for Økonomi,
Aarhus Universitet

Chairman of:

Forenet Kredit f.m.b.a.
Nykredits Fond
VIVE – Det Nationale Forsknings- og Analysecenter for Velfærd

Deputy Chairman of:

Nykredit Realkredit A/S

Director of:

Fonden Visit Aarhus

Other:

Chairman of Kommissionen for 2. generationsreformer, de nye reformveje*

Olav Bredgaard Bruzen***

Deputy Chairman of Finansforbundet NYKREDS

Date of birth: 8 May 1968

Gender: Male

Joined the Board on 16 March 2016

Board of Directors, meetings attended in 2020: 14/14

Member of the Board Remuneration Committee, meetings attended in 2020: 3/3

Board expertise:

Expert knowledge:

- Sector and real estate expertise
- Market conditions, customer relations and sales
- Organisation/HR and processes
- Politics, public administration and associations

Director of:

Nykredit Realkredit A/S

Member of the committee of representatives of:
Forenet Kredit f.m.b.a.

Michael Demsitz

Chief Executive Officer

Date of birth: 1 February 1955

Gender: Male

Joined the Board on 31 March 2004

Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Board of Directors, meetings attended in 2020: 14/14

Member of the Board Risk Committee, meetings attended in 2020: 7/7

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Group

Board expertise:

In-depth knowledge:

- Sector and real estate expertise
- Market conditions, customer relations and sales
- Organisation/HR and processes
- Politics, public administration and associations
- Strategic matters
- Corporate governance

Expert knowledge:

- Digitisation, IT and processes
- Risk management and credit matters
- Economics, finance and accounting

Chief Executive Officer of:

Boligkontoret Danmark

Chairman of:

Byggeskade-fonden

Deputy Chairman of:

Forenet Kredit f.m.b.a.
Nykredits Fond

Director of:

Nykredit Realkredit A/S
AlmenNet**
BL – Danmarks Almene Boliger

Per W. Hallgren

Chief Executive Officer

Date of birth: 8 July 1962

Gender: Male

Joined the Board on 16 March 2016

Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Board of Directors, meetings attended in 2020: 14/14

Member of the Board Nomination Committee, meetings attended in 2020: 2/4*

Member of the Board Audit Committee, meetings attended in 2020: 7/7 – resigned as Chairman on 1 April 2020

Chairman of the Board Risk Committee, meetings attended in 2020: 7/7 – joined as Chairman on 1 April 2020

Member of the Board Remuneration Committee, meetings attended in 2020: 1/3*

Board expertise:

In-depth knowledge:

- Sector and real estate expertise
- Market conditions, customer relations and sales
- Risk management and credit matters
- Strategic matters
- Corporate governance
- Economics, finance and accounting

Expert knowledge:

- Financial regulation
- Capital markets, securities and funding

Chief Executive Officer of:

Jevdan A/S

Chairman of:

CEJ Ejendomsadministration A/S

CEJ Aarhus A/S

Center for politiske studier CEPOS

Jevdan I A/S

Jevdan II A/S

Jevdan III A/S

Jevdan IV A/S

Jevdan V A/S

Jevdan VI A/S

Jevdan VII A/S

Jevdan VIII A/S

Jevdan IX ApS

Jevdan X ApS

Jevdan Projekt & Service A/S

Director of:

Forenet Kredit f.m.b.a.

Nykredit Realkredit A/S

EjendomDanmark**

Erik Fjeldsøe Fonden

Foreningen Ofelia Plads

Jørgen Høholt*

Former Banking Executive

Date of birth: 9 December 1958

Gender: Male

Joined the Board on 26 March 2020

Board of Directors, meetings attended in 2020: 9/14

Chairman of the Board Audit Committee, meetings attended in 2020: 6/7*

Member of the Board Risk Committee, meetings attended in 2020: 6/7*

Board expertise:

In-depth knowledge:

- Sector and real estate expertise
- Market conditions, customer relations and sales
- Risk management and credit matters
- Strategic matters
- Corporate governance
- Economics, finance and accounting

Expert knowledge:

- Financial regulation
- Capital markets, securities and funding
- Politics, public administration and associations

Director of:

Nykredit Realkredit A/S*
ATP Real Estate Partners I K/S
ATP Ejendomme A/S
DKT Finance ApS*
DKT Holdings ApS*
DKT Telekommunikation ApS*
EKF Danmarks Eksportkredit
Eksport Kredit Finansiering A/S
Norsad Finance Limited*

Other:

Member of Advisory Board for Axcel Management
Member of Advisory Board for Kirk Kapital A/S
Special Adviser to ATP
Senior Adviser to Investeringsskudningen for Udviklingslande (IFU)

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Group

Hans-Ole Jochumsen

Former Vice Chairman

Date of birth: 14 November 1957

Gender: Male

Joined the Board on 22 March 2018

Independent director

Board of Directors, meetings attended in 2020:
14/14

Member of the Board Risk Committee, meetings
attended in 2020: 7/7

Board expertise:

In-depth knowledge:

- Market conditions, customer relations and sales
- Organisation/HR and processes
- Politics, public administration and associations
- Risk management and credit matters
- Strategic matters
- Corporate governance
- Economics, finance and accounting

Expert knowledge:

- Sector and real estate expertise
- Digitisation, IT and processes
- Financial regulation
- Capital markets, securities and funding

Chairman of:

MFEX Holding AB*

MFEX Mutual Funds Exchange AB*

NDX Interessenter AB

Nordax Bank AB

Nordax Group AB

Director of:

Nykredit Realkredit A/S

Other:

Industrial Adviser to AirFinity Ltd*

Member of Advisory Board for Concordium

Member of expert panel under the board of directors of the Danish Financial Supervisory Authority*

Senior Adviser to Alkymi

Vibeke Krag

Former Chief Executive Officer

Date of birth: 3 November 1962

Gender: Female

Joined the Board on 16 March 2017

Non-independent director in view of directorship in Forenet Kredit f.m.b.a.

Board of Directors, meetings attended in 2020:
14/14

Member of the Board Audit Committee, meetings
attended in 2020: 7/7

Board expertise:

In-depth knowledge:

- Digitisation, IT and processes
- Financial regulation
- Risk management and credit matters
- Corporate governance
- Economics, finance and accounting

Expert knowledge:

- Sector and real estate expertise
- Capital markets, securities and funding
- Market conditions, customer relations and sales
- Organisation/HR and processes
- Strategic matters

Director of:

Forenet Kredit f.m.b.a.

Nykredit Realkredit A/S

Arbejdsmarkedets Fond for Udstationerede (AFU)*

Arbejdsmarkedets Tillægspension (ATP)*

Gjensidige Forsikring ASA

Lønmodtagernes Garantifond (LG)*

Seniorpensionsenheden*

Other:

Chairman of the audit committee of Gjensidige Forsikring ASA*

Faculty member, CBS Executive, bestyrelsesuddannelsen

Member of Konkurrencerådet

Member of Udpegningsorganet for Københavns Universitet

Editor of Erhvervsjuridisk tidsskrift, Karnov

Allan Kristiansen***

Chief Relationship Manager

Date of birth: 6 March 1958

Gender: Male

Joined the Board on 12 April 2000

Board of Directors, meetings attended in 2020:
14/14

Board expertise:

In-depth knowledge:

- Capital markets, securities and funding
- Market conditions, customer relations and sales

Expert knowledge:

- Sector and real estate expertise
- Financial regulation
- Risk management and credit matters
- Strategic matters
- Economics, finance and accounting

Director of:

Nykredit Bank A/S

Nykredit Realkredit A/S

Ann-Mari Lundbæk Lauritsen***

Political Secretary of Finansforbundet NYKREDS

Date of birth: 22 October 1972

Gender: Female

Joined the Board on 26 March 2020

Board of Directors, meetings attended in 2020:
9/14

Board expertise:

In-depth knowledge:

- Organisation/HR and processes

Expert knowledge:

- Sector and real estate expertise
- Market conditions, customer relations and sales
- Politics, public administration and associations

Director of:

Børnecenter Hvidborg

Selvejende Institution Rebæk Søpark Kollegiet

Lasse Nyby

Chief Executive Officer

Date of birth: 25 November 1960

Gender: Male

Joined the Board on 28 March 2007

Non-independent director – more than 12 years on the Board of Directors

Board of Directors, meetings attended in 2020:
12/14

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Group

Board expertise:

In-depth knowledge:

- Financial regulation
- Capital markets, securities and funding
- Market conditions, customer relations and sales
- Risk management and credit matters
- Strategic matters
- Corporate governance
- Economics, finance and accounting

Expert knowledge:

- Sector and real estate expertise
- Organisation/HR and processes
- Politics, public administration and associations

Chief Executive Officer of:

Spar Nord Bank A/S

Chairman of:

Aktieselskabet Skelagervej 15

Deputy Chairman of:

PRAS A/S**

Director of:

AP Pension Livsforsikringsaktieselskab

AP Pensionsservice A/S

Finans Danmark

Foreningen AP Pension f.m.b.a

FR I af 16. september 2015 A/S

Landsdækkende Banker

PRAS A/S*

Totalkredit A/S**

Claus E. Petersen

Deputy Chief Executive Officer

Date of birth: 3 July 1961

Gender: Male

Joined the Board on 21 March 2012

Independent director

Board of Directors, meetings attended in 2020:

12/14

Board expertise:

In-depth knowledge:

- Financial regulation
- Organisation/HR and processes
- Politics, public administration and associations
- Risk management and credit matters
- Strategic matters
- Corporate governance

Expert knowledge:

- Sector and real estate expertise
- Digitisation, IT and processes
- Capital markets, securities and funding
- Market conditions, customer relations and sales
- Economics, finance and accounting

Chief Executive Officer of:

Vestjysk Bank A/S

(merged with Den Jyske Sparekasse on 14 January 2021)

Chairman of:

Foreningen Lokale Pengeinstitutter

PRAS A/S

Deputy Chairman of:

Totalkredit A/S**

Director of:

Den Jyske Sparekasses Støttefond

Finans Danmark

FR I af 16. september 2015 A/S

HN Invest Tyskland 1 A/S

Værdiansættelsesrådet**

Inge Sand***

Senior Agricultural Adviser

Date of birth: 13 March 1965

Gender: Female

Joined the Board on 16 March 2016

Board of Directors, meetings attended in 2020:

14/14

Board expertise:

In-depth knowledge:

- Market conditions, customer relations and sales

Expert knowledge:

- Sector and real estate expertise
- Organisation/HR and processes
- Politics, public administration and associations
- Risk management and credit matters
- Economics, finance and accounting

Director of:

Nykredit Realkredit A/S

Member of the committee of representatives of:

Forenet Kredit f.m.b.a.

Kristina Andersen Skjold*** *

Chairman of Finansforbundet NYKREDS

Date of birth: 15 September 1984

Gender: Female

Joined the Board on 26 March 2020

Board of Directors, meetings attended in 2020:

8/14

Board expertise:

In-depth knowledge:

- Organisation/HR and processes

Expert knowledge:

- Sector and real estate expertise
- Politics, public administration and associations
- Market conditions, customer relations and sales

Director of:

Nykredit Realkredit A/S*

Den Sociale Fond i Nykredit

Finanskompetencepuljen*

Nykredits Fond*

Finansforbundets hovedbestyrelse

Member of the committee of representatives of:

Forenet Kredit f.m.b.a.*

Resigned on 26 March 2020:

Steffen Kragh

Chief Executive Officer

Marlene Holm

Personal Banking Adviser

Leif Vinther

Senior Security Consultant

Resigned on 27 October 2020:

Helge Leiro Baastad

Chief Executive Officer

MANAGEMENT COMMENTARY (CONTINUED)

Nykredit Group

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.

Michael Rasmussen

Group Chief Executive

Date of birth: 13 November 1964

Gender: Male

Joined the Executive Board on 1 September 2013

Managing Director of:

Nykredit Realkredit A/S

Chairman of:

Nykredit Bank A/S

Totalkredit A/S

Finans Danmark**

FR I af 16. september 2015 A/S**

Investeringsfonden for Udviklingslande (IFU)

Sparinvest Holdings SE

Deputy Chairman of:

Copenhagen Business School Handelshøjskolen

Finans Danmark*

Director of:

FR I af 16. september 2015 A/S*

Member of Investor Board for Danish SDG Investment Fund (Verdensmålsfonden)

Tonny Thierry Andersen

Group Managing Director

Date of birth: 30 September 1964

Gender: Male

Joined the Executive Board on 1 June 2019

Managing Director of:

Nykredit Realkredit A/S

Director of:

Nykredit Bank A/S

David Hellemann

Group Managing Director

Date of birth: 5 December 1970

Gender: Male

Joined the Executive Board on 1 September 2016

Managing Director of:

Nykredit Realkredit A/S

Chairman of:

Bankernes EDB Central a.m.b.a.*

Ejendomsselskabet Kalvebod A/S** dissolved on

8 January 2021

Greve Main 30 A/S**

JN Data A/S**

Kalvebod Ejendomme I A/S

Kalvebod Ejendomme II A/S**

Kirstinehøj 17 A/S

Deputy Chairman of:

Bankernes EDB Central a.m.b.a.**

JN Data A/S*

Totalkredit A/S*

Director of:

Nykredit Bank A/S

Totalkredit A/S**

CBS Executive Fonden

Landsdækkende Banker

Anders Jensen

Group Managing Director

Date of birth: 20 January 1965

Gender: Male

Joined the Executive Board on 1 October 2014

Managing Director of:

Nykredit Realkredit A/S

Deputy Chairman of:

Nykredit Bank A/S

Director of:

Bokis A/S

Foreningen Dansk Skoleskak*

Grænsefonden

Niels Brock Copenhagen Business College

Niels Brock International A/S

Totalkredit A/S*

* Joined in 2020

** Resigned in 2020

*** 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.